Question (impt).rtf

From: Petsche, Nadine (TBS) []
To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)' [mcolley@deloitte.ca]; Colavecchia, Pina (CA - Toronto) (pcolavecchia@deloitte.ca) [pcolavecchia@deloitte.ca]
Subject: Question (impt)
Date: Monday, December 05, 2016 09:58:22

Matt/Pina,

Cindy has asked if any research was done on how other jurisdictions are accounting for their multi-employer plans. Please advise as we will be discussing our status of analysis this afternoon with the Panel. If by chance we have not, can we do some research please.

Thanks.

Nadine

Question from pension panel.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
Subject: Question from pension panel
Date: Sunday, March 12, 2017 17:09:56

Hi Nadine,

For the Supplemental Report for the Panel, I had a quick drafting question that I would like to confirm with you.

- In your memos on HOOPP accounting, it includes the calculation of the province's portion of the pension liability as "Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers)" with similar language used for CAATPP.
Please confirm that the basis of "% members in HOOPP *from* hospitals consolidated in the public accounts" is the same as "% members in HOOPP *employed by* hospitals consolidated in the public accounts". I would like to confirm that "from" is not a broader calculation (e.g. including retirees or some other metric.)

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
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Question.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Question
Date: Tuesday, October 04, 2016 16:32:45

This is a very tall ask. But I am being asked if there is any chance of a call between you guys, including your communications team, and us today or this evening? Or early tomorrow?

Please let me know. Thanks.

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, October 4, 2016 3:23 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Danek, Mary (TBS) <Mary.Danek@ontario.ca>
Subject: RE: Final Report

Hi Kerry – would Friday work?

Cindy

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: October-04-16 3:21 PM
To: Veinot, Cindy (TBS)
Subject: RE: Final Report

Hi, Cindy. I know you must be very busy. But do you have time for a quick call in the next few days?

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, October 2, 2016 1:07 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: RE: Final Report

Thanks Matt and Kerry

Cindy

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

Hi Nadine and Cindy,

Please find attached our final report.

Kind regards,

Matt

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RE_ 0003.C5 OPSEU - Accounting for Plan surpluses_v6.docx.rtf

From: Petsche, Nadine (TBS) []
To: Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
CC: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: 0003.C5 OPSEU - Accounting for Plan surpluses_v6.docx
Date: Friday, December 02, 2016 13:57:48
Attachment 1: image001.jpg

J Thanks.n

From: Colavecchia, Pina (CA - Toronto) [mailto:pcolavecchia@deloitte.ca]
Sent: December-02-16 12:58 PM
To: Petsche, Nadine (TBS)
Cc: Colley, Matthew (CA - Toronto)
Subject: 0003.C5 OPSEU - Accounting for Plan surpluses_v6.docx

Hi Nadine,

Please find attached the updated OPSEU document.

Thank you,

Pina

--

Pina Colavecchia CPA, CA

Senior Manager | Public Sector

Deloitte LLP

400 Applewood Crescent, Suite 500, Vaughan, ON, L4K 0C3, Canada

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image001.pdf

RE_ A couple of questions.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: A couple of questions
Date: Thursday, December 01, 2016 20:19:05

About Monday? Yes I got that. I am available.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/01/2016 07:15 PM
Subject: RE: A couple of questions

Thanks Lucy. This feedback is very helpful. Just checking too that you got my voicemail message?
Have a great evening.
Talk to you soon.
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: December-01-16 7:11 PM
To: Petsche, Nadine (TBS)
Subject: Re: A couple of questions

Hi Nadine,

Sorry we've missed each other's calls. I was picking up my daughter. I am available on my cell until 7:45pm if you want to chat re: 7600 reports. I would think the panel is OK because 7600 applies to "public accountants" that provide written or oral advice on the application of accounting principles to specific transactions. If the panel is not acting as "public accountants" then I don't think their conclusions could be seen as an opinion on the application of accounting principles, but that said, I don't know the composition or the terms of reference of the panel to be able to say definitively. However non-public accountants would not be expected to apply GAAS, and any recommendations they made would be considered in that light. (Although I would think that they would also be careful in how they phrase their recommendations anyway).

In respect of the first question. It's a good question. I don't think that it aligns with my understanding either. My interpretation of the language used is that the Actuarial benefit liability is the Fair value of plan

assets - full actuarial valuation (including all actuarial gains and losses), and the add back of the unamortized losses gets to the "accounting number" of $202.7M asset. This is the accrued benefit asset. However, under the standard the losses would be subtracted again to get to the "Adjusted benefit asset" being the $248.3 liability. Obviously no valuation allowance would be required against a liability. There is no VA required against the accrued benefit asset if the asset exists only because of unamortized losses. This is because over time that asset will be "realized" through the amortization of the losses and bring down the position of the plan to a liability position over time.

As the phrases "Accrued benefit asset" and "adjusted benefit asset" are not used in the slides it is hard to be certain that this is what is meant in the slides. However I think the standard is quite clear in 3250.054 that the valuation allowance is the excess of the adjusted benefit asset over the expected future benefit (in this case $nil). So if somehow they got to a position where the adjusted benefit asset is $202.7 asset the VA would make sense. It is difficult to see how the adjusted benefit asset could be $202.7 asset though based on the fact that they are adding back and not subtracting unamortized losses to get there.

Lucy

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PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/01/2016 05:50 PM
Subject: A couple of questions

Hi Lucy.
Just forwarding a couple of docs regarding the NB situation. Having a bit of difficulty following the last slide of the second attachment and how the calculation aligns with my understanding of how the adjusted benefit asset should be computed. (you'll note that the calc begins with a liability vs. asset).

Also, wondering if we can chat regarding the nature of a 7600 Report, just to confirm whether the work being undertaken by the Panel could ever be categorized as such. I don't think so, but would appreciate a chat.

I saw that you called earlier. Talk to you soon.
Nadine[attachment "PSSRP - valuation allowance v2.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Valuation Allowances for DB Pension Plans v2.pptx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Actuarial work.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
Subject: RE: Actuarial work
Date: Thursday, November 17, 2016 17:43:49
Attachment 1: image002.png

Summary of the opinion is coming today. Just sent the confidentiality agreements to Nelson.

The confidentiality agreements now refer to both Deloitte reports.

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Thursday, November 17, 2016 11:33 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: Actuarial work

Matt – I understand that after I left the call, there was a request not to provide the actuarial work done by Deloitte to the Panel – can you fill me in on that – the Panel will need to see that work in the course of their undertaking.

Also – do we have the confidentiality agreement that needs to be signed re: the opinion?

Finally – any progress on the summary of the opinion?

Thanks,

Cindy

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen’s Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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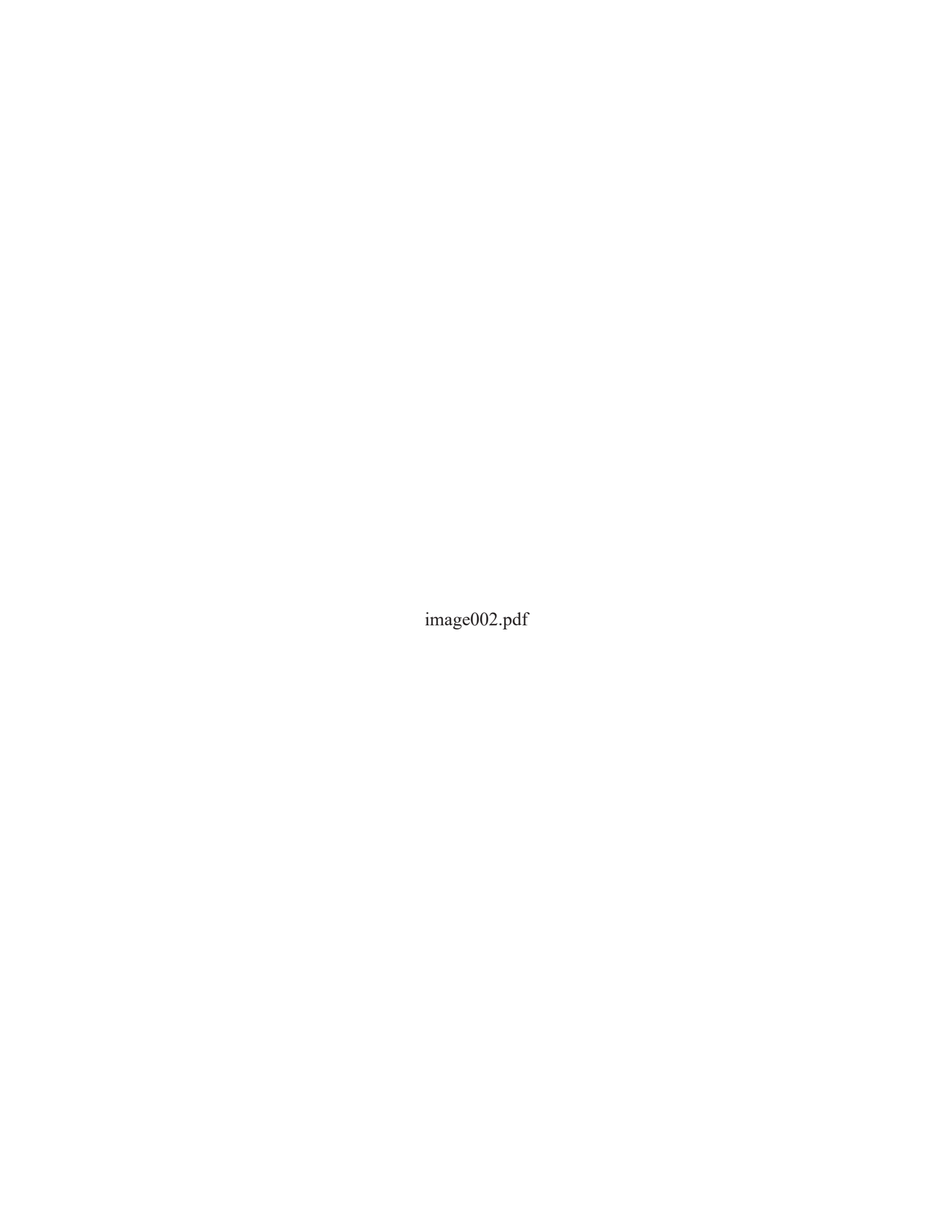
image002.pdf

TBS

RE_ Advisory (revised wording related to accounting opinion).rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Jesty, Paula (CA - Toronto) [pjesty@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 10:03:19

Hi, Nadine. We will have some alternate wording for this to propose to you. But before we do, I'm wondering if it would be possible to see the comment that it is responding to? Or to get an understanding of the key points raised in that comment? Please let me know. If it's easier to just talk about it, we can have a call.

The summary itself is in for final review as is the wording for the limitations around the opinion to be given to the panel.

Regards,

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, November 5, 2016 9:57 AM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Advisory (revised wording related to accounting opinion)

Good morning!

Just forwarding the most current wording for your review and feedback. Please advise of any concerns. Thanks.

Nadine

During the course of the Public Accounts audit, the Auditor General was provided with analysis and support on the province's interpretation of public sector accounting standards to the Province's jointly sponsored pension plans. This information included an external accounting opinion that addressed issues related to the requirement for a legally enforceable right to reduce contributions (which supported the Province's interpretation) and considerations on incorporating the impact of legal uncertainty in estimating the valuation of the net pension assets.

From: Petsche, Nadine (TBS)
Sent: November-04-16 4:33 PM
To: Danyluk, Kerry (CA - Toronto); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: RE: Advisory

Thanks Kerry. Your feedback is helpful.

For additional context, the extract is part of a response that would be reflected in the AG's Annual Report which is expected to be released in December. Based on your feedback, I have amended the wording below. Your feedback on the revised wording would be appreciated.

Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]

Sent: November 4, 2016 3:48 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Subject: RE: Advisory

Hi, Nadine. I'd like to understand the context a bit better. Will this commentary go in a public document? We will need to have the context before responding.

With respect to the actual wording, I don't think it's true to say that our report supported your accounting treatment. You recorded an asset of around $10 billion and we declined to provide a view on the amount of the asset. So this description goes beyond the scope of our report and we would not agree to it as worded below.

Regards,

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, November 4, 2016 3:32 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>

Subject: Advisory

Matt/Paula/Kerry,

We are currently drafting our responses to the AG's Chapter 2 of her Annual Report. Below is an extract that refers to your opinion. It is a generic reference which I understand from discussions is OK. Please confirm.

Nadine

During the course of the audit of the Public Accounts of Ontario 2015-16, the Province shared background and analysis on interpretation of public sector accounting standards to the Province's jointly sponsored pension plans, including an accounting opinion from an external public accounting firm which addressed questions regarding legally enforceability of the Province's right to recognize a pension asset under PS 3250 and the impact of uncertainty with regards to assessing the government's expectations of future benefit from a pension asset.

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CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 16:02:41

Hi, Nadine. I would like it to be a bit more clear. Please see my edit in red. Thanks.

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Kerry Danyluk

Partner | National Accounting and Assurance

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Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 15:53:16

Thanks Kerry. Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: November-07-16 2:52 PM
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Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 16:03:48

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RE_ Advisory (revised wording related to accounting opinion).rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Jesty, Paula (CA - Toronto) [pjesty@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 15:57:38

Kerry,

I have made a minor edit, as the response is from management's perspective. nadine

During the course of the Public Accounts audit, the Auditor General was provided with analysis and support on the province's interpretation of public sector accounting standards to the Province's jointly sponsored pension plans. This information included an external accounting opinion related to the Province's accounting for one of its jointly sponsored pension plans under Public Sector Accounting Standards (PSAS). Based on the facts surrounding this particular jointly sponsored pension plan, the opinion expressed the view that the recognition of a pension plan asset is permissible under PSAS which supported the Province's interpretation. The opinion did not address the measurement of that plan asset.

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: November-07-16 2:52 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: RE: Advisory (revised wording related to accounting opinion)

Hi, Nadine. Below is the wording that we would be comfortable with for the report. Please let me know if you would like to discuss.

During the course of the Public Accounts audit, the Auditor General was provided with analysis and support on the province's interpretation of public sector accounting standards to the Province's jointly sponsored pension plans. This information included an external accounting opinion related to the Province's accounting for one of its jointly sponsored pension plans under Public Sector Accounting Standards (PSAS). Based on the facts surrounding this particular jointly sponsored pension plan, the opinion expressed the view that the recognition of a pension plan asset is permissible under PSAS. However, the measurement of that plan asset was outside the scope of the opinion.

Kerry

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Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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of the Canadian Olympic team

Please consider the environment before printing.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, November 5, 2016 9:57 AM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Advisory (revised wording related to accounting opinion)

Good morning!

Just forwarding the most current wording for your review and feedback. Please advise of any concerns. Thanks.

Nadine

During the course of the Public Accounts audit, the Auditor General was provided with analysis and support on the province's interpretation of public sector accounting standards to the Province's jointly sponsored pension plans. This information included an external accounting opinion that addressed issues related to the requirement for a legally enforceable right to reduce contributions (which supported the Province's interpretation) and considerations on incorporating the impact of legal uncertainty in estimating the valuation of the net pension assets.

From: Petsche, Nadine (TBS)
Sent: November-04-16 4:33 PM
To: Danyluk, Kerry (CA - Toronto); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: RE: Advisory

Thanks Kerry. Your feedback is helpful.

For additional context, the extract is part of a response that would be reflected in the AG's Annual Report which is expected to be released in December. Based on your feedback, I have amended the wording below. Your feedback on the revised wording would be appreciated.

Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: November 4, 2016 3:48 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Subject: RE: Advisory

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With respect to the actual wording, I don't think it's true to say that our report supported your accounting treatment. You recorded an asset of around $10 billion and we declined to provide a view on the amount of the asset. So this description goes beyond the scope of our report and we would not agree to it as worded below.

Regards,

Kerry

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Kerry Danyluk

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D: +1 (416) 775 7183

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, November 4, 2016 3:32 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: Advisory

Matt/Paula/Kerry,

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Nadine

During the course of the audit of the Public Accounts of Ontario 2015-16, the Province shared background and analysis on interpretation of public sector accounting standards to the Province's jointly sponsored pension plans, including an accounting opinion from an external public accounting firm which addressed questions regarding legally

enforceability of the Province's right to recognize a pension asset under PS 3250 and the impact of uncertainty with regards to assessing the government's expectations of future benefit from a pension asset.

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RE_ Advisory (revised wording related to accounting opinion).rtf

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CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Jesty, Paula (CA - Toronto) [pjesty@deloitte.ca]
Subject: RE: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 15:53:16

Thanks Kerry. Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: November-07-16 2:52 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: RE: Advisory (revised wording related to accounting opinion)

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Kerry

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Nadine

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RE_ As discussed.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: As discussed
Date: Thursday, September 15, 2016 22:01:57

Hi Lucy.

The AG has told us that she has sought an external opinion, but she says it is her protocol not to disclose the firm that she has engaged. In this regard, the firm has also not participated in any discussions with us on this topic.

Hope this helps.

Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 15, 2016 10:00 PM
To: Petsche, Nadine (TBS)
Subject: Re: As discussed

Hi Nadine,

I thought of one question that might be helpful to know. Has any accounting firm been advising the OAG on this issue, including potentially issuing any accounting opinions? If so, do we know which firm it was?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/15/2016 08:47 PM
Subject: As discussed

Hi Lucy.
Further to our discussion, below is an outline of the work we discussed. The work relates to the jointly sponsored pension plans (OTPP and OPSEUPP) as reported in the Province's consolidated financial statements.
I'll look forward to hearing back from you.
Best regards,
Nadine
416 562 9509

The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following

- Taking into account public sector accounting principles, advice and guidance on complex accounting and reporting matters related to accounting for pensions on the Province's consolidated financial statements.
- The Vendor will participate in meetings as necessary to support the engagement objectives:

- Working with management of OPCD's Accounting Policy and Financial Reporting Branch (APFR), the provider of complex accounting services related to the following possible areas:
- Develop discussion and analysis material
- Develop draft input/briefing materials/option papers
- Provide accounting advice and guidance related to the accounting for pensions on the Province's financial statements
- Participate in discussions with internal and external stakeholders, as required

As part of this engagement, the consultant(s) would be expected to provide professional accounting expertise in assessing actuarial assessments for specified plans in relation to applying the ceiling test to the accrued pension benefit assets in accordance with PS3250 (3250.050 to PS3250.059).

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suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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RE_ As discussed.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: As discussed
Date: Friday, September 16, 2016 11:04:39

Hi Nadine,

I've discussed this internally and we should be able to do something for you. I think it would be helpful for me to give you a call to discuss in more detail and to discuss next steps. I am about to go into a meeting, but I should be able to give you a call around 12pm (or later, if that works better for you). Will I be able to reach you this number - 416 562 9509?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
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Date: 09/15/2016 10:22 PM
Subject: RE: As discussed

Thanks Lucy. Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 15, 2016 9:07 PM
To: Petsche, Nadine (TBS)
Subject: Re: As discussed

Thank you Nadine.

I will be in touch tomorrow.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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RE_ As previously referenced.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: As previously referenced
Date: Thursday, September 22, 2016 10:40:43

Thanks Matt. n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 22, 2016 10:34 AM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: As previously referenced

Thanks Nadine,

Thinking back to yesterday's conversation with the AG, part of the concern was around the audit evidence that has been provided to support that the asset will be recovered. It seemed at one point during the meeting that she might have been able to get to how approximately $8B will be recovered. Maybe you could think about how you could articulate to them how the evidence you have provided or summarize to them how the evidence you provided supports the asset. I am just thinking if there are ways that it could be framed to help get them more comfortable about the audit evidence they have.

Regarding the statement of facts, we did send a communication last night to the AG thanking her for her time yesterday and asking if she could confirm whether they believe them to be accurate and complete, and more formally notifying her that we are engaged to provide an accounting opinion. For the time being we have removed the facts around the impact of restoring inflation indexation, but we have indicated that this assertion made by management will likely be factored into our opinion.

Thanks

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, September 22, 2016 10:25 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: As previously referenced
Importance: High

Hi Matt.

Please see last page**

Nadine

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RE_ Asset Ceiling Reports.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 14:08:55
Attachment 1: OTPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf
Attachment 2: OPSEUPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

---

Hi everyone,

Attached are updated to reflect the additional caveat related to the year-end adjustments (third paragraph of the first page).

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Uros Karadzic
Sent: Tuesday, May 16, 2017 12:49 PM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Sounds good.

Christina, can you please include this in our two memos for my review so we can send to Nadine this afternoon?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 12:42 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Uros.

I had a chance to speak with Cindy and she would actually like for the most recently proposed wording to be included in your report. Sorry for the confusion on our end.

n

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 12:30 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Shayan Jafrani

Subject: RE: Asset Ceiling Reports

That can work as well, I'm comfortable with either approach. Just let us know what you prefer and if you'd like us to update our documents with the caveat below please let us know and we will do that.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, May 16, 2017 11:51 AM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Wondering if we could leave the reports as they are and OPCD add the caveat in an email to the AG's office re: the impact of any adjustment. I'm assuming nothing coming out of the adjustment work will impact the conclusion on the asset ceiling test.

Cindy

From: Petsche, Nadine (TBS)
Sent: May-16-17 11:43 AM
To: Uros Karadzic

Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Veinot, Cindy (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

Copying Cindy on this response as well, as she may have additional advice.

Thanks.

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 11:41 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: RE: Asset Ceiling Reports

Hi Nadine,

Shayan is still sick today, so Christina and I will make this change.

Would something to this effect be suitable: "The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments."

If you have any suggested changes, or particular additional caveats you'd like included,

please let me know.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:31 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Asset Ceiling Reports

Shayan,

Cindy would like to share the results of the Asset Ceiling analysis with the OAG prior to completion of the work related to pension adjustments. We would like to include appropriate language/caveat regarding pending adjs and plan to update once complete.

Can you please insert the appropriate caveat in the draft report and resend.

Thanks in advance.

Nadine

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OTPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

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Building a better working world

Nadine Petsche
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
7 Queen's Park Crescent, 2nd Floor
Toronto ON M7A 1Y7

16 May 2017

Ontario Teacher's Pension Plan - DRAFT
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $26.9B (obligation of $123.8, market related-value of asset of $169.8B, unamortized actuarial gain of $19.1B)
- The Province's portion (50%) of the accrued benefit asset is $12.3B[1]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $12.3B for its respective portion of the Plan.

[1] Reflects specific downward net adjustment of $1.2B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.
- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors under the Teacher's Pension Act ("Act").
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province has an equal share (50%) in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs"*.

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$175.6B
Market-related value of assets ("MVRA")	$(169.8)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$175.6B
Obligation	$(123.8)B
Plan surplus	$51.8B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$51.8B

The adjusted benefit asset for the Plan is $51.8B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

Mercer's accounting results letter determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer's calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan's expected future accruals to be approximately $95B, based on the current number of active employees and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of

contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$51.8B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $51.8B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$26.9B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B
Province's portion of the accrued benefit asset (50%) [PS3250.050 x 50%]	13.5B
Other Province specific adjustment made by OPCD	(1.2)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$12.3B

Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $12.3B (without any asset impairment) could be recognized for the Province's financial reporting under PSAB.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Actuarial valuation report for OTPP as at 1 January 2016 prepared by Mercer for funding purposes
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re; Ontario Teachers' Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- Teachers' Pension Act
- OTPP Funding Management Policy
- Letter Re: Accounting results as at 31 March 2017 prepared by Mercer
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

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.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

OPSEUPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

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16 May 2017

Ontario Public Service Employees' Union Pension Plan - DRAFT
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Public Service Employees' Union Pension Plan ("OPSEUPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OPSEUPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OPSEUPP in the Province's financial statements. This document does not constitute an accounting opinion and should not be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $1.95B (obligation of $16.60B, market related-value of asset of $18.51B, unamortized actuarial loss of $0.04B)
- The Province's portion (50%) of the accrued benefit asset is $0.61B[1]. This amount does not reflect any adjustment for the differential use of the Rate Stabilization Fund ("RSF") by the joint sponsors discussed later in this document.

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $0.65B ($0.61B, adjusted for the estimated differential use of the RSF) for its respective portion of the Plan.

[1] Reflects specific downward net adjustment of $0.37B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS.
- The Plan is jointly sponsored by the Province, represented by the Chair of the Management Board of Cabinet, and the Ontario Public Service Employees' Union ("OPSEU"), representing the employees.
- Funding valuations must be filed at least once every three years.
- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors in accordance with the plan text and sponsorship agreement:
  - Employers match the contributions of the members.
  - Any emerging actuarial gains and losses are to be shared equally between the sponsors.
  - Any surplus is to be shared equally between the joint sponsors under the current arrangement (the proportion may be collectively bargained).
  - Any deficit is to be funded by the joint sponsors and required contributions will increase in equal amounts.
- The Plan has established a Rate Stabilization Fund ("RSF"), as the sum of past unspent surpluses which were evenly allocated between the joint sponsors. Each sponsor may decide, without the other joint sponsor's consent, the use of its portion of the surplus.
- As at 31 December 2014, the date of the most recently completed funding valuation, the Province's RSF balance was $0.1B and the OPSEU's RSF balance was $0.01B. This means that the OPSEU joint sponsor has historically used $0.09B more surplus than the Province.
- While the joint sponsors established a trust ("OPTrust"), the Board of Trustees is responsible for the administration of the Plan and the investment of the assets. Decisions related to amendments to the trust agreement, plan text, and sponsorship agreement (e.g. contribution level, benefit to be provided) are the responsibility of the joint sponsors.
- The funding policy provides the joint sponsors a recommended framework for addressing the priorities for surplus use and deficit funding.
- The Plan documents explicitly state that no surplus shall be paid out of the fund to either sponsors.
- Contribution holiday does not constitute a surplus withdrawal according to the sponsorship agreement. Furthermore, the sponsorship agreement permits contribution holiday (i.e. sponsors may use their respective RSF to meet any additional contribution requirements).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")

- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Valuation discount rate: 5.90%
- Inflation rate: 2.00%
- Salary escalation rate: 1.75% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

Under the current arrangement, the Province has an equal share (50%) in the costs and risks of the OPSEUPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and the employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province. A further adjustment may need to be made to account for differential use of RSF by each of the joint sponsors. The need for RSF adjustment was also noted in the Pension Asset Expert Advisory Panel report.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs"*.

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. The Plan text explicitly prohibits any surplus withdrawal by both joint sponsors. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Province may use its portion of the RSF for contribution reduction without any restriction and does not require consent by the other sponsor. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$18.90B
Market-related value of assets ("MVRA")	$(18.51)B
Actuarial gains/(losses) not recognized due to smoothing	$0.39B
Unamortized actuarial gains/(losses), on MRVA basis	$(0.04)B
Unamortized actuarial gains/(losses), on MVA basis	$0.35B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$18.90B
Obligation	$(16.60)B
Plan surplus	$2.30B
Unamortized losses	$0.00B
Adjusted benefit asset (PS 3250.053)	$2.30B

The adjusted benefit asset for the Plan is $2.30B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

According to the accounting results letter provided by OPTrust, the Plan's actuary (Willis Towers Watson, "WTW") has determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $0.39B
- The total present value of expected future accruals is $13.88B as at 31 December 2016

The letter indicates that the present value of expected future accruals has been calculated on an open group basis (i.e. the current number of active employees). This is in line with PSAS requirements.

We have validated the actuary's calculation of the total present value of expected future accruals of $13.88B. We have estimated the present value of the Plan's expected future accruals to be approximately $12.38B, on an open group basis using a perpetuity approach (i.e. the current number of active employees) and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 5.90%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $0.39B / (0.059-0.0275) = $12.38B.

We note that our estimate is approximately $1.5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuary to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contributions that the Province is required to make, regardless of any surplus. Moreover, since there is no restriction on the sponsor's use of its RSF, the contribution can be reduced to zero for the sponsors without each other's consent. The sponsorship agreement explicitly explains that a contribution holiday can be taken when there

is a surplus. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OPSEUPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OPSEUPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

No plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$13.88B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$13.88B

The Plan's expected future benefit is $13.88B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$2.30B
Plan's expected future benefit (PS 3250.056)	$13.88B
Valuation allowance (PS 3250.054) [max (0, $2.30B – 13.88B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$1.95B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B

Based on the RSF allocation as at 31 December 2014, the most recent funding valuation date, OPSEU has utilized their RSF $0.09B more than the Province:

OPSEU's RSF balance at 31 December 2014	$0.01B
Province's RSF balance at 31 December 2014	0.10B
Adjustment for the differential use of RSF by the joint sponsors	$0.09B

In other words, the Province has $0.09B more of unused RSF than OPSEU at 31 December 2014.

Accordingly, the Province's portion of the Plan's accrued benefit asset, adjusted for the relative position of the sponsors' RSFs and net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B
Adjustment for the differential use of RSF by the joint sponsors	(0.09)B
Plan's accrued benefit asset to be divided equally between the joint sponsors	1.86B
Province's portion of the accrued benefit asset to be divided evenly (50% x 1.86B)	0.93B
Province's unused RSF in excess of OPSEU's RSF	0.09B
Other Province specific adjustment made by OPCD	(0.37)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$0.65B

Based on the results of the analysis above, OPCD may conclude that an accrued benefit asset of $0.65B could be recognized for the Province's financial reporting under PSAS. This asset is after an adjustment for the differential use of RSF by the joint sponsors. No asset impairment is required.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Province's financial reporting information under PSAS as at 31 March 2017, prepared by OPCD
- Actuarial Information for the OPESU Pension Plan provided by OPSEU Pension Trust (related to 2016 year-end financial information, including to actuarial calculations performed by Willis Towers Watson)
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re: OPESU Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- OPSEUPP actuarial valuation funding report as at 31 December 2014 by Willis Towers Watson
- OPSEU actuarial gain or loss allocation history (up to 31 December 2014)
- OPSEUPP plan text
- The Sponsorship Agreement for OPESUPP
- Ontario Public Service Employees' Union Pension Act
- OPTrust Funding Policy: Board-Approved Policy
- Pension Asset Expert Advisory Panel report

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Measurement date

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Limit on the carrying amount on accrued benefit asset

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accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

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.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

RE_ Asset Ceiling Reports.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 14:08:55
Attachment 1: OTPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf
Attachment 2: OPSEUPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

---

Hi everyone,

Attached are updated to reflect the additional caveat related to the year-end adjustments (third paragraph of the first page).

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Uros Karadzic
Sent: Tuesday, May 16, 2017 12:49 PM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Sounds good.

Christina, can you please include this in our two memos for my review so we can send to Nadine this afternoon?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 12:42 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Uros.

I had a chance to speak with Cindy and she would actually like for the most recently proposed wording to be included in your report. Sorry for the confusion on our end.

n

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 12:30 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Shayan Jafrani

Subject: RE: Asset Ceiling Reports

That can work as well, I'm comfortable with either approach. Just let us know what you prefer and if you'd like us to update our documents with the caveat below please let us know and we will do that.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, May 16, 2017 11:51 AM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Wondering if we could leave the reports as they are and OPCD add the caveat in an email to the AG's office re: the impact of any adjustment. I'm assuming nothing coming out of the adjustment work will impact the conclusion on the asset ceiling test.

Cindy

From: Petsche, Nadine (TBS)
Sent: May-16-17 11:43 AM
To: Uros Karadzic

Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Veinot, Cindy (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

Copying Cindy on this response as well, as she may have additional advice.

Thanks.

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 11:41 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: RE: Asset Ceiling Reports

Hi Nadine,

Shayan is still sick today, so Christina and I will make this change.

Would something to this effect be suitable: "The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments."

If you have any suggested changes, or particular additional caveats you'd like included,

please let me know.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:31 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Asset Ceiling Reports

Shayan,

Cindy would like to share the results of the Asset Ceiling analysis with the OAG prior to completion of the work related to pension adjustments. We would like to include appropriate language/caveat regarding pending adjs and plan to update once complete.

Can you please insert the appropriate caveat in the draft report and resend.

Thanks in advance.

Nadine

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OTPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

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Building a better working world

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Director, Accounting Policy and Financial Reporting
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16 May 2017

Ontario Teacher's Pension Plan - DRAFT
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $26.9B (obligation of $123.8, market related-value of asset of $169.8B, unamortized actuarial gain of $19.1B)
- The Province's portion (50%) of the accrued benefit asset is $12.3B[1]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $12.3B for its respective portion of the Plan.

[1] Reflects specific downward net adjustment of $1.2B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.
- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors under the Teacher's Pension Act ("Act").
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province has an equal share (50%) in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs"*.

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$175.6B
Market-related value of assets ("MVRA")	$(169.8)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$175.6B
Obligation	$(123.8)B
Plan surplus	$51.8B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$51.8B

The adjusted benefit asset for the Plan is $51.8B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

Mercer's accounting results letter determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer's calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan's expected future accruals to be approximately $95B, based on the current number of active employees and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of

contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$51.8B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $51.8B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$26.9B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B
Province's portion of the accrued benefit asset (50%) [PS3250.050 x 50%]	13.5B
Other Province specific adjustment made by OPCD	(1.2)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$12.3B

Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $12.3B (without any asset impairment) could be recognized for the Province's financial reporting under PSAB.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Actuarial valuation report for OTPP as at 1 January 2016 prepared by Mercer for funding purposes
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re; Ontario Teachers' Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- Teachers' Pension Act
- OTPP Funding Management Policy
- Letter Re: Accounting results as at 31 March 2017 prepared by Mercer
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

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.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

OPSEUPP Recognition of accrued benefit asset (EY 16 May 2017) - draft.pdf

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16 May 2017

Ontario Public Service Employees' Union Pension Plan - DRAFT
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Public Service Employees' Union Pension Plan ("OPSEUPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OPSEUPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OPSEUPP in the Province's financial statements. This document does not constitute an accounting opinion and should not be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $1.95B (obligation of $16.60B, market related-value of asset of $18.51B, unamortized actuarial loss of $0.04B)
- The Province's portion (50%) of the accrued benefit asset is $0.61B[1]. This amount does not reflect any adjustment for the differential use of the Rate Stabilization Fund ("RSF") by the joint sponsors discussed later in this document.

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $0.65B ($0.61B, adjusted for the estimated differential use of the RSF) for its respective portion of the Plan.

[1] Reflects specific downward net adjustment of $0.37B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS.
- The Plan is jointly sponsored by the Province, represented by the Chair of the Management Board of Cabinet, and the Ontario Public Service Employees' Union ("OPSEU"), representing the employees.
- Funding valuations must be filed at least once every three years.
- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors in accordance with the plan text and sponsorship agreement:
  - Employers match the contributions of the members.
  - Any emerging actuarial gains and losses are to be shared equally between the sponsors.
  - Any surplus is to be shared equally between the joint sponsors under the current arrangement (the proportion may be collectively bargained).
  - Any deficit is to be funded by the joint sponsors and required contributions will increase in equal amounts.
- The Plan has established a Rate Stabilization Fund ("RSF"), as the sum of past unspent surpluses which were evenly allocated between the joint sponsors. Each sponsor may decide, without the other joint sponsor's consent, the use of its portion of the surplus.
- As at 31 December 2014, the date of the most recently completed funding valuation, the Province's RSF balance was $0.1B and the OPSEU's RSF balance was $0.01B. This means that the OPSEU joint sponsor has historically used $0.09B more surplus than the Province.
- While the joint sponsors established a trust ("OPTrust"), the Board of Trustees is responsible for the administration of the Plan and the investment of the assets. Decisions related to amendments to the trust agreement, plan text, and sponsorship agreement (e.g. contribution level, benefit to be provided) are the responsibility of the joint sponsors.
- The funding policy provides the joint sponsors a recommended framework for addressing the priorities for surplus use and deficit funding.
- The Plan documents explicitly state that no surplus shall be paid out of the fund to either sponsors.
- Contribution holiday does not constitute a surplus withdrawal according to the sponsorship agreement. Furthermore, the sponsorship agreement permits contribution holiday (i.e. sponsors may use their respective RSF to meet any additional contribution requirements).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")

- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Valuation discount rate: 5.90%
- Inflation rate: 2.00%
- Salary escalation rate: 1.75% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

Under the current arrangement, the Province has an equal share (50%) in the costs and risks of the OPSEUPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and the employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province. A further adjustment may need to be made to account for differential use of RSF by each of the joint sponsors. The need for RSF adjustment was also noted in the Pension Asset Expert Advisory Panel report.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs"*.

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. The Plan text explicitly prohibits any surplus withdrawal by both joint sponsors. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Province may use its portion of the RSF for contribution reduction without any restriction and does not require consent by the other sponsor. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$18.90B
Market-related value of assets ("MVRA")	$(18.51)B
Actuarial gains/(losses) not recognized due to smoothing	$0.39B
Unamortized actuarial gains/(losses), on MRVA basis	$(0.04)B
Unamortized actuarial gains/(losses), on MVA basis	$0.35B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$18.90B
Obligation	$(16.60)B
Plan surplus	$2.30B
Unamortized losses	$0.00B
Adjusted benefit asset (PS 3250.053)	$2.30B

The adjusted benefit asset for the Plan is $2.30B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

According to the accounting results letter provided by OPTrust, the Plan's actuary (Willis Towers Watson, "WTW") has determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $0.39B
- The total present value of expected future accruals is $13.88B as at 31 December 2016

The letter indicates that the present value of expected future accruals has been calculated on an open group basis (i.e. the current number of active employees). This is in line with PSAS requirements.

We have validated the actuary's calculation of the total present value of expected future accruals of $13.88B. We have estimated the present value of the Plan's expected future accruals to be approximately $12.38B, on an open group basis using a perpetuity approach (i.e. the current number of active employees) and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 5.90%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $0.39B / (0.059-0.0275) = $12.38B.

We note that our estimate is approximately $1.5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuary to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contributions that the Province is required to make, regardless of any surplus. Moreover, since there is no restriction on the sponsor's use of its RSF, the contribution can be reduced to zero for the sponsors without each other's consent. The sponsorship agreement explicitly explains that a contribution holiday can be taken when there

is a surplus. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OPSEUPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OPSEUPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

No plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$13.88B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$13.88B

The Plan's expected future benefit is $13.88B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$2.30B
Plan's expected future benefit (PS 3250.056)	$13.88B
Valuation allowance (PS 3250.054) [max (0, $2.30B – 13.88B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$1.95B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B

Based on the RSF allocation as at 31 December 2014, the most recent funding valuation date, OPSEU has utilized their RSF $0.09B more than the Province:

OPSEU's RSF balance at 31 December 2014	$0.01B
Province's RSF balance at 31 December 2014	0.10B
Adjustment for the differential use of RSF by the joint sponsors	$0.09B

In other words, the Province has $0.09B more of unused RSF than OPSEU at 31 December 2014.

Accordingly, the Province's portion of the Plan's accrued benefit asset, adjusted for the relative position of the sponsors' RSFs and net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B
Adjustment for the differential use of RSF by the joint sponsors	(0.09)B
Plan's accrued benefit asset to be divided equally between the joint sponsors	1.86B
Province's portion of the accrued benefit asset to be divided evenly (50% x 1.86B)	0.93B
Province's unused RSF in excess of OPSEU's RSF	0.09B
Other Province specific adjustment made by OPCD	(0.37)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$0.65B

Based on the results of the analysis above, OPCD may conclude that an accrued benefit asset of $0.65B could be recognized for the Province's financial reporting under PSAS. This asset is after an adjustment for the differential use of RSF by the joint sponsors. No asset impairment is required.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Province's financial reporting information under PSAS as at 31 March 2017, prepared by OPCD
- Actuarial Information for the OPESU Pension Plan provided by OPSEU Pension Trust (related to 2016 year-end financial information, including to actuarial calculations performed by Willis Towers Watson)
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re: OPESU Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- OPSEUPP actuarial valuation funding report as at 31 December 2014 by Willis Towers Watson
- OPSEU actuarial gain or loss allocation history (up to 31 December 2014)
- OPSEUPP plan text
- The Sponsorship Agreement for OPESUPP
- Ontario Public Service Employees' Union Pension Act
- OPTrust Funding Policy: Board-Approved Policy
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

RE_ Asset Ceiling Reports.rtf

From: Petsche, Nadine (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 12:41:54

Uros.

I had a chance to speak with Cindy and she would actually like for the most recently proposed wording to be included in your report. Sorry for the confusion on our end.

n

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 12:30 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

That can work as well, I'm comfortable with either approach. Just let us know what you prefer and if you'd like us to update our documents with the caveat below please let us know and we will do that.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, May 16, 2017 11:51 AM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS)

<Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Wondering if we could leave the reports as they are and OPCD add the caveat in an email to the AG's office re: the impact of any adjustment. I'm assuming nothing coming out of the adjustment work will impact the conclusion on the asset ceiling test.

Cindy

From: Petsche, Nadine (TBS)
Sent: May-16-17 11:43 AM
To: Uros Karadzic
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Veinot, Cindy (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

Copying Cindy on this response as well, as she may have additional advice.

Thanks.

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 11:41 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: RE: Asset Ceiling Reports

Hi Nadine,

Shayan is still sick today, so Christina and I will make this change.

Would something to this effect be suitable: “The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments.”

If you have any suggested changes, or particular additional caveats you’d like included, please let me know.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:31 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel,

Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Asset Ceiling Reports

Shayan,

Cindy would like to share the results of the Asset Ceiling analysis with the OAG prior to completion of the work related to pension adjustments. We would like to include appropriate language/caveat regarding pending adjs and plan to update once complete.

Can you please insert the appropriate caveat in the draft report and resend.

Thanks in advance.

Nadine

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RE_ Asset Ceiling Reports.rtf

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To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 11:43:28

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

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To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 12:48:38

Sounds good.

Christina, can you please include this in our two memos for my review so we can send to Nadine this afternoon?

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 12:42 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Uros.

I had a chance to speak with Cindy and she would actually like for the most recently proposed wording to be included in your report. Sorry for the confusion on our end.

n

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 12:30 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, May 16, 2017 11:51 AM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

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RE_ Asset Ceiling Reports.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 12:29:46

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Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Veinot, Cindy (TBS); Shayan Jafrani
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Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 11:50:07

Hi Nadine,

Yes, the intention is to keep the DRAFT stamp on the reports until the adjustments are finalized. To make that additionally clear, I suggest adding a sentence to the disclaimer below so that it reads as follows:

“The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.”

Uros

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RE_ Asset Ceiling Reports.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 11:50:07

Hi Nadine,

Yes, the intention is to keep the DRAFT stamp on the reports until the adjustments are finalized. To make that additionally clear, I suggest adding a sentence to the disclaimer below so that it reads as follows:

“The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments. This document should therefore be considered a draft that will be finalized subsequent to the conclusion of the year-end adjustment review.”

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:43 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>

Cc: Christina Chan <Christina.Chan@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Asset Ceiling Reports

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

Copying Cindy on this response as well, as she may have additional advice.

Thanks.

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 11:41 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: RE: Asset Ceiling Reports

Hi Nadine,

Shayan is still sick today, so Christina and I will make this change.

Would something to this effect be suitable: "The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments."

If you have any suggested changes, or particular additional caveats you'd like included, please let me know.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:31 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Asset Ceiling Reports

Shayan,

Cindy would like to share the results of the Asset Ceiling analysis with the OAG prior to completion of the work related to pension adjustments. We would like to include appropriate language/caveat regarding pending adjs and plan to update once complete.

Can you please insert the appropriate caveat in the draft report and resend.

Thanks in advance.

Nadine

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RE_ Asset Ceiling Reports.rtf

From: Veinot, Cindy (TBS) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset Ceiling Reports
Date: Tuesday, May 16, 2017 11:50:53

Wondering if we could leave the reports as they are and OPCD add the caveat in an email to the AG's office re: the impact of any adjustment. I'm assuming nothing coming out of the adjustment work will impact the conclusion on the asset ceiling test.

Cindy

From: Petsche, Nadine (TBS)
Sent: May-16-17 11:43 AM
To: Uros Karadzic
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS); Veinot, Cindy (TBS); Shayan Jafrani
Subject: RE: Asset Ceiling Reports

Thanks Uros.

The wording looks fine to me. We were planning to update the reports after the adjs are finalized. Would it be fair to refer to the current version of the report as 'draft' and note that it will be revised once the process is complete?

Copying Cindy on this response as well, as she may have additional advice.

Thanks.

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 16, 2017 11:41 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan; Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: RE: Asset Ceiling Reports

Hi Nadine,

Shayan is still sick today, so Christina and I will make this change.

Would something to this effect be suitable: “The year-end adjustments shown in this document are based on the current existing approach to determining such adjustments. We understand that this approach is being reviewed, and to the extent there are changes implemented, they may affect the adjustments shown in this document. These changes, if any, will not affect the substance of the asset ceiling tests outside of these year-end adjustments.”

If you have any suggested changes, or particular additional caveats you’d like included, please let me know.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, May 16, 2017 11:31 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Patel,

Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Asset Ceiling Reports

Shayan,

Cindy would like to share the results of the Asset Ceiling analysis with the OAG prior to completion of the work related to pension adjustments. We would like to include appropriate language/caveat regarding pending adjs and plan to update once complete.

Can you please insert the appropriate caveat in the draft report and resend.

Thanks in advance.

Nadine

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RE_ Asset ceiling test - updated for year-end adjustments.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Asset ceiling test - updated for year-end adjustments
Date: Wednesday, July 12, 2017 21:53:24
Attachment 1: image001.jpg

Thanks Christina.

We had a status call with the OAG today and they have not yet finished their review but have also not encountered any significant issues so far with the analysis. I offered a discussion with them on the adjustments, if required. We'll keep you posted.

Thanks again.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: July-12-17 5:56 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Asset ceiling test - updated for year-end adjustments

Hi Nadine,

Please find attached the updated asset ceiling test documents for OTPP and OPSEUPP, reflecting the changes made related to year-end adjustments. We understand the year-end figures are currently being reviewed by the AG. As such, we continue to issue the attached in draft.

Let us know if you have any questions.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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image001.pdf

RE_ Benefit Trust Accounting - employees on LTD.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]
Subject: RE: Benefit Trust Accounting - employees on LTD
Date: Thursday, May 04, 2017 13:39:14
Attachment 1: image001.jpg

Hi Alicia,

I have communicated the request to Suzie and Blake and checking availability. Unfortunately, I believe Suzie is out this week so the call will likely be next week.

Will keep you posted.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Thursday, May 04, 2017 12:29 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Keates, James (TBS) <James.Keates@ontario.ca>
Subject: RE: Benefit Trust Accounting - employees on LTD
Importance: High

Hi Christina,

Thank you for your note.

In addition to the analysis that you and Shayan performed for the ELHT in late March under PS3250 and PS3255, Cindy and Nadine would also like to do some additional analysis under PS3200 (as a follow up to Cindy's briefing).

As you suggested, can you please help to set up a call with Suzie, Blake, and Lee Ann to have a further discussion on this?

Please let me know a time that works for you. On our side, I will also invite EDU to be part of the discussion.

Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

Office of the Provincial Controller Division |Treasury Board Secretariat

7 Queen’s Park Crescent, Frost South, 2nd Floor

Toronto, ON, M7A 1Z5

Email: Alicia.sun@ontario.ca

Tele: (416) 325-8155

-----Original Message-----
From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: May 3, 2017 5:14 PM
To: Sun, Alicia (TBS); Petsche, Nadine (TBS)
Cc: Shayan Jafrani
Subject: RE: Benefit Trust Accounting - employees on LTD

Hi Alicia, Nadine,

The fact that the funding remains the same in the event of disability does not mean a liability does not exist. The current benefits provided to active members are in exchange for services rendered and are therefore a current cost with no associated liability. However, once an individual goes on LTD, they are no longer providing a service and an obligation in respect of the total employer cost to providing benefits during the expected period of disability must be recorded under PS3255. We would expect the actuaries to take into consideration the expected length of disability, current (i.e. portion of fixed contributions relating to LTD members) and anticipated future costs over period of disability and discount these to the measurement date.

In our earlier discussions and draft paper, we noted that we did not believe there is a liability under PS3250/3255 existed in respect of active employees. Please confirm if you would like us to contact Blake Langill and Suize Gignac to consider whether a liability (outside of PS3250/3255) for the ELHTs may need to be reported? I don't believe we were ever requested to do so, but wanted to ensure we are on the same page.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

-----Original Message-----

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]

Sent: Tuesday, May 02, 2017 4:55 PM

To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>

Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Subject: Fw: Benefit Trust Accounting - employees on LTD

Christina/Shayan,

My understanding that your colleague will continue to provide support on the ELHT accounting issue.

Please see below a question from EDU. Can you please pass it on to your colleague responsible for this item?

Thanks,

Alicia

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Sinasac, Elizabeth (EDU) <Elizabeth.Sinasac@ontario.ca>

Sent: Tuesday, May 2, 2017 4:38 PM

To: Sun, Alicia (TBS)

Cc: Yeung, Anthony (EDU); Yang, Andrew Dehai (EDU); Di Pasquale, Romina (EDU)

Subject: Benefit Trust Accounting - employees on LTD

Hi Alicia,

We recently had a question from one of the school boards on the proposed accounting treatment of employees on long term disability (LTD).

Q - The funding that flows from school boards to the trust is a fixed amount based on 2014-15 financial statement information plus prescribed percentage increases. If an active employee goes on LTD, the amount of funding to the trust does not change. If more or less employees join the plan, the amount of funding does not change. Due to this, the actuaries are not clear how to value the liability related to the LTD since it is not based on a "per person" amount; it is a fixed amount for the board. How would the LTD liability be valued now that the funding is now fixed? Even though an person will go on LTD and receive benefits, this doesn't mean that the boards' funding to the Trust will increase. How would the liability get adjusted?

Is this a question you could pass on to your consultants for review?

Thanks,

Elizabeth

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image001.pdf

TBS

RE_ CD Howe Notes Apr 25.docx.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: CD Howe Notes Apr 25.docx
Date: Wednesday, April 26, 2017 06:59:05

Thanks Matt.

Any suggestion that preparers sign off on accounting treatment that does not fairly present, but which is rather intended to support political objectives of 'balancing the budget', is also concerning.

Take care,

Nadine

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: April-26-17 1:02 AM
To: Petsche, Nadine (TBS)
Subject: CD Howe Notes Apr 25.docx

Hi Nadine,

Here are some suggested edits – I thought there was some value in calling out the facts that were mis-representative of the pension issue in one place vs the other issues around conduct that were noted.

There is one other issue that was present today in tone, but not as hard as what the tone was last year – she is undermining public company audits by implying that her opinions are more independent because she is not paid directly for her opinion. I know this was mentioned in our big meeting with her back in September, but this time it was more around firms issuing audit opinions. I know this isn't quite relevant to your situation, but as an employee of a public accounting firm, I can't help but be upset that she thinks that we are somehow less independent. It is troubling for the profession that a CPA would think that about her peers.

Kind regards,

Matt

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RE_ Could you provide an update re where things are at. Thanks. .rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Could you provide an update re where things are at. Thanks.
Date: Friday, September 30, 2016 10:53:41

I have tried to reach the AG by phone this morning. I have also sent a written request for her to confirm that she has nothing to add in terms of facts or information that we should consider. We are getting the final draft of the opinion ready. I am considering what my position will be on issuing if I don't receive the written confirmation that there is nothing to add.

Although it's not relevant to my opinion, I'd also like to understand what to expect from your end. But that's probably best discussed.

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Friday, September 30, 2016 10:15 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Could you provide an update re where things are at. Thanks.

Sent from my BlackBerry 10 smartphone on the Rogers network.
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RE_ additional request re role of the regulator.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: additional request re role of the regulator
Date: Monday, September 26, 2016 13:41:25
Attachment 1: image001.gif
Attachment 2: image002.gif
Attachment 3: image003.png

Jana

Thanks for this – we are running out of runway on this and hoping that in advance of the delivery of the written product, Deloitte could contact Oslers on this issue. Could you provide a contact in this regard? We presume Oslers will largely confirm that FSCO doesn't really have a practical role re: if the partners choose to do a contribution holiday and take other actions that are not illegal and not inconsistent with the PBA and its regs….thanks

From: Steele, Jana [mailto:JSteele@osler.com]
Sent: September 26, 2016 10:55 AM
To: Hatzis, Len (TBS)
Subject: additional request re role of the regulator

We are working through this and will have to you today – Estimated time – 2-3 pm.

Please note that Brenda Carson assisted with the tax question on the weekend and Laura Stefan is assisting with some of the research this morning.

Please add them to the list of persons from Osler.

Thanks.

Jana

Jana Steele

416.862.6625

DIRECT

416.862.6666

FACSIMILE

jsteele@osler.com

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8

http://www.osler.com/

http://www.pensionsbenefitslaw.com/

https://twitter.com/pensionsjana

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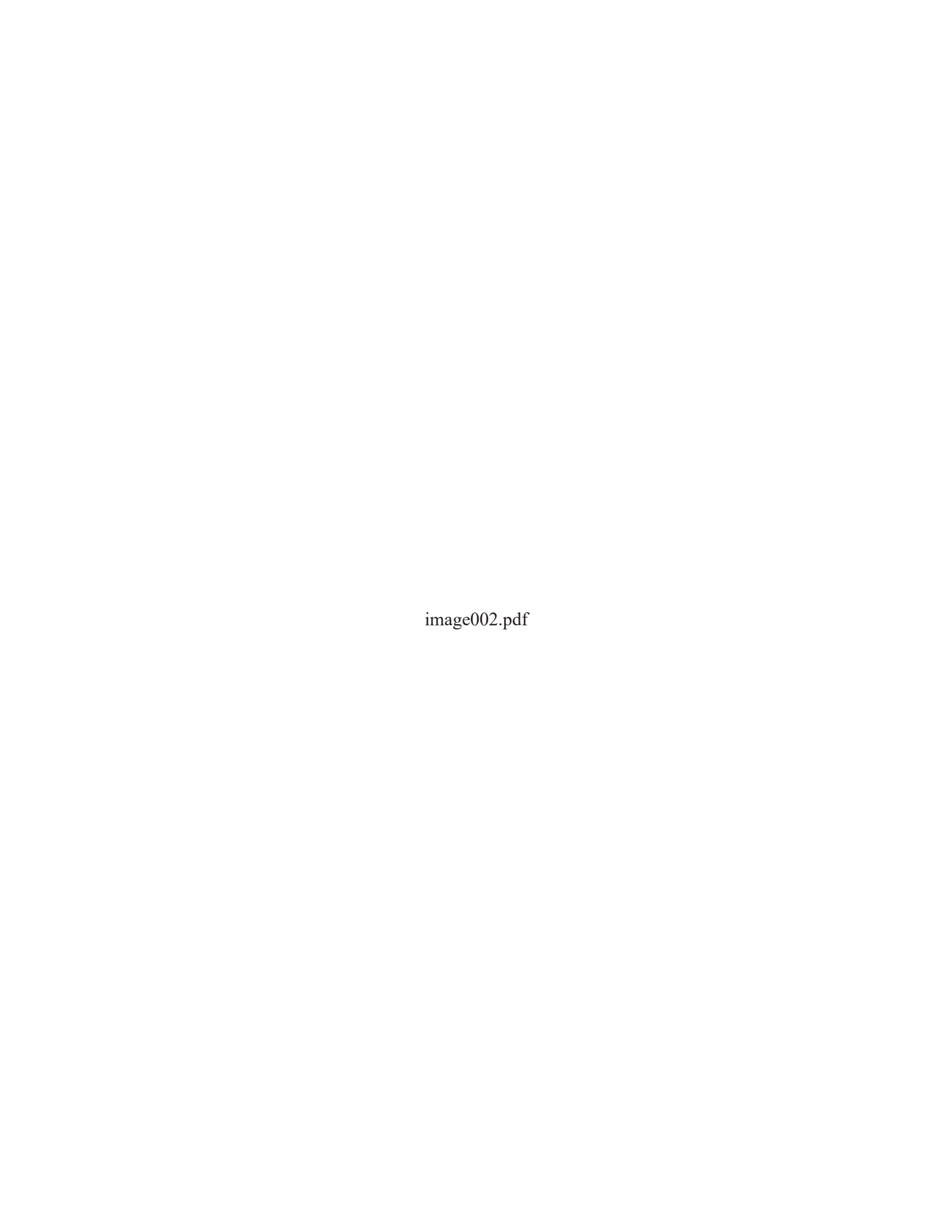
image002.pdf

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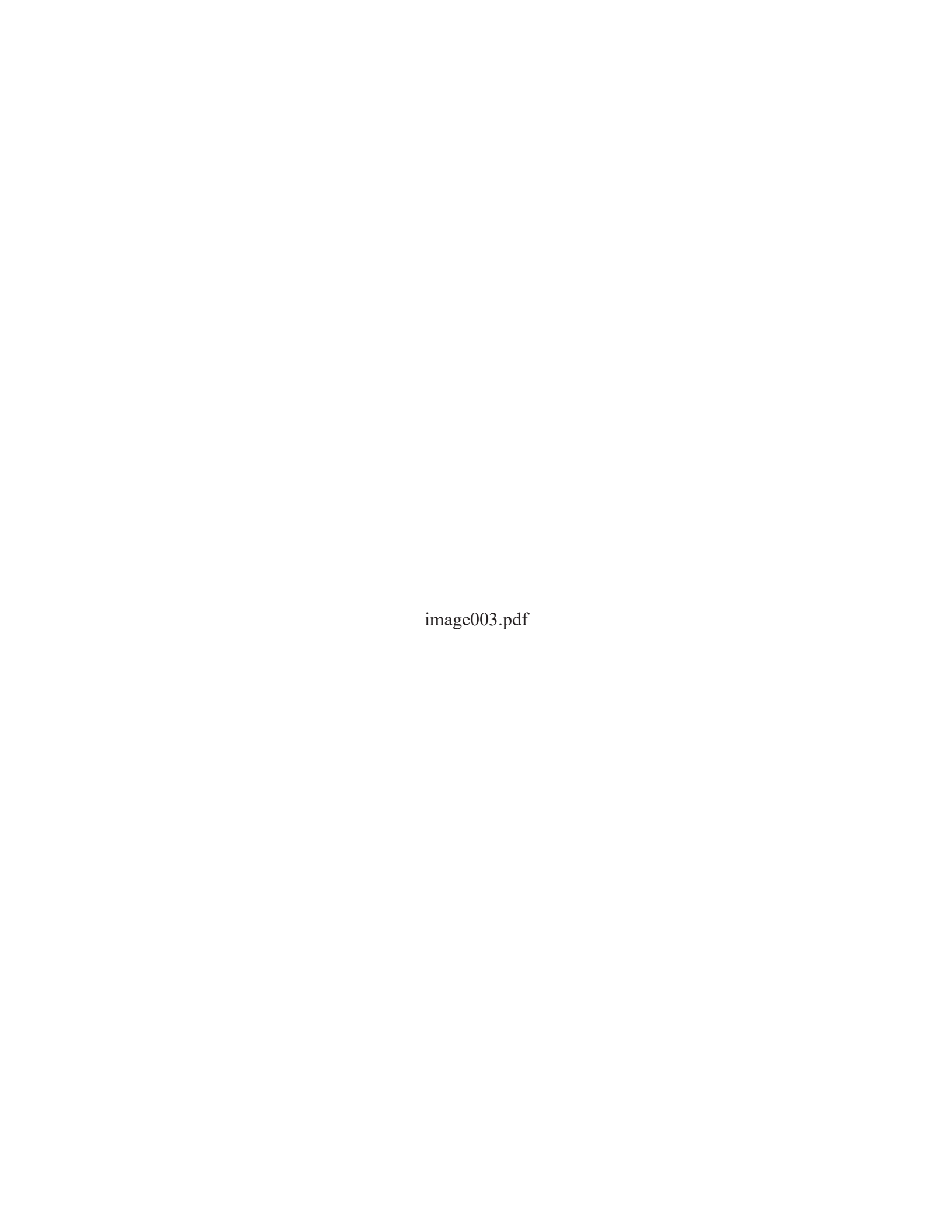
image003.pdf

pensions blog

RE_ additional request re role of the regulator.rtf

From: Steele, Jana [JSteele@osler.com]
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Marin, Jon [jomarin@osler.com]
Subject: RE: additional request re role of the regulator
Date: Monday, September 26, 2016 13:43:27
Attachment 1: image001.gif
Attachment 2: image002.gif
Attachment 3: image003.png

Hi Len:

We are almost done and will send along shortly.

Deloitte can contact me on this issue (416) 862-6625.

Jana

Jana Steele

416.862.6625

DIRECT

416.862.6666

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jsteele@osler.com

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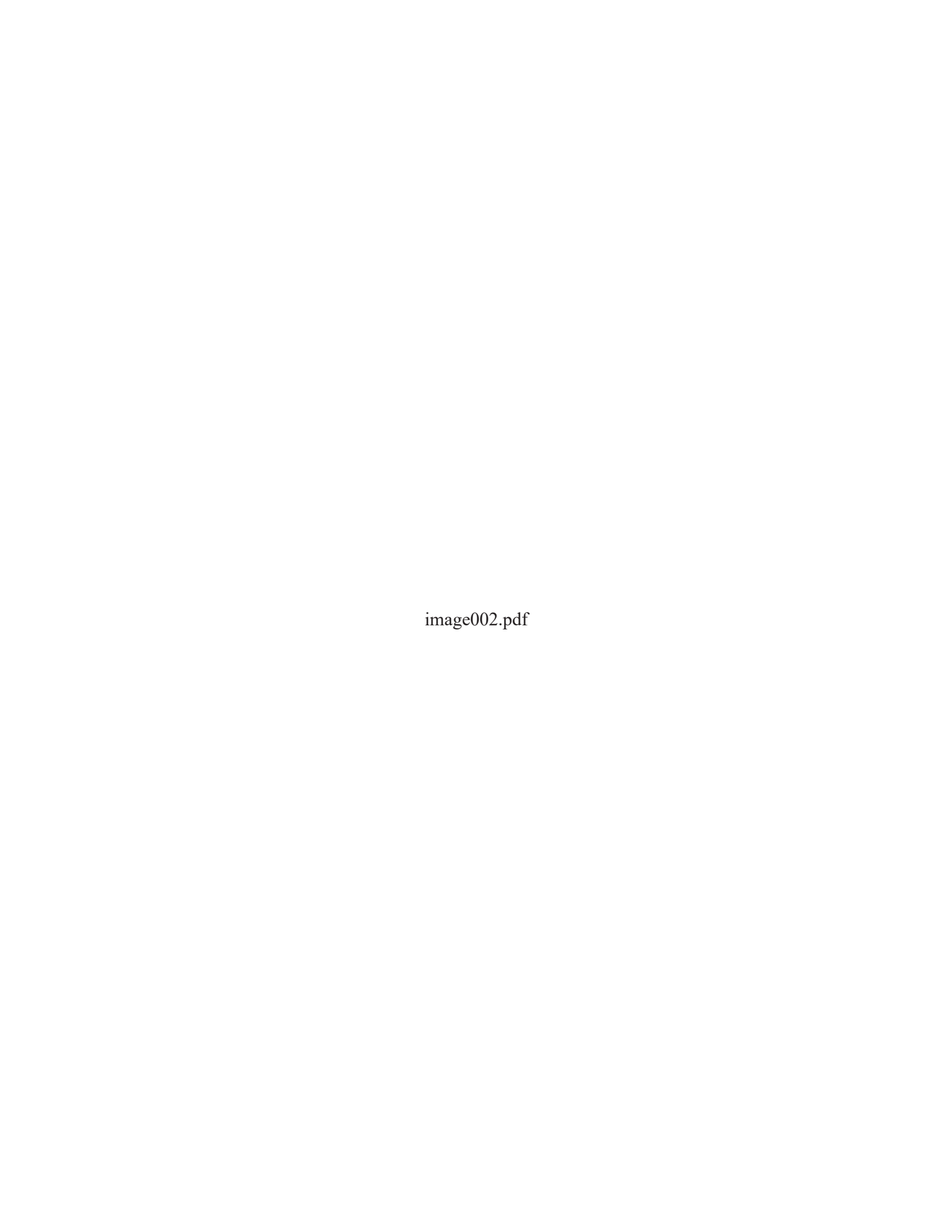
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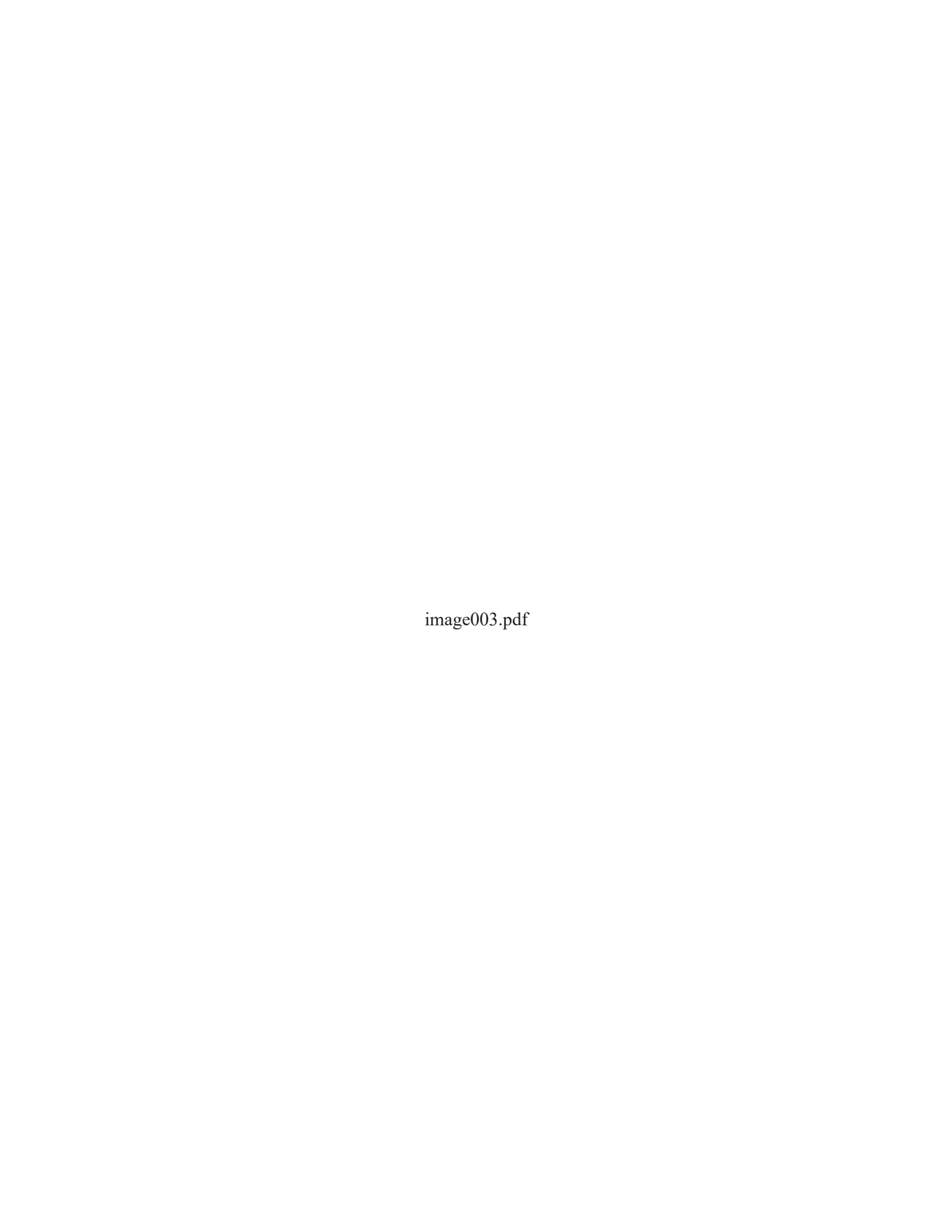
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pensions blog

RE_ calculation_EFB_estimate_Sept_23_2016.xlsx.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: calculation_EFB_estimate_Sept_23_2016.xlsx
Date: Saturday, September 24, 2016 21:43:09

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682104~20160925014313000~Z~D10332BDA1827FEF1A15D34B56F00241View the original item

Hi Cindy,

Yes I did look at these calculations with Martin. In Tab 1, the assets would be 125% of the obligation in year 2025 which would cause contribution reductions. Martin did the calculat

RE_ calculation_EFB_estimate_Sept_23_2016.xlsx.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: calculation_EFB_estimate_Sept_23_2016.xlsx
Date: Saturday, September 24, 2016 21:43:09

Hi Cindy,

Yes I did look at these calculations with Martin. In Tab 1, the assets would be 125% of the obligation in year 2025 which would cause contribution reductions. Martin did the calculations out until the impact on the present value was insignificant, basically noting that you would have to consistently withdraw on your surplus to always just keep under the CRA limit.

The second tab has a three year delay when the contribution reduction takes effect because the going concern valuation (which I believe is the valuation that is used to assess Income Tax excess surplus) also projects future benefits and contributions for current employees and factors into the surplus/deficit a notion of services not yet rendered. Martin found that this created a $12B deficit which he think could delay the attainment of excess surplus for 2-3 years.

Hope this helps,

Matt

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Saturday, September 24, 2016 7:37 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Subject: calculation_EFB_estimate_Sept_23_2016.xlsx

Hey Matt – did you have a conversation with Martin on these calcs. I'm not sure how to interpret how long it would be until contribution reductions would have to kick in. It looks like 2025 in the first tab and 2029 in the second tab – is that right?

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Re_ A couple of questions.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: A couple of questions
Date: Thursday, December 01, 2016 20:11:05

Hi Nadine,

Sorry we've missed each other's calls. I was picking up my daughter. I am available on my cell until 7:45pm if you want to chat re: 7600 reports. I would think the panel is OK because 7600 applies to "public accountants" that provide written or oral advice on the application of accounting principles to specific transactions. If the panel is not acting as "public accountants" then I don't think their conclusions could be seen as an opinion on the application of accounting principles, but that said, I don't know the composition or the terms of reference of the panel to be able to say definitively. However non-public accountants would not be expected to apply GAAS, and any recommendations they made would be considered in that light. (Although I would think that they would also be careful in how they phrase their recommendations anyway).

In respect of the first question. It's a good question. I don't think that it aligns with my understanding either. My interpretation of the language used is that the Actuarial benefit liability is the Fair value of plan assets - full actuarial valuation (including all actuarial gains and losses), and the add back of the unamortized losses gets to the "accounting number" of $202.7M asset. This is the accrued benefit asset. However, under the standard the losses would be subtracted again to get to the "Adjusted benefit asset" being the $248.3 liability. Obviously no valuation allowance would be required against a liability. There is no VA required against the accrued benefit asset if the asset exists only because of unamortized losses. This is because over time that asset will be "realized" through the amortization of the losses and bring down the position of the plan to a liability position over time.

As the phrases "Accrued benefit asset" and "adjusted benefit asset" are not used in the slides it is hard to be certain that this is what is meant in the slides. However I think the standard is quite clear in 3250.054 that the valuation allowance is the excess of the adjusted benefit asset over the expected future benefit (in this case $nil). So if somehow they got to a position where the adjusted benefit asset is $202.7 asset the VA would make sense. It is difficult to see how the adjusted benefit asset could be $202.7 asset though based on the fact that they are adding back and not subtracting unamortized losses to get there.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/01/2016 05:50 PM
Subject: A couple of questions

Hi Lucy.
Just forwarding a couple of docs regarding the NB situation. Having a bit of difficulty following the last slide of the second attachment and how the calculation aligns with my understanding of how the adjusted benefit asset should be computed. (you'll note that the calc begins with a liability vs. asset).

Also, wondering if we can chat regarding the nature of a 7600 Report, just to confirm whether the work being undertaken by the Panel could ever be categorized as such. I don't think so, but would appreciate a chat.

I saw that you called earlier. Talk to you soon.
Nadine[attachment "PSSRP - valuation allowance v2.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Valuation Allowances for DB Pension Plans v2.pptx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Advisory (revised wording related to accounting opinion).rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Re: Advisory (revised wording related to accounting opinion)
Date: Monday, November 07, 2016 11:39:04

Thanks Kerry. We can't share the AG's report, and I am on the road, but I will try to get you the extract with the AG's recommendation. We need to sent the AG our wording tomorrow am, so a response back by end of Dat on the draft extract provided would be good. N

Hi, Nadine. We will have some alternate wording for this to propose to you. But before we do, I'm wondering if it would be possible to see the comment that it is responding to? Or to get an understanding of the key points raised in that comment? Please let me know. If it's easier to just talk about it, we can have a call.

The summary itself is in for final review as is the wording for the limitations around the opinion to be given to the panel.

Regards,

Kerry

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kdanyluk@deloitte.ca | deloitte.ca

--

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, November 5, 2016 9:57 AM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA -

Toronto) <mcolley@deloitte.ca>; Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Advisory (revised wording related to accounting opinion)

Good morning!

Just forwarding the most current wording for your review and feedback. Please advise of any concerns. Thanks.

Nadine

During the course of the Public Accounts audit, the Auditor General was provided with analysis and support on the province's interpretation of public sector accounting standards to the Province's jointly sponsored pension plans. This information included an external accounting opinion that addressed issues related to the requirement for a legally enforceable right to reduce contributions (which supported the Province's interpretation) and considerations on incorporating the impact of legal uncertainty in estimating the valuation of the net pension assets.

From: Petsche, Nadine (TBS)
Sent: November-04-16 4:33 PM
To: Danyluk, Kerry (CA - Toronto); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: RE: Advisory

Thanks Kerry. Your feedback is helpful.

For additional context, the extract is part of a response that would be reflected in the AG's Annual Report which is expected to be released in December. Based on your feedback, I have amended the wording below. Your feedback on the revised wording would be appreciated.

Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
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To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Subject: RE: Advisory

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Re_ Agenda.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Re: Agenda
Date: Monday, December 05, 2016 00:20:43

Np

From: lucy.durocher@ca.pwc.com
Sent: Sunday, December 4, 2016 11:06 PM
To: Petsche, Nadine (TBS)
Subject: Re: Agenda

Thanks Nadine,

Very much appreciate your follow up on this.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/04/2016 11:04 PM
Subject: Agenda

Hi Lucy.
Attached is a copy of the agenda.
Nadine[attachment "Dec. 5 Agenda.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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Re_ Analysis of how surplus could reduce future contributions.rtf

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; matthew Colley [mcolley@deloitte.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Analysis of how surplus could reduce future contributions
Date: Thursday, September 15, 2016 11:02:06
Attachment 1: image001.jpg

Thanks. I've reached out to Matt. Nadine

From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 10:55 AM
To: Paul, Joshua (EDU); Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Analysis of how surplus could reduce future contributions

Nadine,

Would it be possible to put together a quick call now on this with Matt. Perhaps we can explain what happened with the surplus and what will happen.

From: Paul, Joshua (EDU)
Sent: Thursday, September 15, 2016 10:24 AM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Veinot, Cindy (TBS); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Analysis of how surplus could reduce future contributions

I think the documentation and the answers we've provided about yesterday's announcement provide the answer Deloitte is looking for.

Our restoration of CIP in line w fmp procedures results in a decrease to our future

contributions.

You can point to the document that Cindy shared from the public website to indicate everytime CIP restoration above 50 percent has happened over the last few years.

Do you think that will help?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Thursday, September 15, 2016 10:20 AM

To: Paul, Joshua (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Analysis of how surplus could reduce future contributions

Wondering if you can help to provide a response to this request. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Wednesday, September 14, 2016 11:02 PM

To: Veinot, Cindy (CA - Toronto) (cveinot@deloitte.ca); Petsche, Nadine (TBS)

Subject: Analysis of how surplus could reduce future contributions

Hi Cindy and Nadine,

Have you performed an analysis that shows how, through the mechanics of the FMP

and with regard to the position of the entity at the year end, how the Province could realize the surplus through reducing its contributions?

Based on the key funding decisions from 1990 onwards it appears that there was a contribution reduction in 1993, 1996, 1998 but then nothing since then (although this appears to be due to the fact that we were in a funding shortfall position until 2012). So why is there an expectation that this asset will be recovered through future contribution reductions and what roadblocks stand in the way of this?

This might warrant a discussion rather than a response, and apologies for the tone, but we are asking the questions to strengthen the communication of the analysis that has been given to date.

Thanks

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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image001.pdf

Deloitte.
NATIONAL
PARTNER

Re_ Are you available for a call_.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Are you available for a call?
Date: Monday, September 26, 2016 12:46:22

I am available all afternoon from now until 4:30.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: 09/26/2016 12:45 PM
Subject: Are you available for a call?

Please advise of your availability. Thanks. Nadine

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Re_ As discussed.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: As discussed
Date: Thursday, September 15, 2016 21:07:22

Thank you Nadine.

I will be in touch tomorrow.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/15/2016 08:47 PM
Subject: As discussed

Hi Lucy.
Further to our discussion, below is an outline of the work we discussed. The work relates to the jointly sponsored pension plans (OTPP and OPSEUPP) as reported in the Province's consolidated financial statements.
I'll look forward to hearing back from you.
Best regards,
Nadine
416 562 9509

The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following

- □□□□ Taking into account public sector accounting principles, advice and guidance on complex accounting and reporting matters related to accounting for pensions on the Province's consolidated financial statements.
- □□□□ The Vendor will participate in meetings as necessary to support the engagement objectives:

- □□□□ Working with management of OPCD's Accounting Policy and Financial Reporting Branch (APFR), the provider of complex accounting services related to the following possible areas:

- □ □ □ □ Develop discussion and analysis material
- □ □ □ □ Develop draft input/briefing materials/option papers
- □ □ □ □ Provide accounting advice and guidance related to the accounting for pensions on the Province's financial statements
- □ □ □ □ Participate in discussions with internal and external stakeholders, as required

As part of this engagement, the consultant(s) would be expected to provide professional accounting expertise in assessing actuarial assessments for specified plans in relation to applying the ceiling test to the accrued pension benefit assets in accordance with PS3250 (3250.050 to PS3250.059).

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Re_ Assistance requested please.rtf

From: Steele, Jana [JSteele@osler.com]
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Kearney, Sean (TBS) [Sean.Kearney@ontario.ca]
Subject: Re: Assistance requested please
Date: Sunday, September 25, 2016 22:04:08

Hi Len: happy to discuss. Now or first thing in am? Jana

Sent from my iPhone

> On Sep 25, 2016, at 9:46 PM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:
>
>
> Hi Jana
> More from the AG. See bottom of email chain please. We would need a point or two if possible from oslers about the role of the regulator and how FSCO can't impact the analysis re value or existence of pension asset. Anything else you think is relevant would also be welcome - i'm thinking maybe all is required is the statutory landscape and linking that in with Allan 's points below. Happy to discuss.
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Petsche, Nadine (TBS)
>
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> From: Petsche, Nadine (TBS)
> Sent: Sunday, September 25, 2016 9:00 PM
> To: Hatzis, Len (TBS)
> Subject: FW: Assistance requested please
>
>
> I thought you would enjoy the humour in this…
>
> In addition to reaching out to your contact at Oslers, we also reached out to our actuary on the OTPP….
> Seems he is ‘not amused’.
> N
> p.s. still looking forward to hearing back from Oslers. N
>
> From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
> Sent: September-25-16 8:57 PM
> To: Petsche, Nadine (TBS)
> Cc: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
> Subject: RE: Assistance requested please
>
> If you take the AG’s position, then no company could ever have an asset on its balance sheet for its pension plan because whether it is unilateral control or shared control, the argument would be that the fact there is a regulator there is actually no control.
>
>
>
> From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
> Sent: September-25-16 8:51 PM
> To: Allan Shapira
> Cc: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
> Subject: RE: Assistance requested please
>

> Hi Allan.
> Your feedback is comforting. Is there any other role that FSCO might have based on the fact that the Plan is a Trust that might cause one to assess the joint sponsors as not having 'shared control' over the assets?
> Thanks. Nadine
>
> From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
> Sent: September-25-16 8:48 PM
> To: Petsche, Nadine (TBS)
> Cc: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
> Subject: RE: Assistance requested please
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> What facts are we trying to clarify so I can get you the right person.
>
> If the parties decided to reduce contributions, FSCO would not need to be involved. The plan would be amended to do that. The amendment would be filed with FSCO but the sponsors would not need FSCOs approval to do this.
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> From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
> Sent: September-25-16 8:37 PM
> To: Allan Shapira
> Cc: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
> Subject: Assistance requested please
> Importance: High
>
> Hi Allan.
> We've just learned that the AG has introduced a new consideration related to the role of FSCO. Her comment is below. We were wondering if you, or a legal contact at OTPP, might be able to help clarify the facts.
>
> Thanks in advance.
>
> Nadine
>
>
>
> The Role of the Superintendent of the Financial Services Commission (FSCO) must also be considered and also consider that the Pension Plan is a Trust – keep assets away from Government creditors – Joints sponsorship is important/until agreement no control; as well that the definition of an asset is not met)
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>
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To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Kearney, Sean (TBS) [Sean.Kearney@ontario.ca]
Subject: Re: Assistance requested please
Date: Sunday, September 25, 2016 22:12:06

Hi Len: I think we have enough details. We will work on this as a priority tomorrow am. Thanks. Jana.

Sent from my iPhone

> On Sep 25, 2016, at 10:10 PM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:
>
> Don't need to discuss unless you think you need more from us to provide a draft response. We need something by tomorrow (ideally AM) but let me know re ETA in the morning. Thanks for this.
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> Original Message
> From: Steele, Jana
> Sent: Sunday, September 25, 2016 10:04 PM
> To: Hatzis, Len (TBS)
> Cc: Marin, Jon; Rienzo, Douglas; Petsche, Nadine (TBS); Kaufman, Paul (TBS); Kearney, Sean (TBS)
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>> To: Allan Shapira
>> Cc: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
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>>
>> **********
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> **********

Re_ Call on Wednesday.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Call on Wednesday
Date: Monday, October 17, 2016 18:45:43

Hi Lucy. I understand. Shyrose will find some time on Friday. Nadine

Original Message
From: lucy.durocher@ca.pwc.com
Sent: Monday, October 17, 2016 5:33 PM
To: Petsche, Nadine (TBS)
Subject: Call on Wednesday

Hi Nadine,

I am so sorry to have to do this, but can we reschedule our call from Wednesday to later in the week? Unfortunately my computer has essentially crashed and I cannot work in Word or several other applications. Due to my travel schedule I can only get it fixed on Wednesday morning, and so I won't be able to have anything in a reasonable shape to circulate to you and Cindy in advance. Would you be able to reschedule to Friday? I can do any time on Friday except 12-2pm.

Apologies for this once again--- technology is a double edged sword.

Regards,
Lucy

Sent from my iPad

_____
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Re_ Call.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Call
Date: Wednesday, September 28, 2016 10:11:37

OK. Sounds good.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: 09/28/2016 10:08 AM
Subject: Re: Call

Hi Lucy. No problem. The change happened because I got called into meetings unexpectedly. Not an urgent discussion, so we'll just defer until tomorrow. N

From: lucy.durocher@ca.pwc.com
Sent: Wednesday, September 28, 2016 9:31 AM
To: Petsche, Nadine (TBS)
Subject: Call

Hi Nadine,

I can't make the 1:30 invitation you sent. I am travelling this afternoon and will be tackling airport security around then!

I can do a call later in the day, say between 5:30 and 7pm.
Or I can do a call earlier this morning before 12pm.

Tomorrow I am at a conference, but I could step out in the morning for a call.

Let me know what works best for you.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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RE_ Deck outline.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Deck outline
Date: Friday, October 28, 2016 12:21:02

Lucy,

What would you think about moving the AG's position to the end of the paper and the deck? I think that there is a risk to presenting the AG's position first in the paper (and deck) and taking a defensive stance. I think another way to approach it would be to provide an overview of PSAS, and the Province's interpretation and application thereof, and lastly present the position of the AG (which doesn't necessarily tie back to any of the requirements or application that would have already been addressed)?

N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-28-16 11:26 AM
To: Petsche, Nadine (TBS)
Subject: Re: Deck outline

Please see attached

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/27/2016 05:09 PM
Subject: Deck outline

Hi Lucy.
Jim has drafted an outline for a preliminary briefing deck, based on the previous version of the position paper. Attached are my suggested edits which I have not yet shared with him.
I was thinking that it might be worthwhile to also get your comments so that he could revise the content more efficiently (once transferred to a pp format, track changes will be more challenging).
Hoping that you have some time to reflect and provide feedback on the outline.
Would like to provide him feedback by tomorrow, if possible.
Thanks in advance.
Nadine[attachment "Deck outline (JK) - OTPP Pension Asset Oct 27np.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Deck outline.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Deck outline
Date: Friday, October 28, 2016 12:17:04

Thanks Lucy. n

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-28-16 11:26 AM
To: Petsche, Nadine (TBS)
Subject: Re: Deck outline

Please see attached

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/27/2016 05:09 PM
Subject: Deck outline

Hi Lucy.
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I was thinking that it might be worthwhile to also get your comments so that he could

revise the content more efficiently (once transferred to a pp format, track changes will be more challenging).
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Thanks in advance.
Nadine[attachment "Deck outline (JK) - OTPP Pension Asset Oct 27np.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th).rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
Subject: RE: Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th)
Date: Monday, June 12, 2017 09:45:13
Attachment 1: image001.jpg

Hi Alicia,

We have reviewed the memo and are comfortable with its conclusion.

Let us know if you require any additional information.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
Subject: Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th)

Hi Christina/Shayan,

As you may recall that HOOPP provided a letter (dated April 28th) to the Province indicating a change in indexation change for expected terminated members. Please see Appendix 1 for the original HOOPP letter.

We did an analysis based on your initial feedback and some consultation with our Pension Policy group. Please see attached a draft memo for your review.

Please provide comments.

We can have a brief discussion on this topic tomorrow if you wish.

Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

Office of the Provincial Controller Division |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor

Toronto, ON, M7A 1Z5

Email: Alicia.sun@ontario.ca

Tele: (416) 325-8155

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image001.pdf

TBS

RE_ Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th).rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th)
Date: Monday, June 12, 2017 12:31:50
Attachment 1: image001.jpg

Thanks Christina. We will share the document with the OAG. Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: June 12, 2017 9:45 AM
To: Sun, Alicia (TBS); Shayan Jafrani
Cc: Petsche, Nadine (TBS); Ma, Patricia (TBS)
Subject: RE: Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th)

Hi Alicia,

We have reviewed the memo and are comfortable with its conclusion.

Let us know if you require any additional information.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
Subject: Draft Memo For Your Review - Assessment of HOOPP Letter (dated April 28th)

Hi Christina/Shayan,

As you may recall that HOOPP provided a letter (dated April 28th) to the Province indicating a change in indexation change for expected terminated members. Please see Appendix 1 for the original HOOPP letter.

We did an analysis based on your initial feedback and some consultation with our Pension Policy group. Please see attached a draft memo for your review.

Please provide comments.

We can have a brief discussion on this topic tomorrow if you wish.

Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

Office of the Provincial Controller Division |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor

Toronto, ON, M7A 1Z5

Email: Alicia.sun@ontario.ca

Tele: (416) 325-8155

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image001.pdf

TBS

RE_ Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Keates, James (TBS) [James.Keates@ontario.ca]
Subject: RE: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx
Date: Thursday, October 27, 2016 16:54:01

Wonderful Lucy. Thanks so much. N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 27, 2016 4:08 PM
To: Petsche, Nadine (TBS); Keates, James (TBS)
Subject: Re: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx

Hi Nadine,

I know it's not ideal from a version control perspective, but I took a "fresh read" of the paper and had a number of other suggestions for clarity of language and also for ordering as there was some repetition of ideas in places. I think the paper is looking quite good now though.

Please see attached a revised version of the document I send around yesterday. Please use this one in terms of whether comments have been addressed and additional comments. We can discuss on Monday.

Jim - I have noted some sections of the partners agreement that I think would be useful to add into the appendix and left a comment for this. I am hoping that you would be able to summarize them and add them into the appendix in the same manner as the current references.

Thanks
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2

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RE_ Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20).rtf

From: Anna Pesme [anna.pesme@ca.ey.com]
To: Sarah Anderton [Sarah.Anderton@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)
Date: Monday, February 06, 2017 16:51:17
Attachment 1: image001.gif

Thanks Sarah.

Confirming receipt.

--

Anna Pesme | Associate Partner | Advisory

Ernst & Young LLP

222 Bay Street, Toronto, ON M5K1J7, Canada

Office: 1 416 943 2992 | Cell: 1 416 735 7820 | anna.pesme@ca.ey.com

Website: http://www.ey.com

Gale Moniz | Phone: 1 416 943 3911 | gale.moniz@ca.ey.com

From: Sarah Anderton
Sent: Monday, February 06, 2017 1:33 PM
To: Nadine.Petsche@ontario.ca
Cc: Anna Pesme <anna.pesme@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Shyrose.Virani@ontario.ca
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Hello,

Please see the draft SOW for Actuarial Support Services attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | People Advisory Services

Ernst and Young LLP

Ernst and Young Tower, 222 Bay Street, P.O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416-943-3143 | sarah.anderton@ca.ey.com

Website: http://www.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 03, 2017 11:08 AM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Ms. Pesme,

As discussed, please find attached the draft Statement of Work related to Actuarial Support Services.

We look forward to working with your team on this engagement.

Regards,

Nadine Petsche

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division

416 325 8027

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image001.pdf

RE_ Draft amendment letter.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Draft amendment letter
Date: Wednesday, September 14, 2016 14:15:38

Working on it – will be sending something over shortly.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Wednesday, September 14, 2016 12:58 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Subject: RE: Draft amendment letter

Hi Matt.

Just following up on this item. N

From: Petsche, Nadine (TBS)
Sent: September 13, 2016 3:33 PM
To: Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)
Cc: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Subject: Draft amendment letter

Matt,

As discussed, please find attached the draft letter for edit. Please call if you have any questions.

Nadine

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RE_ Draft input to position paper (background).rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Keates, James (TBS) [James.Keates@ontario.ca]
Subject: RE: Draft input to position paper (background)
Date: Friday, October 21, 2016 08:10:17

Hi Lucy.

Thanks, and yes please plan to use the normal teleconference number (416 212 8014, code 1474532#). Talk soon, Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 20, 2016 11:30 PM
To: Petsche, Nadine (TBS)
Cc: Keates, James (TBS)
Subject: Re: Draft input to position paper (background)

Hi Nadine,

Thanks for sharing this. I have not read it in detail yet, but I will before our call tomorrow.

I attach my thoughts for the elements that I have been working on. As I read the background I will consider how to integrate/add as well. I did not attempt to do that yet as I thought it better to circulate this first in advance of our call tomorrow.

I believe we are talking at 10am. I asked Shyrose for conference call details, but if I don't hear back, I will assume it is the normal conference call number that we used last week and dial into that.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Keates, James (TBS)" <James.Keates@ontario.ca>
Date: 10/20/2016 04:56 PM
Subject: Draft input to position paper (background)

Hi Lucy.
Sharing the draft 'background' section for the position paper for your review and consideration. If you have any ideas on how to integrate this with your section, we would welcome your thoughts.
Thanks.
Nadine[attachment "Outline of position paper to JK PF tab2 v5.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Draft input to position paper (background).rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Draft input to position paper (background)
Date: Friday, October 21, 2016 08:13:51

Lucy,

Just had a quick glance. As you review the other section of the draft paper, I think you'll find some overlap with the work you have done. That said, perhaps your table summarizing the diffs between funding and accounting approaches could serve as a good appendix to the paper, to supplement the narrative referenced already.

Looking forward to our discussion, and still hoping that we'll be able to pull together a draft of the paper for end of day. Thanks. N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 20, 2016 11:30 PM
To: Petsche, Nadine (TBS)
Cc: Keates, James (TBS)
Subject: Re: Draft input to position paper (background)

Hi Nadine,

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Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Keates, James (TBS)" <James.Keates@ontario.ca>
Date: 10/20/2016 04:56 PM
Subject: Draft input to position paper (background)

Hi Lucy.
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Thanks.
Nadine[attachment "Outline of position paper to JK PF tab2 v5.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: EY review of ceiling tests on OTPP and OPSEUPP
Date: Friday, March 10, 2017 16:33:00
Attachment 1: image001.png

Hi Nadine and Bharat,

We have some of the items we need for our work on the asset ceiling for OTPP and OPSEUPP.

Could we also request the following additional items?

1) Actuarial funding valuation reports for each plan

2) Any calculations or supporting documentation related to the asset ceiling determination

3) Funding policy statement

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630

EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, March 10, 2017 1:15 PM
To: Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: EY review of ceiling tests on OTPP and OPSEUPP

Bharat,

Just wanted to let you know that Shayan and Christina of EY will be planning to come to our offices on Monday afternoon to start their work on the asset ceiling test for OTPP and OPSEUPP.

They will use John Psinas' old office as they did last time.

Shayan will send a listing of required files this afternoon. Hoping we'll be able to collect all of the necessary info for them to start their work. Please note that they won't be using our system, so the details will need to be provided in a USB.

Thanks.

Nadine

p.s. (Shyrose— please confirm that both Shayan and Christina have their access passes and if registration downstairs is required).

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image001.pdf

RE_ Employee Life and Health Trusts (ELHTs) - accounting treatment.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Employee Life and Health Trusts (ELHTs) - accounting treatment
Date: Monday, March 27, 2017 22:16:33
Attachment 1: image001.jpg

Thanks Christina.

I will share the document with Cindy and we can plan to discuss with Shayan during our call on Wednesday.

Thanks again.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March-27-17 5:46 PM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani
Subject: Employee Life and Health Trusts (ELHTs) - accounting treatment

Hi Nadine,

As requested, we have prepared the attached document discussing the following topics:

1) Accounting treatment related to the provisions of the ELHTs under PSAB 3250/3255 (and the associated risks to the school boards)

2) Comparison of the ELHTs with Shared Risk Pension Plans

Both Shayan and I will be at Queen's Park tomorrow. Let us know if you have any comments. We are available if you would like to discuss prior to our meeting on Wednesday.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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image001.pdf

RE_ Expert Panel -- Pension Issue.rtf

From: Veinot, Cindy (TBS) []
To: Murray Gold [mgold@kmlaw.ca]
Subject: RE: Expert Panel -- Pension Issue
Date: Monday, October 17, 2016 17:59:44
Attachment 1: image002.png
Attachment 2: image003.png

That's great – any chance you have time tomorrow between 3 and 3:20 to connect for a few minutes?

Cindy

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: October-17-16 5:58 PM
To: Veinot, Cindy (TBS)
Subject: RE: Expert Panel -- Pension Issue

Hi Ms. Veniot,

I would be happy to help!

Murray

http://www.kmlaw.ca/

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 3:21 PM
To: Murray Gold
Subject: Expert Panel -- Pension Issue

Hi Mr. Gold,

Scott Thompson passed along the message that you would be interested in assisting with the expert panel the Province is setting up to review the accounting for pension assets. We are now in the process of identifying candidates for the panel.

We have drafted the terms of reference for the panel, which I've attached.

Would you please review these, let me know whether you have any questions and confirm back that you continue to be interested. We can then set up a time for a conversation (assuming you are still interested!)

Regards,

Cindy Veinot

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen’s Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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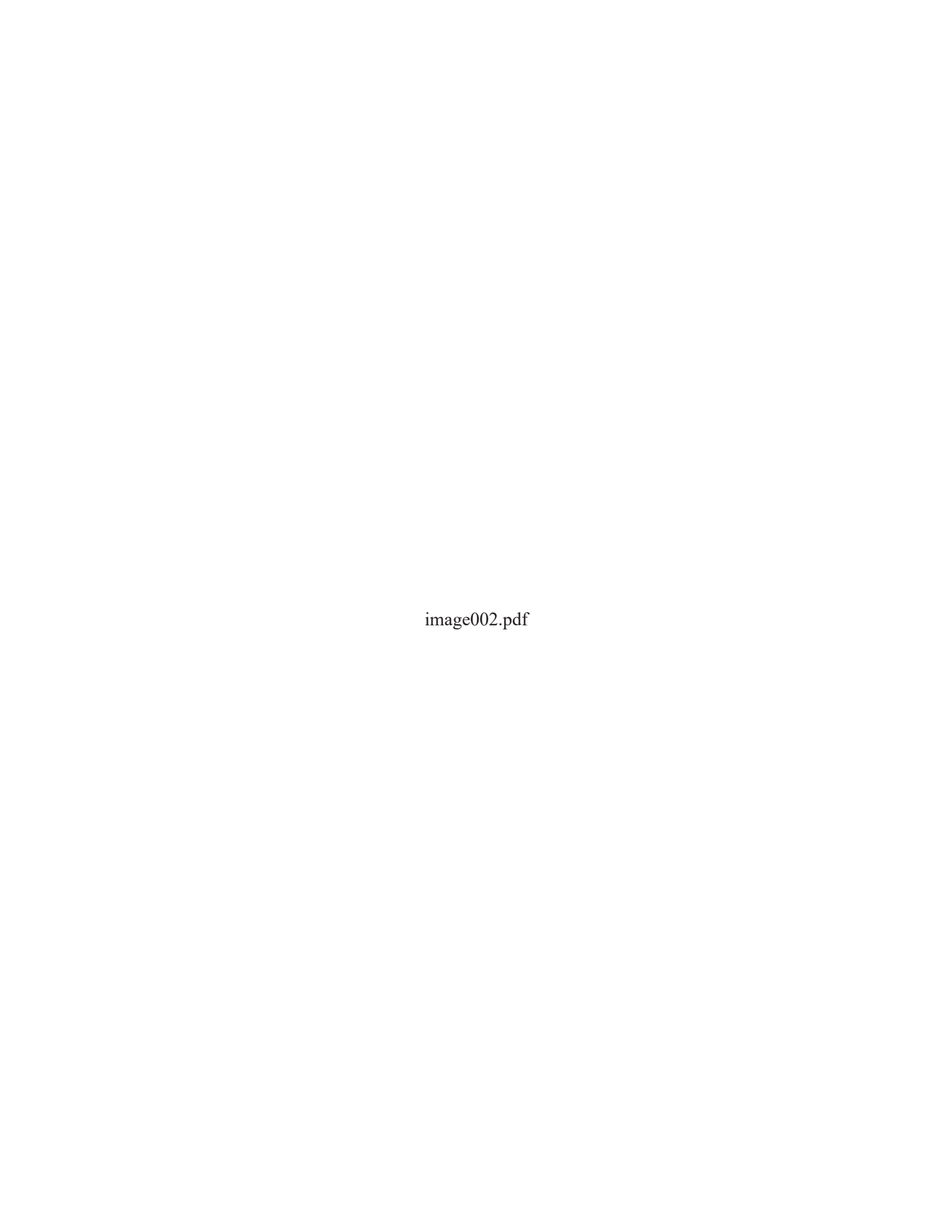
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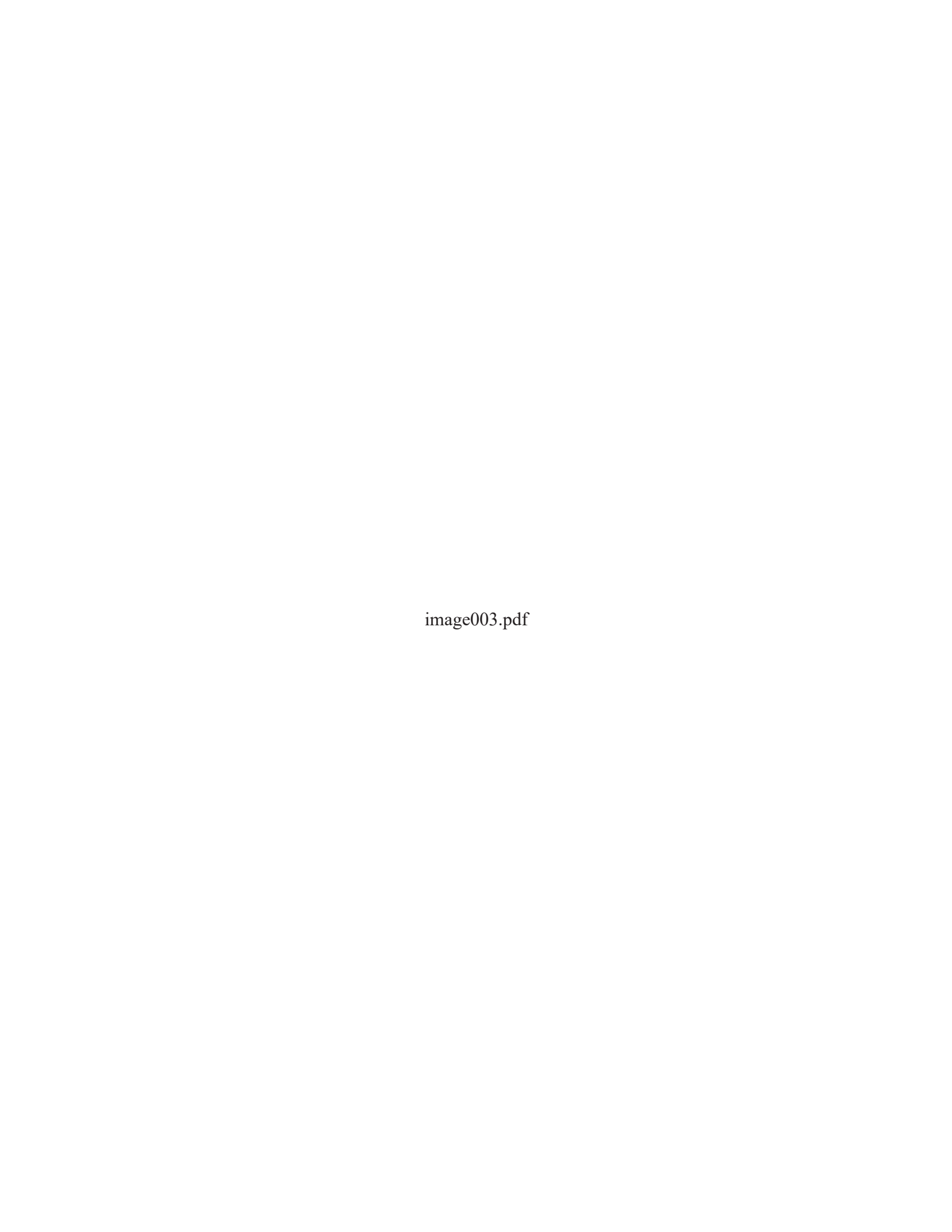
image003.pdf

TBS

RE_ Final Report.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Final Report
Date: Tuesday, October 04, 2016 15:21:05

Hi, Cindy. I know you must be very busy. But do you have time for a quick call in the next few days?

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, October 2, 2016 1:07 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: RE: Final Report

Thanks Matt and Kerry

Cindy

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

Hi Nadine and Cindy,

Please find attached our final report.

Kind regards,

Matt

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RE_ Final Report.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Final Report
Date: Tuesday, October 04, 2016 15:28:52

Sure. I don't need much time. Friday or before is fine. I think I'm free after 11.00 on Friday.

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, October 4, 2016 3:23 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Danek, Mary (TBS) <Mary.Danek@ontario.ca>
Subject: RE: Final Report

Hi Kerry – would Friday work?

Cindy

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: October-04-16 3:21 PM
To: Veinot, Cindy (TBS)
Subject: RE: Final Report

Hi, Cindy. I know you must be very busy. But do you have time for a quick call in the next few days?

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

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Subject: RE: Final Report

Thanks Matt and Kerry

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RE_ Follow up.rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
CC: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Jesty, Paula (CA - Toronto) [pjesty@deloitte.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Danek, Mary (TBS) [Mary.Danek@ontario.ca]
Subject: RE: Follow up
Date: Thursday, October 27, 2016 08:31:42

Hi Kerry.
Thanks for your response. Yes, I did know that Matt is away on vacation and he had mentioned that you would be the contact during his absence, which is why I sent the note.
Pina did reach out to me yesterday and I will plan to chat with her today on the work to be done on the other plans.
With regards to the opinion, great to hear that work is underway. There is a desire to attend firm up the release so that we are ready when the Panel commences its work. I think that a call would be helpful to discuss status on the opinion considerations. I've cc'd Cindy's admin assistant on this response so that she can help to set up a call.
Thanks again.
Nadine

-----Original Message-----
From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: October 26, 2016 3:29 PM
To: Petsche, Nadine (TBS)
Cc: Colley, Matthew (CA - Toronto); Jesty, Paula (CA - Toronto)
Subject: RE: Follow up

Hi, Nadine. I think you knew that Matt is away this week on vacation? However, I believe that he has organized someone on his team to get in touch with you about the other pension analysis. Maybe she has already done so?

Regarding the question of permission for the opinion, I am still working through that question and what caveats we might want to put on it.

Please let me know if you wish to discuss.

Kerry

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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Please consider the environment before printing.

-----Original Message-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Wednesday, October 26, 2016 5:40 AM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: Follow up

Hi Kerry.

I'm just following up on a couple of items that I talked to Matt about last week...
1) permission to share the accounting opinion with the Pension Asset Expert Advisory Panel -. Please confirm if such permission is granted and advise of any related considerations with regards to such sharing.
2). Extended pension analysis for OPSEUPP, HOOPP, CAATPP. As discussed with Matt, we are expediting acctg analysis for the remaining 3 plans wrt accounting for plan assets on the Province's books. Matt had indicated that staff would be assigned, and we assume that work is underway or to be started shortly. Completed analysis is considered important as input to the Panel. We would like to touch base on status and next steps (note; we have not yet received any requests for infoirmation).
Please let me know when you might be a available to discuss.
Thanks.
Nadine
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RE_ Format for plan analysis.rtf

From: Petsche, Nadine (TBS) []
To: Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
CC: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: Format for plan analysis
Date: Monday, November 07, 2016 15:26:11

Hi Pina.
Unfortunately, we don't have any notes (that we could find) on the plans outlining the reason for the accounting decisions originally made by OPCD. Applying a similar lens as was applied to the OTPP plan, the ask is to provide accounting advice on how to treat a net pension asset on the Province's consolidated financial statements (so would have to address the 2 questions in the accounting opinion, but in relation to the OPSEUPP in particular).
N

-----Original Message-----
From: Colavecchia, Pina (CA - Toronto) [mailto:pcolavecchia@deloitte.ca]
Sent: November-07-16 12:31 PM
To: Petsche, Nadine (TBS)
Cc: Colley, Matthew (CA - Toronto)
Subject: RE: Format for plan analysis

Hi Nadine,

I do not appear to have from you an information note on OPSEUPP. Was this something you provided to the Deloitte actuary team as part of the asset ceiling calculation?

Could you re-send to me?

Thank you very much,
Pina

-----Original Message-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, November 5, 2016 6:48 AM
To: Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Cc: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Subject: Format for plan analysis

Pina,
In the interest of expediting the analysis and documentation related to the other plans, I think it might make more sense to just build on the information note format that was provided for OPSEUPP. We (OPCD) will just leverage the key elements of the analysis in developing the supplement to the OTPP position paper. Your thoughts? N
Confidentiality Warning:

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RE_ Fw_ Flowchart for Minister Sousa.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Fw: Flowchart for Minister Sousa
Date: Sunday, October 23, 2016 22:32:45
Attachment 1: image001.gif

Great. Thanks. N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 10:32 PM
To: Petsche, Nadine (TBS)
Subject: RE: Fw: Flowchart for Minister Sousa

Yes currently I am available except for between 2-3.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 10:25 PM
Subject: RE: Fw: Flowchart for Minister Sousa

Thanks for the clarification Lucy. This is all very interesting. I haven't heard back from Cindy since she sent her slides, but she has the revised illustrative slides which I'm

sure she'll be very impressed with. She may want to have a short call tomorrow on the position paper or the slides. If yes, would you be available? Just thought it would be better to ask in advance. Thx. n

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 10:21 PM
To: Petsche, Nadine (TBS)
Subject: RE: Fw: Flowchart for Minister Sousa

Yes. As the gains get recognized the "accounting" amounts get lower - towards the blue section, which extends the AcSB and makes it higher (ironically, increasing the valuation allowance needed to offset the increased benefit recognized).

See below where the amount recognized in the financial statements is moved down to the actuarial calculation level. The accrued benefit asset is now larger.
The definition of the AcBA in the standard is based on the amount "recognized"in the financial statements - i.e. excluding all unamortized gains or losses. However as slide 3 shows when these are unamortized losses the AcBA does not really represent the underlying plan surplus so the unamortized losses are backed out to get the AdBA.

Lucy

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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 10:11 PM
Subject: RE: Fw: Flowchart for Minister Sousa

Thanks Lucy.
I understand that the ABO is being reported at a higher amount because of unamortized gains which is the source of my confusion…if the 'gains' were recognized, then the ABO would be a lower amount and the AcBA would actually be higher? Again, it's likely just me thinking too much. Perhaps the standard requires that the unamortized gains be added to the ABO, and eliminated for purpose of measuring the asset component, for conservatism sake (minimizes the amount of the resulting AcBA)? n

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 10:07 PM
To: Petsche, Nadine (TBS)
Subject: RE: Fw: Flowchart for Minister Sousa

Hi Nadine,

I had to think about this a bit, so I hope I got it right.

The idea is that the ABO is a liability. So the higher the bar, the higher the liability. This is different than the asset when the higher the bar, the higher the asset - hence why the difference between the two represents the "surplus".

So in the first slide, there are actuarial gains because the actuarial valuation is lower than it is measured at in the financial statements because there have been changes in actuarial assumptions that have not yet been amortized. In other words in previous years the actuarial valuation was higher, but was revised downwards, creating actuarial gains. As these have not yet been amortized into the income statement the liability is actually being measured in the financial statements at an amount higher than the actuarial valuation.

The opposite is true for the asset column, but it's a bit more intuitive to follow. The plan asset are now worth the higher amount, but the financial statement measurement has not yet caught up with that.

On slide three there are losses because the actuarial amounts are higher than the financial statement amounts for the liability, and the fair value amounts are lower than the financial statement amounts for the assets.

I have added in some lines and labels on slides 2 and 3 that I think might help a bit.

Lucy Durocher
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 09:55 PM
Subject: RE: Fw: Flowchart for Minister Sousa

Perhaps this is just the way that the calculation works to determine the AcBA, and I'm just trying to read more into the pic than is intended.

From: Petsche, Nadine (TBS)
Sent: October-23-16 9:54 PM
To: 'lucy.durocher@ca.pwc.com'
Subject: RE: Fw: Flowchart for Minister Sousa

Sorry Lucy. I had one question regarding the first slide. With regards to the accrued benefit obligation, just trying to wrap my head around how the obligation + unamortized gains would be a higher liability amount? N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 9:41 PM
To: Petsche, Nadine (TBS)
Subject: RE: Fw: Flowchart for Minister Sousa

Hi Nadine,

Thank you for your edits. I think the AdBA/AcBA suggestion is great. I was not sure how to handle that one, but I think these acronyms work well. I have made some additional edits to conform all the references to these, and to further clarify some of the language.

I think your clarifications are helpful and make sense. I have turned the fonts back to

black for consistency.

Please see attached for revised.

Lucy

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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 09:16 PM
Subject: RE: Fw: Flowchart for Minister Sousa

Lucy,
Thanks so much for this. I've had a chance to review in further detail and I have a few comments/observations:

- Please see the sections with red font. Just wondering if something is missing or could be clarified. For sake of clarity, thinking that terms of AcBA and AdBA might help reduce some confusion caused by ABA vs ABAJ Please see my suggested edits to confirm if appropriate.
- Last slide is great. I've inserted some modified description wording. Would be appreciated if you could review to see if you are ok with the wording.

Thanks again.
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 7:14 PM
To: Petsche, Nadine (TBS)
Subject: Re: Fw: Flowchart for Minister Sousa

Hi Nadine,

That was very helpful.

The "flow chart" was a bit tricky to put in a neat box because of the complex numbers and ideas that are involved. Please see in the attached power point there are two "flow charts" to show the impact on the statement of operations for two scenarios - funding of contributions over the current service cost - the 2015/2016 situation and an economic downtown (decrease in plan assets) - the 2008 situation. I used the numbers provided for the 2015 situation. I did not have the 2008 ones readily to hand.

However to explain the concepts in the flowcharts, I thought it might be helpful for the panel to have a visual explanation of how the various components of the pension plan are measured, how the ABA and adjusted benefit asset are calculated and therefore how the valuation allowance is calculated - assuming a full valuation is provided against the ABA/adjusted benefit asset. I included an additional 3 slides to illustrate these concepts i) for actuarial gains (the current situation) ii) for actuarial losses (the presumed 2008 situation) and 3) to illustrate how the changes in the valuation allowance flow through to the statement of operations/deficit.

I hope the Minister will find this helpful.

Lucy

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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 04:09 PM
Subject: Fw: Flowchart for Minister Sousa

Hi Lucy. Rec'd this from Cindy earlier today. Please note that she would like to use the same numbers, if possible, for the diagram. Thx. N
From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, October 23, 2016 2:50 PM
To: Petsche, Nadine (TBS)
Cc: Hosick, Sarah (TBS)
Subject: Flowchart for Minister Sousa

Hi Nadine -- I put together some slides explaining the numbers re: the pension issue. How are things going with the flowchart? Depending where things are, you may want to use the same numbers if you are using numbers.

Please send an update as we need to get this to the MO for tomorrow morning -- thanks,

---

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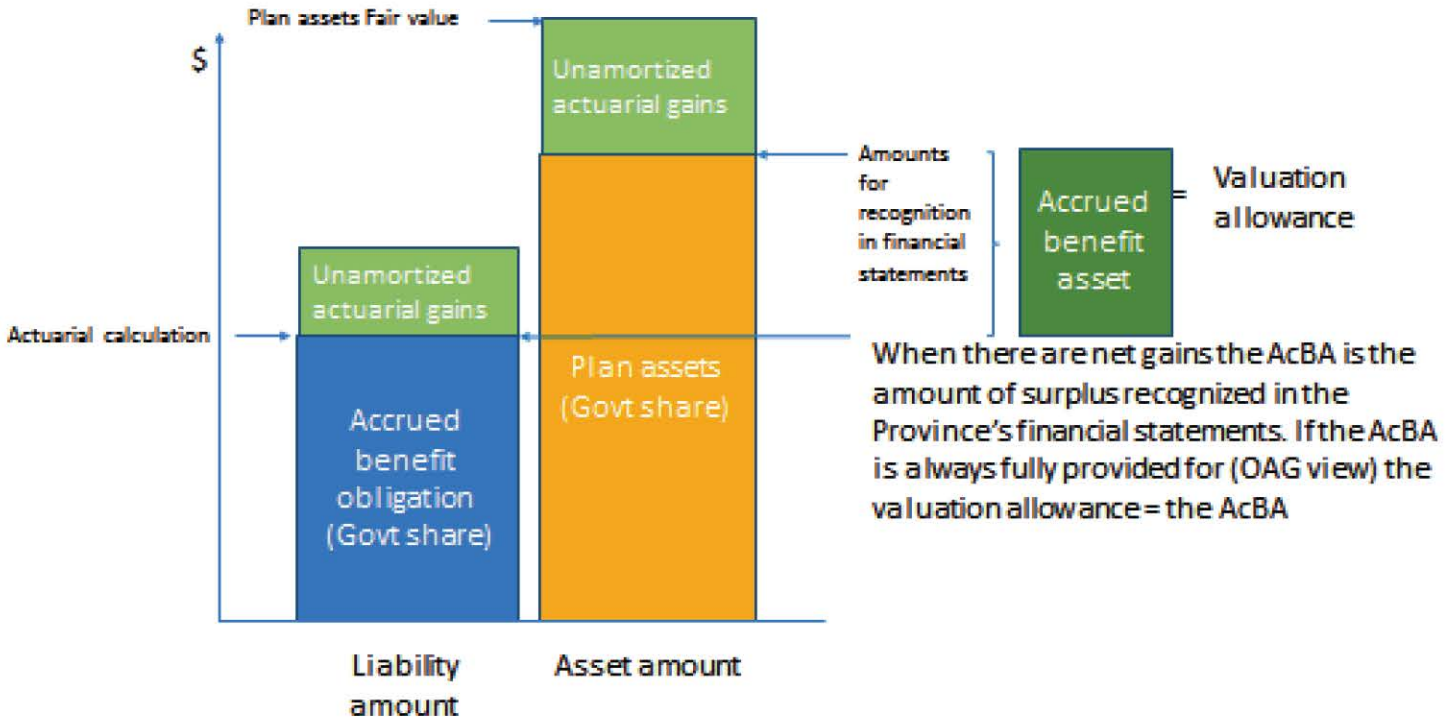
image001.pdf

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

RE_ Fw_ Flowchart for Minister Sousa.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Fw: Flowchart for Minister Sousa
Date: Sunday, October 23, 2016 21:55:17

Perhaps this is just the way that the calculation works to determine the AcBA, and I'm just trying to read more into the pic than is intended.

From: Petsche, Nadine (TBS)
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To: 'lucy.durocher@ca.pwc.com'
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Lucy

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Subject: RE: Fw: Flowchart for Minister Sousa

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Lucy

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Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 04:09 PM
Subject: Fw: Flowchart for Minister Sousa

Hi Lucy. Rec'd this from Cindy earlier today. Please note that she would like to use the same numbers, if possible, for the diagram. Thx. N
From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, October 23, 2016 2:50 PM
To: Petsche, Nadine (TBS)
Cc: Hosick, Sarah (TBS)
Subject: Flowchart for Minister Sousa

Hi Nadine -- I put together some slides explaining the numbers re: the pension issue. How are things going with the flowchart? Depending where things are, you may want to use the same numbers if you are using numbers.

Please send an update as we need to get this to the MO for tomorrow morning -- thanks,

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RE_ Fw_ Flowchart for Minister Sousa.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Fw: Flowchart for Minister Sousa
Date: Sunday, October 23, 2016 21:53:58

Sorry Lucy. I had one question regarding the first slide. With regards to the accrued benefit obligation, just trying to wrap my head around how the obligation + unamortized gains would be a higher liability amount? N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 9:41 PM
To: Petsche, Nadine (TBS)
Subject: RE: Fw: Flowchart for Minister Sousa

Hi Nadine,

Thank you for your edits. I think the AdBA/AcBA suggestion is great. I was not sure how to handle that one, but I think these acronyms work well. I have made some additional edits to conform all the references to these, and to further clarify some of the language.

I think your clarifications are helpful and make sense. I have turned the fonts back to black for consistency.

Please see attached for revised.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 09:16 PM
Subject: RE: Fw: Flowchart for Minister Sousa

Lucy,
Thanks so much for this. I've had a chance to review in further detail and I have a few comments/observations:

- Please see the sections with red font. Just wondering if something is missing or could be clarified. For sake of clarity, thinking that terms of AcBA and AdBA might help reduce some confusion caused by ABA vs ABA☺ Please see my suggested edits to confirm if appropriate.
- Last slide is great. I've inserted some modified description wording. Would be appreciated if you could review to see if you are ok with the wording.

Thanks again.
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-23-16 7:14 PM
To: Petsche, Nadine (TBS)
Subject: Re: Fw: Flowchart for Minister Sousa

Hi Nadine,

That was very helpful.

The "flow chart" was a bit tricky to put in a neat box because of the complex numbers and ideas that are involved. Please see in the attached power point there are two "flow charts" to show the impact on the statement of operations for two scenarios - funding of contributions over the current service cost - the 2015/2016 situation and an economic downtown (decrease in plan assets) - the 2008 situation. I used the numbers provided for the 2015 situation. I did not have the 2008 ones readily to hand.

However to explain the concepts in the flowcharts, I thought it might be helpful for the panel to have a visual explanation of how the various components of the pension plan are measured, how the ABA and adjusted benefit asset are calculated and therefore how the valuation allowance is calculated - assuming a full valuation is provided against the ABA/adjusted benefit asset. I included an additional 3 slides to illustrate these

concepts i) for actuarial gains (the current situation) ii) for actuarial losses (the presumed 2008 situation) and 3) to illustrate how the changes in the valuation allowance flow through to the statement of operations/deficit.

I hope the Minister will find this helpful.

Lucy

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To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
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From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, October 23, 2016 2:50 PM
To: Petsche, Nadine (TBS)
Cc: Hosick, Sarah (TBS)
Subject: Flowchart for Minister Sousa

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RE_ Fw_ Flowchart for Minister Sousa.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Fw: Flowchart for Minister Sousa
Date: Sunday, October 23, 2016 21:15:53
Attachment 1: Impact of a Valuation Allowance on Pension Assetsnp2.pptx

---

Lucy,

Thanks so much for this. I've had a chance to review in further detail and I have a few comments/observations:

- Please see the sections with red font. Just wondering if something is missing or could be clarified. For sake of clarity, thinking that terms of AcBA and AdBA might help reduce some confusion caused by ABA vs ABAJ Please see my suggested edits to confirm if appropriate.

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Lucy

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To: Petsche, Nadine (TBS)
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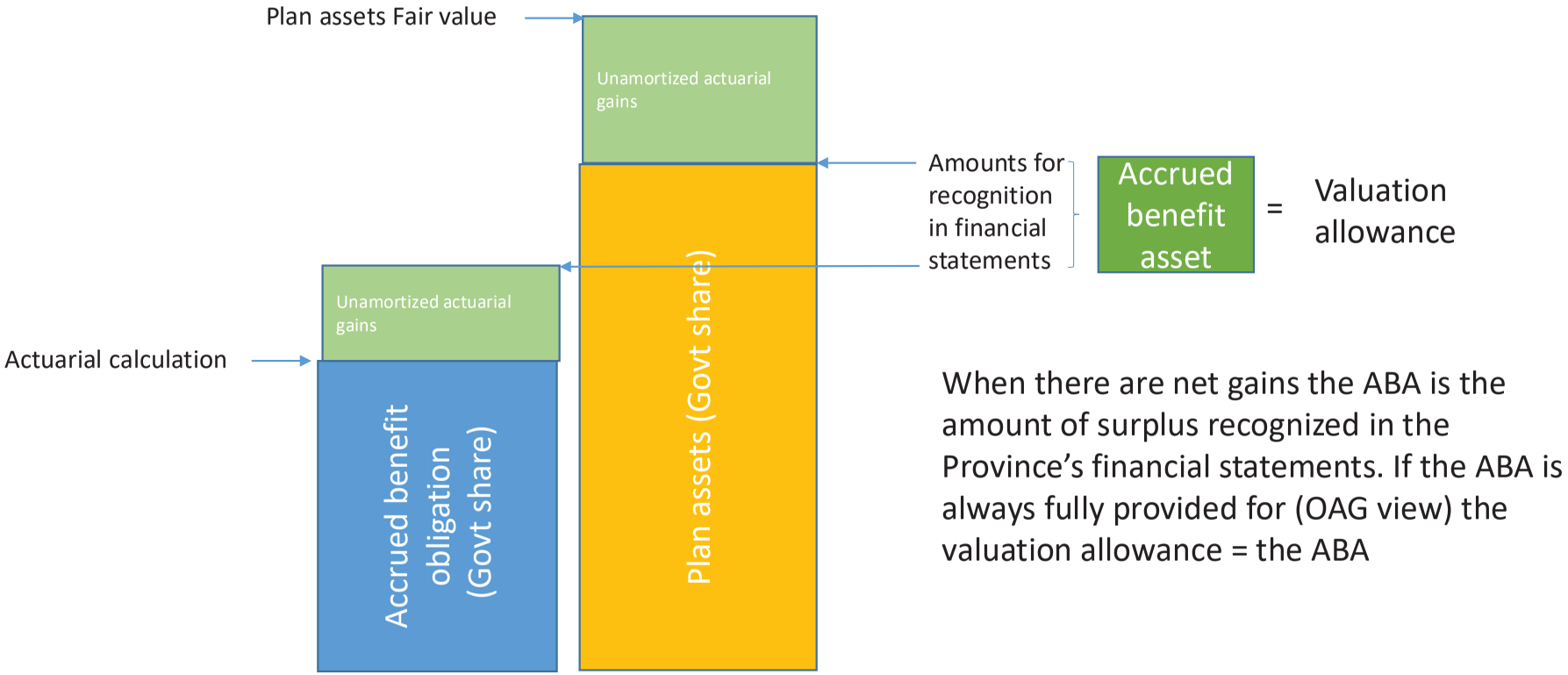
Impact of a Valuation Allowance on Pension Assetsnp2.pdf

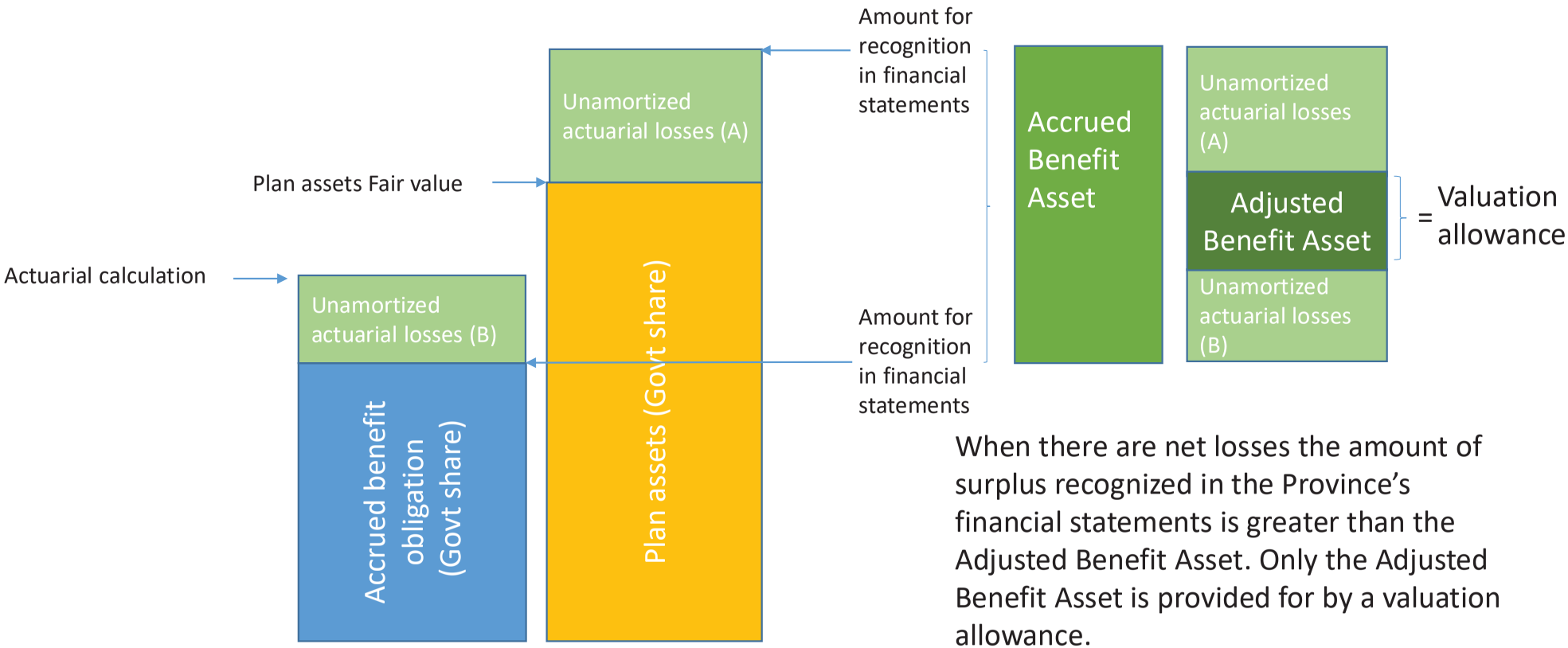
Impact of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the ABA is the amount of surplus recognized in the Province's financial statements. If the ABA is always fully provided for (OAG view) the valuation allowance = the ABA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses

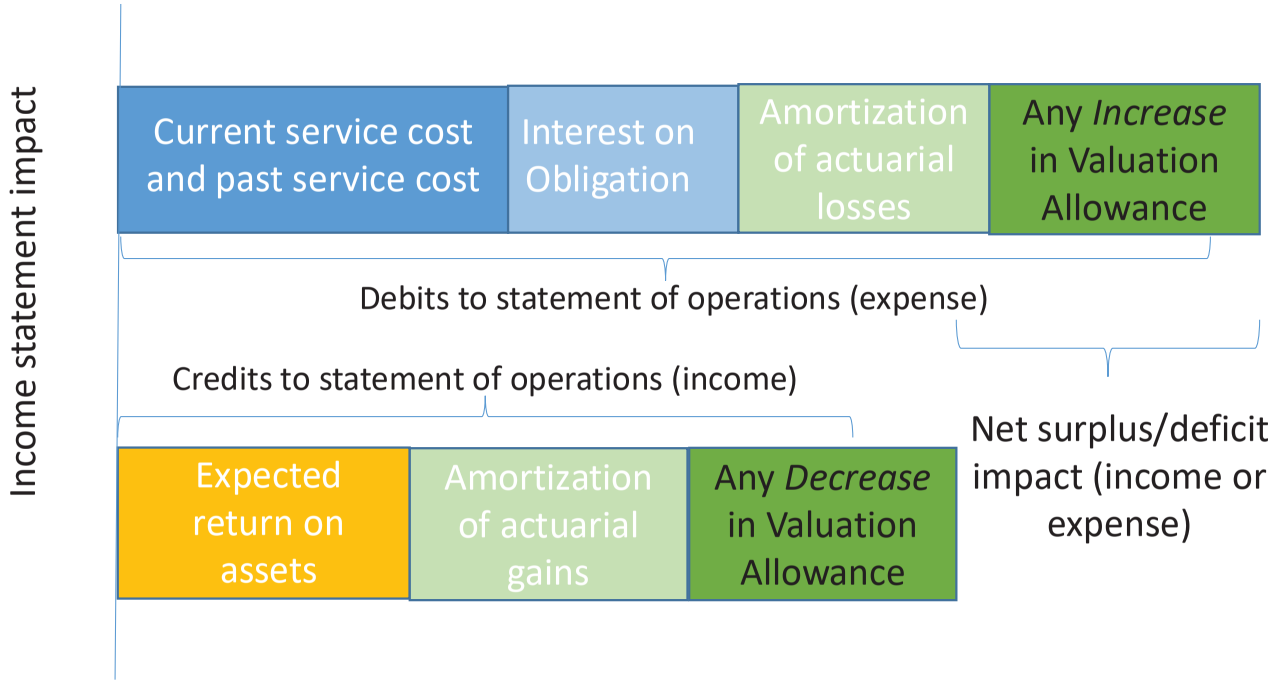


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the Adjusted Benefit Asset. Only the Adjusted Benefit Asset is provided for by a valuation allowance.

Components of Expense

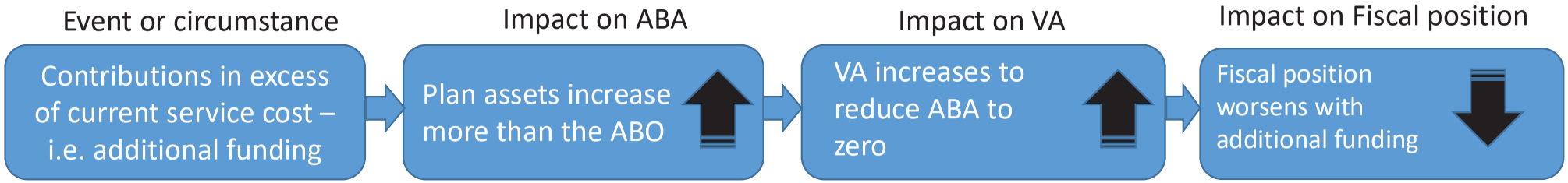
The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA



Changes in the Accrued Benefit Asset

Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]



2015-2016 example:
Contributions of $1,812M exceeded other elements of pension expense by $1,514M

2015-2016 example:
Additional contributions increase plan assets. AcBA increases by $1,514M

2015-2016 example:
AcBA increase of $1,514M results in an increase to the VA of $1,514M

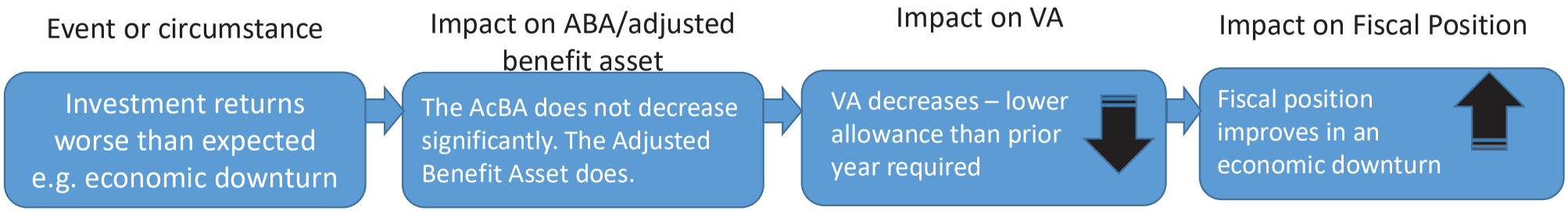
2015-2016 example:
Deficit increases by $1,514M.

The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed plan assets and does not change. However the actuarial losses are subtracted from the AdBA to give a smaller adjusted benefit asset than the AcBA

Prior year allowance was based on AcBA. Current year is based on because only the adjusted benefit asset is provided against. The adjusted benefit asset is smaller than the ABA because of the increase in unamortized losses.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

RE_ Internal Doc for your review_consideration.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Internal Doc for your review/consideration
Date: Monday, September 19, 2016 11:04:12

Thanks Lucy. Will review now. n

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 19, 2016 11:01 AM
To: Petsche, Nadine (TBS)
Subject: Re: Internal Doc for your review/consideration

Thank you. I think this is a critical part of the analysis.

In respect of the SOW, I discussed the issue with our internal groups. Under Section 7600 of Canadian GAAS, any accounting opinion must contain "restriction of use" language in the opinion, which does restrict the use of the report and the reliance that third parties can place on it. However the standard notes that notwithstanding this restriction, the report can be shared with the incumbent auditor, so sharing with the OAG is definitely permissible, but publication of the report to third parties will be of limited use because they cannot rely or use the report. I understand that in similar situations we permit references to the report, but generally not the reproduction of the report publicly because of the restriction of use.

Based on this, I have suggested amended language in the SOW (in tracked changes from the last version you sent me), that also captured the concerns about what the OAG would do with the report once it has been shared. Please let me know if this is acceptable to you and your legal department, and then we can finalize. All the other edits suggested by you in the last version were accepted.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/19/2016 10:38 AM
Subject: Internal Doc for your review/consideration

Hi Lucy.
One of our staff have prepared the following analysis of PSAB's guidance on the government partnership standard and sec. 3250's reference to joint defined benefit plans.
I think you'll find it of interest.
Nadine[attachment "Govt Partnerships and JDPP to DT.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Invoices for EY pension services .rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Invoices for EY pension services
Date: Thursday, August 03, 2017 10:42:45
Attachment 1: image001.png

Hi Nadine,

We will send a summary reflecting activities completed and remaining items to the end of the contract date.

Likewise, it has been a pleasure working with you and your team on this file.

Best regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, August 03, 2017 10:37 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>

Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Invoices for EY pension services

Thanks Shayan.

To assist with transition of the actuarial support services file, it would be helpful if you could send a summary by tomorrow reflecting the various activities for which services have been provided to date, as well as planned activities through to the end of the contract term (as discussed).

Thanks again for all of your help on our pension file. It has been a pleasure to work with you, Christina and Uros.

Best regards,

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: August 3, 2017 10:17 AM
To: Petsche, Nadine (TBS); Virani, Shyrose (TBS)
Cc: Christina Chan; Uros Karadzic
Subject: Invoices for EY pension services

Hi Nadine/Shyrose,

Please find attached invoices for our pension services from 1 June 2017 – 2 August 2017.

Please let us know if you have any questions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Shayan Jafrani
Sent: Wednesday, March 22, 2017 3:45 PM
To: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: Invoices for EY pension services in February and March.

Hi Shyrose,

As requested, attached are the invoices for EY services in the amounts of $37,500 for services in February 2017 and $37,500 for services in March 2017.

Are these pdf attachments satisfactory or do you require hard copies?

Let us know if you have any questions.

Regards,

Shayan

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image001.pdf

RE_ Invoices.rtf

From: Carolyn Roberts [carolyn.roberts@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Suzie Gignac [suzie.r.gignac@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Invoices
Date: Thursday, March 02, 2017 13:26:34
Attachment 1: @

This message has been archived. View the original item
https://ctsbigdcapmvs14.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=13BBA7271CF26C84D852ACE66DE9267CE1110000ctsbigdcapmvs01&SavesetId=201704041313560~201703021726420000~Z~903955A47DA91CD9D06E40C93EA96AA1View the original item

For the complex accounting code, we continue to work with the Province on accounting issues so I suspect there will be another invoice before the end of March. Can you let me know the latest date you

Attachments:
image003.jpg (2 KB)
https://ctsbigdcapmvs14.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=13BBA7271CF26C84D852ACE66DE9267CE1110000ctsbigdcapmvs01&SavesetId=201704041313560~201703021726420000~Z~903955A47DA91CD9D06E40C93EA96AA1&AttachmentId=1image003.jpg

RE_ forgot to ask.rtf

From: Petsche, Nadine (TBS) []
To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)' [mcolley@deloitte.ca]
Subject: RE: forgot to ask
Date: Friday, October 21, 2016 12:59:30

Matt,

Just following up on the item below. Would like to address by Monday if possible and I know that you are heading out of town. Thx. N

From: Petsche, Nadine (TBS)
Sent: October 20, 2016 5:52 PM
To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)'
Subject: forgot to ask

Have you received a request to release a copy of the accounting opinion to the Expert Panel? If not, then would a request worded similarly to the request to release to PwC suffice?

If not, please advise as to appropriate wording to include.

Thanks.

Nadine

RE_ fyi.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: fyi
Date: Monday, September 19, 2016 14:01:56

Yes please. Thank you.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/19/2016 01:46 PM
Subject: RE: fyi

Thanks Lucy. The SOF is not yet final, but the plan is definitely to share when it is ready.
W.r.t. your questions below, I will forward them to the contact at DT (Martin Raymond) and ask him to get in touch with you ASAP. I'm assuming your number below is the best way to reach you?
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 19, 2016 1:43 PM
To: Petsche, Nadine (TBS)
Subject: Re: fyi

Hi Nadine,

I have a couple of specific additional questions that I did not think needed to be asked to the broader group as they relate to specific parts of the information that you have sent me. I think these relate to Deloitte calculations. I thought I would start with you so you were in the loop as to my questions, but you may need to ask Deloitte to follow up on these - I think they are actuarial questions, rather than accounting questions, so I did not ask Matt Colley when I spoke to him earlier.

- In the binder, section 4, there was a document called "Deloitte responses to OAG follow up questions, which included a calculation supporting the OTTP expected future benefit calculations. It looks like it was originally prepared in Excel. For clarity this is the calculation that shows the adjusted benefit asset as $10.1, the perpetuity of employer service cost - accounting as $44.6 and the minimum employer funding requirement as $15.3

- For the minimum employer funding requirements, the table shows that it is 10 years of the estimated contributions under the plan that are discounted to support the $15.3M as minimum funding contributions. Why is 10 years used?
- The reference indicates that the amounts of estimated contributions are based on the funding valuation of "scheduled contributions" (Pages 15 and 16), My read of the agreement is that these scheduled contributions are based on the estimate of pensionable earnings x the appropriate rate (11.5%/13.1%) which is consistent with Schedule 1 of the plan, and are not based on minimum funding contributions that are required by the pension regulator to fund a deficit. Can this be confirmed.
- The contribution levels under Schedule 1 cannot exceed those that would be permitted under the Income Tax Act, which limited deductions for contributions that are made when a plan has a certain level of funding surplus. Have the Income tax limits been considered in projecting forward the estimated minimum funding contributions that are required under Schedule 1?

In essence I am assessing whether the minimum contributions make sense - there could be an argument that, under schedule 1, the employer contributions at the base level of 10.4%/12% would continue in perpetuity until schedule 1 is changed by the partners. This would obviously change the outcome of the expected future benefit calculation, and, in a worse case, could eliminate all the expected future benefit.

- I did have talk to Deloitte earlier to touch base with them. They have indicated that they have circulated a statement of facts to you and your group for comment. It would be helpful if I could see this, when you are ready to share it, to ensure that all facts that I think will be pertinent to our analysis are included so we are all working off the same fact pattern.
-

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Paul, Joshua (EDU)" <Joshua.Paul@ontario.ca>, "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca>
Date: 09/19/2016 12:38 PM
Subject: fyi

Lucy,
In relation to some of your Q's on the call.

Contribution rates between the employee and employers are always equal, with one exception of 2008, when the OTF made a portion of the employee contribution. See table:

https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf

Note: the 1.1% was phased in over 3 years

Year	Up to CPP limit	Above CPP limit	Increase*
2011	10.4%	12.0%	N/A
2012	10.8%	12.4%	0.4%
2013	11.15%	12.75%	0.35%
2014	11.5%	13.1%	0.35%
	Total increase	1.1%	

* As a percentage of salary

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RE_ fyi.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: fyi
Date: Monday, September 19, 2016 13:46:43

Thanks Lucy. The SOF is not yet final, but the plan is definitely to share when it is ready.

W.r.t. your questions below, I will forward them to the contact at DT (Martin Raymond) and ask him to get in touch with you ASAP. I'm assuming your number below is the best way to reach you?

Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 19, 2016 1:43 PM
To: Petsche, Nadine (TBS)
Subject: Re: fyi

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-

Regards,
Lucy

Lucy Durocher
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T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Paul, Joshua (EDU)" <Joshua.Paul@ontario.ca>, "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca>
Date: 09/19/2016 12:38 PM
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Note: the 1.1% was phased in over 3 years

Year

Up to CPP limit

Above CPP limit

Increase*

2011

10.4%

12.0%

N/A

2012

10.8%

12.4%

0.4%

2013

11.15%

12.75%

0.35%

2014

11.5%

13.1%

0.35%

Total increase

1.1%

* As a percentage of salary

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RE_ impact of suggested pension adjustments.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: impact of suggested pension adjustments
Date: Monday, April 17, 2017 12:07:30
Attachment 1: image001.png

Thanks Christina.

nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April 13, 2017 3:45 PM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani
Subject: RE: impact of suggested pension adjustments

Hi Nadine,

We have left you a voice message earlier today related to your request below. As mentioned, we thought the spreadsheets used yesterday are more suitable for facilitating our discussions, and may not be the best stand-alone tools/summary for the analysis we performed.

As such, we have prepared the attached, which compares the current adjustments for OPCD for OTPP, OPSEUPP, and PSPP against our suggestions.

We didn't include CAATPP and HOOPP as the balance sheet positions would be nil after valuation allowance for these plans. We would also note that their adjustments (e.g. "difference in contributions") are similar to those of OPSEUPP and much smaller in amount. The attached does not reflect any adjustment for OPSEUPP related to the adjustment for the differential use of RSF by the joint sponsors, as demonstrated in the draft OPSEUPP asset ceiling test documentation.

Also attached is an e-mail we provided earlier this week discussing the key year-end

adjustment items.

Shayan will not be available for the remainder of the day. Feel free to contact me if you require any additional information.

Have a great long weekend!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Shayan Jafrani
Sent: Thursday, April 13, 2017 8:24 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: FW: impact of suggested pension adjustments

Please see request from Nadine.

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada

Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Wednesday, April 12, 2017 10:29 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: impact of suggested pension adjustments

Hi Shayan.

I understand that you reviewed the quantitative impact of the identified adjustments during your discussion with APFR staff earlier today. It would be helpful if you could forward a soft copy of your analysis.

Thanks in advance.

Nadine

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image001.pdf

Re_ Deck outline.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Deck outline
Date: Friday, October 28, 2016 11:26:05
Attachment 1: Deck outline (JK) - OTPP Pension Asset Oct 27np ld.docx

---

Please see attached

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/27/2016 05:09 PM
Subject: Deck outline

Hi Lucy.
Jim has drafted an outline for a preliminary briefing deck, based on the previous version of the position paper. Attached are my suggested edits which I have not yet shared with him.
I was thinking that it might be worthwhile to also get your comments so that he could revise the content more efficiently (once transferred to a pp format, track changes will be more challenging).
Hoping that you have some time to reflect and provide feedback on the outline.
Would like to provide him feedback by tomorrow, if possible.
Thanks in advance.
Nadine[attachment "Deck outline (JK) - OTPP Pension Asset Oct 27np.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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responsibility of such person. We accept no responsibility for any loss or damages suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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Deck outline (JK) - OTPP Pension Asset Oct 27np ld.pdf

Accounting by the Province of Ontario for the Ontario Teachers' Pension Plan

Preamble

Analysis is specific to OTPP

Constating documents are different than for other pension plans in Ontario and in other provinces

Issue being considered

The Province followed the same accounting for OTPP for the prior 14 years during which the pension accounting standard (Section PS 3250) was the same

In relation to the 2015-16 public accounts for the Province of Ontario, the OAG disagreed with the Province's accounting for OTPP and OPSEUPP

The OAG disagrees that the surplus in OTPP is a reportable~~n~~ asset to the Province on the basis that:

- ~~as~~ there is no~~t~~ ~~a~~ legally enforceable right to the asset~~s~~
- ~~and~~ no agreement is in place at March 31, 2016 with the Ontario Teachers' Federation (OTF) to reduce future contributions

Formatted: List Paragraph, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm

Reporting in the 2015-16 Public Accounts

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The Province disagrees with the AG's interpretation of PSAB standards.

The Province believes their share of the plan accounting surplus should be recognized as an asset. The Province ~~intended~~expects to benefit from the reported pension assets through reduced contributions and has performed the requested pension asset ceiling test to confirm that the Province's estimated asset value is not impaired.

For purposes of the 2015/16 Public Accounts, the Province regulated the accounting treatment for pension assets for the jointly sponsored pension plans (OTPP and OPSEUPP) to reflect the Auditor General's interpretation of PSAB. Since Management does not agree with the AG's interpretation of PSAB as related to the jointly sponsored pension plans, ~~T~~the regulation was necessary to achieve the AG's accounting treatment and to allow management to sign off on the Statement of Responsibility ~~(since Management does not agree with the AG's interpretation of PSAB as related to the jointly sponsored pension plans)~~.

~~Regulated accounting for the 2015-16 public accounts does not reflect the Province's view of pension accounting under PSAS~~

Overview of OTPP

A jointly sponsored pension plan as defined in the Pension Benefits Act. The OTPP meets this definition.

The sponsors are the Province of Ontario and the OTF.

The sponsors are jointly responsible for decision making, share in ~~making~~ contributions, and collectively address any plan funding surplus/deficit (at least every 3 years)

The plan administrator is an independent board of directors and follows the direction of the co-sponsors on all key decisions, which includes plan structure, level of plan benefits, contribution rates, funding levels and contingency reserves and changes to the plan documents. ~~(not able to make any decisions w.r.t. contribution rates, uses of surpluses, etc.)~~

(INSERT SLIDE EXPLAINING PSAB STANDARDS AND COMPUTATION OF NET PENSION ASSET?)

PSAB options for recognition of pension asset were benefits to be realized through surplus withdrawal/contribution reductions…

Prior accounting for OTPP by the Province

Since 2001-2002, the Province has recorded its portion (50%) of the pension asset of OTPP in accordance with Section PS 3250

With regards to expected future benefit of the surplus, the Province would not expect to withdraw any surplus, but through reduced future contributions

-→ review history of use of surpluses for OTPP

~~Section PS 3250 is a primary source of GAAP which specifically addresses recognition and measurement of pension plans in government financial statements; compliance with PSAS requires following Section PS 3250 where applicable~~

~~Section PS 3250 was issued in 2001; there have not been consequential changes to the standard since its introduction~~

Question 1 – Recognition of a pension asset

First we address why the surplus of OTPP is an asset to the Province

Applicability of Section PS 3250 to OTPP

What is a JDBP?

~~Section PS 3250 specifically addresses the accounting for pension plans in government financial statements~~ Primary source of gaap

Shared control

Commented [LD1]: I agree this would be helpful, to summarize the model high level (Plan assets – ABO – umamortized actuarial gains/losses) to provide some context to the question.

Perhaps also shown 100% Plan numbers and then 50% plan numbers?

Commented [LD2]: For slide presentation consider whether this should be combined with "reporting in the 2015-2016 Public Accounts" because there seems to be significant overlap.
Point of this is to state Province's accounting, not necessarily explain how or why.
I would keep this before the slide explaining PSAB standards.

Commented [LD3]: What is the context – to provide factual back ground (OK to leave here) or to support the position (perhaps better in either recognition or measurement section then).

Formatted: Strikethrough

Commented [LD4]: This is covered on "issues being considered slide" as states that PS 3250 has been the same for 14 years. No need to repeat here.

Commented [LD5]: Are these highlight the three areas that will be discussed and then a slide on each?

Missing a slide on "Primary source of GAAP"

~~Section PS 3250 defines different types of pension plans; OTPP qualifies as a joint defined benefit plan (JDBP) as the sponsors share control over the plan (share in decisions relating to administration, levels of benefits and contributions)~~

Definition of JDBP

XX

Primary sources of GAAP

PS 3250 provides clear guidance that a JDBP is accounted for using PS 3250 and therefore is the primary source of GAAP that must be applied.

Other standards in PSAS including the Financial Statements Concepts should be referred to if PS 3250 does not provide specific guidance for a circumstance.

Concept of shared control and asset recognition

Section PS 3250 requires the government to account for its portion (as there is shared control) of a JDBP following the accounting requirements for a defined benefit plan within PS 3250; no distinction is made as to whether the plan is in a surplus or deficit position. In a JDBP the risks and rewards of a plan are equitably shared, so the Province's portion of the plan includes its share of any asset as well as its share of any liability

The Financial Statement Concepts definition of an asset includes "control" over an economic resource. Despite the conceptual framework not directly addressing "Shared control" ~~is not addressed in the definition of an asset in the conceptual framework of PSAS; the definition requires "control" over an economic resource~~it is included in other standards in PSAS, for example relating to government partnerships (Section PS 3060) which existed prior to PS 3250

~~Section PS 3250 was not revised when the existing conceptual framework was developed~~

~~The concept of shared control is included in other standards in PSAS for example relating to government partnerships (Section PS 3060) which existed prior to PS 3250~~

Conclusion on recognition

Section PS 3250 on its own is sufficient to assess ~~addresses~~ the accounting for OTPP by the Province

OTPP is appropriately classified as a JDBP under Section PS 3250

Section PS 3250 requires recognition by the Province of 50% of the plan assets of OTPP

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Unilateral c~~C~~ontrol is not necessary for asset recognition (~~e.g.~~ as also seen with government partnerships); ~~,~~ shared control is appropriate for a JDBP

Uncertainty relating to OTPP's pension surplus relates to measurement, not uncertainty regarding expected future benefits for the Province

Question 2 – Measurement of a pension asset

Second we address how to measure the pension asset of OTPP in the Province's financial statements

Yes- slide above would explain measurement

Reference to valuations of pension asset ceiling having been done and results (different assumptions w.r.t. 50% benefits from contribution reductions vs. benefits, etc)

Guidance in Section PS 3250 on measurement

Only the portion of the pension surplus for which expected future benefits are to be realized by the government is to be recognized as an asset

A valuation allowance is to be recorded when a government is not entitled to benefit fully from the pension asset. The allowance is measured as the ~~for any~~ excess of the adjusted benefit asset~~s~~ over the expected future benefit as defined by the standard (referred to as the asset ceiling test)

~~A government may~~Expected future benefits may arise ~~from the pension surplus~~ by either withdrawing the surplus from the plan or by taking a contribution holiday

Guidance on measurement as applicable to OTPP

The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions, not withdrawals

Expectations of benefitting from the surplus are based on:

1. The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
2. The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
3. No sponsor of OTPP can unilaterally utilize the plan's surplus; and
4. If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to arbitration.

The Province considers that the uncertainties around how and when to utilize the surplus do not result in an inability or lack of entitlement to utilize the surplus

Calculating the limit on the carrying amount of an accrued benefit asset (asset ceiling test)

Commented [LD6]: I would add the requirements to negotiate every three years here
Is there more from the paper that we can highlight regarding entitlement to negogiate?
This is a key section and perhaps need a little more support.

Section PS 3250 indicates the expected future benefit to be recorded by the government is the sum of:

a. The present value of its expected future accrual for service for the current number of active employees less the present value of minimum contributions the government is required to make regardless of any surplus; plus
b. The amount of the plan surplus that can be withdrawn in accordance with the existing plan and any laws and regulations.

The next slides will consider this calculation relative to the Province's 50% share of OTPP

Through withdrawal of the surplus (Part b of the asset ceiling test)

The Province does not consider there to expected future benefit available through withdrawal of any plan surplus.

Section PS 3250 ~~requires~~ specifies that an amount for the~~the~~ to withdrawal of surplus is only included when~~expected future benefit include amounts to which~~ a government has a legally enforceable right of withdrawal. ~~; the concept of legal enforceability is included in PS 3250 but relative only to the withdrawal of a surplus~~

In accordance with the Funding Management Policy for OTPP, the parties must negotiate ~~a side agreement must be reached by the sponsors~~ in order for a withdrawal of the surplus to happen, therefore ~~.~~

~~As~~ the Province does not have a signed~~de~~ agreement with OTF regarding the withdrawal of the surplus. ~~, there is no legally enforceable right of withdrawal, and there is no expected future benefit for the Province under part bwith reference to a withdrawal of surplus; however,~~

~~as stated above, the Province expects to benefit through future contribution reductions, not surplus withdrawals.~~

Through reducing future contributions (Part a of the asset ceiling test)

While Section PS 3250 states that legal enforceability is required to include an amount for a withdrawal of the plan surplus it does not include a similar requirement in respect of the ability to benefit through future contribution reductions. The Province has an expectation that they will benefit fully from the asset by exercising their current rights under the plan arrangements to negotiate the use of surpluses in the form of contribution holidays.

The present value of its expected future accrual for service is typically calculated based on the Province's share (50% for OTPP) of the current service cost reported in the most recent actuarial valuation taken into perpetuity

Commented [np7]: This wording is not right. Need to position properly.

Commented [np8]: Insert reference to FSCO?

There is ~~no~~ very limited guidance in PSAS on determining the present value of minimum contributions the government is required to make regardless of any surplus; professional judgement is required. The Province engaged consultants to calculate this value for OTPP considering different assumptions on future minimum contributions. The key scenarios consider include

-

For purposes of OTPP in the 2015-16 public accounts, 11 years was used by the Province reflecting management's best estimate of the number of future years for which current minimum contributions are to be made until the Income Tax Act limits are reached

Based on the Province's best estimate calculation of the expected future benefit, no valuation allowance was ~~recorded~~ deemed necessary in relation to the pension asset of OTPP at March 31, 2016

Other guidance in PSAS on measurement

Section PS 2130 provides guidance on dealing with measurement uncertainty

Measurement uncertainty in pension plan accounting exists for example in the estimation of the valuation allowance and in the determination of the discount rate (which is often management's best estimate of the rate of return on plan assets)

Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP

Comparability of Ontario's accounting for JDBPs to other Provinces

Provinces such as British Columbia and New Brunswick do not report assets for their provincial joint sponsored pension plans or alternatively provide a valuation allowance to reduce the pension asset balance to nil

The difference in accounting versus the Province of Ontario (for OTPP) results from these other provinces not having any ~~right~~ access to the pension surpluses unlike in Ontario

Conclusion on measurement

The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions

Significant professional judgement and estimation is involved in determining the valuation allowance under Section PS 3250; the Province has applied reasonable estimates

Based on the result of modelling performed in relation to the asset ceiling test, the Province concluded that no valuation allowance was ~~concluded to be appropriate by the Province~~necessary to the pension asset that would have otherwise be reported on the Province's books as at March 31, 2016.

Commented [np9]: Need to insert reference to the 3 year mandated negotiation timeline and/or when plan is in funding surplus position.

Commented [LD10]: Suggest bullet pointing the main scenarios

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Commented [LD11]: In the context of the slide deck, not sure what the point of this slide is. Point needs to be emphasized. Is the point
a) To highlight disclosure requirements of measurement uncertainty (acknowledging disclosures in Public Accounts) or
b)To indicate where there is measurement uncertainty in the number e.g. discount rates, plan assets, assumptions on future funding surpluses etc.
I was not clear on what this slide was adding, to the overall conclusions, albeit that it is a separate section in the position paper.

Re_ Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]
Subject: Re: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx
Date: Thursday, October 27, 2016 16:07:42
Attachment 1: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2_PwC REVISIONS 2.docx

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Hi Nadine,

I know it's not ideal from a version control perspective, but I took a "fresh read" of the paper and had a number of other suggestions for clarity of language and also for ordering as there was some repetition of ideas in places. I think the paper is looking quite good now though.

Please see attached a revised version of the document I send around yesterday. Please use this one in terms of whether comments have been addressed and additional comments. We can discuss on Monday.

Jim - I have noted some sections of the partners agreement that I think would be useful to add into the appendix and left a comment for this. I am hoping that you would be able to summarize them and add them into the appendix in the same manner as the current references.

Thanks
Lucy

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toutes les copies.

Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2_PwC REVISIONS 2.pdf

Position paper for Ontario Teachers' Pension Plan

Preamble

This document addresses the accounting for pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

~~A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, HOOPP and CAAT.~~

Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP. This position paper addresses the analysis for OTPP.~~-~~ A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, HOOPP and CAAT.

As described in PSAS, a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the asset balance (~~or~~ plan surplus for accounting purposes) in OTPP is an asset to the province and it is ~~suitable~~ appropriate to reflect it in the financial results in accordance with PSAS. The Province has also concluded that no valuation allowance is required against the asset.

The OAG disagrees with this position. The OAG has indicated that because the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and in the absence of that right, because the Province does not have an agreement in place with the Ontario Teachers' Federation (OTF) with respect to how the surplus would be utilized ~~such that it would provide a benefit to the Province~~, the recognition of a pension asset in the Public Accounts is not appropriate.

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

Commented [LD1]: o/s for administrative items.

1)Check references to standards are consistent. We use a mix of Section PS XX, PS XX, paragraph xx or .0xx in different ways. Doesn't matter which way it is, but should be consistent.
2) Should check appendices are appropriately referenced. Consider re-ordering appendices and references to order that they are mentioned in the paper.

Commented [LD2]: Is this the OAG's view or a statement of fact. It reads as if there is a statement of fact that the province does not have an agreement in place that would provide benefit to the province. This is not consistent with the Province's position.
Suggestion "such that is would provide a benefit to the province" is removed – whether the current arrangements provide a benefit or not is subject to the further analysis.
If this is left in, it should be made clear that this is the OAG's view rather than a factual statement of the arrangements.

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Generals. There has been no change to the relevant PSAS (i.e. RETIREMENT BENEFIT, Section PS 3250) over the past 14 years.

A regulation was filed to allow the public service to sign-off on the impact of the OAG's view on accounting for pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for pension assets of its two jointly-sponsored pension plans (OTPP and OPSEUPP) for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's accounting, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

Background

Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1.

The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the Ontario Teachers' Federation represented by its Executive (the "OTF") (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
a. It provides defined benefits.
b. The defined benefits are contributory benefits.
c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. The OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for the OTPP ;
d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP);
f) The Ontario Teachers' Pension Plan; and
g) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under the OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

Despite this general principle, under the TPA the Province is required to make additional contributions to the OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. [5] The Province is also permitted to make additional contributions in respect of a

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).
[5] TPA, subsection 5(3).

Commented [LD3]: What is this referring to and how it is different from the "Plan Text" referred to in (c) above?

Commented [CV4]: Let's discuss this next section – its new to me – was it in one of the legal opinions?

Yes, per the Osler September 20, 2016 letter – pages 7 and 8 – included in this section as we discuss that OTPP qualifies as a JSPP

Also – I'm confused by the footnotes below – 3. And 4. And then 2.3.4.?

The characteristics of a JSPP in footnote 1 includes 4 parts which were the first series of 1, 2, 3 and 4 – I have changed to a, b, c and d

Commented [CV5]: Does this have any impact on the JSPP status of the plan

I believe it is consistent with the characteristics of a JSPP- characteristic c

LD – I think there are a number of ways to interpret this clause It could be argued that the clause is there to ensure that there is sufficient money from a liquidity perspective. This does not necessarily negate the broader agreement to share on an equitable basis – i.e. it's not clear if this injection by the Province would be balanced by the OTF in some other form – one might argue that the rest of the arrangement (partner's agreement) would require it to.
The TPA does require that the assets of the pension fund should be maintained at a level that is reasonably sufficient to meet the liabilities. Therefore, if this requirement has been met then the requirements of subsection 5(3) would only be for liquidity/short term in nature and not for long term funding.

I can see how one might also argue that it indicates that residual risk is with the Province – for example, does this clause kick in when the pension plan has no more active members and runs out of assets to pay for the liabilities then is the Province on the hook. Again – the rest of the Plan's terms would indicate that this should not happen, While "should not" might not be the same as "cannot" it could be countered that the majority of the funding risk is not with the province, because the other requirements in the Partners' Agreement require shared funding.
However this would likely be a matter of interpreting the arrangement as a whole.

I don't know what the original thinking by mgt/OAG was when this was agreed upon to be a JDBP, but the above would be my guess as to how it was considered.

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solvency deficiency[6] (although, as noted above, solvency funding is not required under the OTPP). Notwithstanding that subsection 5(1.1) of the OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under the OTPP since the OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the ~~FMP~~Partner's Agreement requires the Sponsors to negotiate and agree upon decisions relating to surplus or deficit utilization, which currently is outlined in the FMP. ~~Currently, the Sponsors are required to mutually agree upon how any plan deficits are to be addressed.~~ [8] ~~While not binding upon the Sponsors,~~ Tthe FMP indicates that deficits (or surpluses) may be addressed through increases (decreases) to the contribution rates, lowering (increasing) the amount of indexation and/or other decreases (increases) in benefits. While not binding upon the Sponsors, as the Sponsors can change the FMP at any time, any changes are required to have the mutual consent of both Sponsors.

Commented [LD6]: Have reworked these paragraphs for clarity.

Commented [CV7]: Not sure what we are referring re: the use of also

Section 3.11 of the FMP discusses options available to the partners to eliminate any deficit in the plan (i.e. change benefits, contributions, or both)

~~Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the FMP requires the Sponsors to negotiate and agree upon decisions relating to surplus utilization.~~ Accordingly, the Sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the Sponsors are included in appendix E. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental

[6] TPA, subsection 5(7).
[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/101791209401-l5e47lc2b-23f1-44e6-b5cld22e3e50dbc3lHow+ Contribution+Rates*HaverEvolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20lo versus l0.4yo/l2Vo, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.
[8] See, for example, Section 3.09 and 3.11 of the FMP.

legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. We note that the Sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the Sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the Sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the Sponsors to agree upon the manner in which surplus is to be utilized, neither Sponsor has a legally enforceable right to unilaterally utilize surplus in the OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. ~~When n~~Negotiations on the use of the surplus occur as ~~laid~~ specified~~out~~ in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding

valuation shows a funding surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is to be resolved prior to filing the funding valuation.

Accounting for OTPP by the Province

Since fiscal year 2001-2002, the Province has recorded a pension asset for OTPP on the Statement of Financial Position. A pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus ~~the actual~~ recognized investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

Commented [LD8]: Not all investment returns are actually recognized because of the deferral provisions.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook addresses the accounting of obligations for employee retirement benefits in government financial statements. Since the Province adopted the standard, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years is reflected in Appendix F. Unqualified audit reports have been received for each of the years from the OAG on the Public Accounts. The pension accounting adopted by the Province for OTPP since 2001 had been implicitly accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

Commented [LD9]: This paragraph is important, but seems disconnected from the previous section. Have suggested it is moved to the beginning of the section, which also refers to "since 2001".

With regards to any comparisons between surplus or deficit amounts reported in the Province's financial statements verses the OTPP's financial statements or funding reports, it is important to acknowledge the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

> *.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.*
>
> *.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. …*

> *.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.*

Paragraph PS 3250.051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons…"

OTPP's most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website. The Province's relative portion of this surplus would be $6.6 billion. The OTPP's public financial statements showed a deficit for accounting purposes of $1.8 billion in its financial statements as at December 31, 2015, for which the Province's portion would be a deficit of $900 million. The following background helps to clarify the reasons for these different results. OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes. Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a "funding valuation" on a going concern basis may also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP's accounting valuation and the Province's accounting valuation is shown in Appendix I.

Specifically, the discount rate used to value the obligations of the plan has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money makes the promises made today that will be paid out in the future cheaper. OTPP uses a discount rate based on corporate/government bond rates in its financial statements, as permitted by Part IV. The Province uses a discount rate based on the expected asset return, as permitted by PSAS. The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds. Both ~~the~~ a ~~PSAS accepted~~ discount rate based on

the expected asset return and ~~the IFRS required discount rate of~~ one based on corporate/government bonds are "best estimate" rates~~;~~. t~~T~~hey must both be based on management's best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more "right" or "wrong" relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

~~The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds.~~ Typically the funding discount rate used for the funding valuation falls between the bond discount rate and the expected asset return, but it differs in that it does not purport to be the "best estimate" of the discount rate, ~~but~~ rather it is designed to indicate the contributions that are required to fund the promised benefits~~,~~ with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta 7 plans prepare their financial statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix ~~[~~G~~]~~. The analysis demonstrates that a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability.

The above analysis ~~discusses~~ explains ~~the~~ how ~~impact of~~ different discount rates impact ~~on~~ the net surplus/deficit reported on OTPP's financial statements, OTPP funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the 50% of the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under PSAB standards is of no consequence or relevance to this analysis.

To further clarify, that there is a deficit reported in the OTPP financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, if the OTPP had chosen (as an acceptable accounting policy choice) to ~~would have accepted~~use a discount rate more consistent with its counterparts in other jurisdictions (see Appendix G) ~~that would also be acceptable under the Part IV~~

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framework as an accounting policy choice such as (e.g. a discount rate based on an asset return which would be closer to that used by the Province), it would eliminate much of the existing differences between the reported net surplus/deficit amounts between the OTPP statements and the Province's share of OTPP reported for accounting purposes in the Public Accounts.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook addresses the accounting of obligations for employee retirement benefits in government financial statements. Since the Province adopted the standard, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years is reflected in Appendix FUnqualified audit reports have been received for each of the years from the OAG on the Public Accounts. The pension accounting adopted by the Province for OTPP since 2001 had been implicitly accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook addresses the accounting of obligations for employee retirement benefits in government financial statements. Since the Province adopted the standard, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years is reflected in Appendix F.

Although OPCD has not been able to substantiate decisions made at the time that the Province implemented PS 3250 in 2001, it is assumed that the Controller's Office and the Office of the Auditor General would have engaged in more specific and detailed discussions related to the interpretation and application of the standard with regards to the joint sponsored pension plan at the time. The presumed outcome of those discussions would have supported the Province's share of the surplus being reported on the Province's books based on the shared control over the plan as evidence by the constating documents. It is uncertain whether the need to perform asset ceiling tests on a regular, on-going basis was discussed at the time and there is no evidence of any having been performed previously. The pension accounting adopted by the Province for OTPP since 2001 had been implicitly accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

History regarding the PSA standards

As mentioned, the financial statements for the Province have been prepared consistently since PS 3250 was first implemented and such interpretations were accepted by the Office of the Auditor since that time.

Commented [LD10]: This paragraph is important, but seems disconnected from the previous section. Have suggested it is moved to the beginning of the section, which also refers to "since 2001".

Commented [LD11]: Seems repetitive to the previous paragraphs if on a standlone basis, so have suggested moving.

Commented [CV12]: Not sure this is necessary – let's discuss

LUCY/JIM – please see CV, or consider rewording.

LD - I agree that it may be hard to presume anything about previous discussions if there was a different controller and a different AG at the time and there is not documentary record supporting the decisions made.

Under the standard, I think it is relatively clear that consideration of the limit on the asset ceiling tests should be made whenever there is an AcBA, (which is not to speak to the method or depth of that analysis) but suggesting that there is no evidence of anyone doing this is perhaps is not helpful.

Commented [LD13]: Seems repetitive to the previous paragraphs if on a standlone basis, so have suggested moving.

Commented [LD14]: Seems repetitive to previous paragraph.

Completeness of PS 3250 in assessing appropriate accounting for pension assets

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (paragraph PS 1150.04). Primary sources of GAAP are Sections PS 1200-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed (paragraph PS 1150.05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

Commented [CV15]: Let's include references to paragraphs when we are referring to the Handbook

Added a couple of references.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, Section PS 3250 which was based on Accounting Statement No. 5).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to ~~joint~~ shared control, as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception of ASSETS, PS 3210 which is more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

Accounting Analysis

Question 1 – ~~Recognition~~ Classification of a pension asset

The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSA standards under PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

Standards in the PSA Handbook

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The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

RETIREMENT BENEFIT, Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

> *.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.*

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250, paragraph .003 as follows:

> *.003 Obligations for **retirement benefits** result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.*

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

RETIREMENT BENEFITS, Section PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

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

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

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

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

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

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

Additional guidance on identifying Joint Defined Benefit Plans (JDBPs) is in PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP:

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

It should be noted that the definition of a Joint Defined Benefit Plan under Section 3250 is not the same as the definition of a JSPP under the PBA, although there are some overlapping concepts between the two. A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other

Commented [CV16]: How does the requirement for the Province to make contributions when there are insufficient assets impact OTPP being classified as a JDBP? – page 4 of this memo

Jim/Lucy

Paragraph 3.09 of the FMP discusses options available to the partners to eliminate any deficit in the plan (i.e. change benefits, contributions, or both). It does not indicate the government solely is responsible. Therefore no impact on the JDBP classification.

LD – see above response to earlier comment on page 4. I'm happy to draft some language along these lines if management confirm that this is their interpretation of the clause – i.e. it is a short term liquidity provision, not a long term funding obligation.
While this determination does not appear to have been challenged by the OAG, we may want to address it for the benefit of the Panel.

matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. The Province has concluded that OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. The OTPP is a contractual arrangement between the Province and OTF in which:

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees (addressed in paragraph 8 of the Partners' Agreement for example);

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example).

~~There is no uncertainty regarding the joint control of OTPP shared by the Province of Ontario and the Ontario Teachers Federation.~~ The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting ~~based~~ ~~on~~ the definition of a joint defined benefit plan.

~~As noted above, t~~The classification of OTPP as a JDBP for accounting purposes [and a JSPP under the PBA] by the Office of the Provincial Controller has been consistent since 2001 and had been consistently ~~and~~ accepted without question ~~accepted~~ by the Office of the Auditor General, including throughout the 2015/16 Public Accounts.

Commented [CV17]: Is there a legal determination as well – e.g. impact on solvency funding?

Jim/Lucy?

LD – I think there is a distinction between the handbook definition and the regulatory definition, although there is a lot of overlap in the concepts.

Have suggested an edit clarifying that this is for accounting purposes.
We could also add in that it is a JSPP under the PBA (regulatory purposes). I don't think it's necessary, but have added in in [] for consideration.

I'm not sure I understand the concern re solvency funding – is there something else we should be adding in here?

Question 2 – Recognition of a pension asset for ~~RETIREMENT BENEFITS, Section PS 3250 – Accounting for~~ a JDBP

RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

> *.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]*

> *.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.*

Section PS 3250.81 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a ~~joint~~ shared control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to ~~joint~~ shared control and not unilateral control paragraph .081 would have made this clear. This paper discusses the ~~two elements of recognition and~~question of measurement separately in Question 3.

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250.016 to .017:

> *.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]*
>
> *.017 The components of the retirement benefit liability are:*
>
> *(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;*
>
> *(b) plan assets, if any; and*
>
> *(c) unamortized actuarial gains and losses.*

As the OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the net impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an "Accrued benefit asset" (ABA). An ABA is defined in Section PS 3250 as follows:

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

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan~~,~~; the ABA is calculated by reference to ~~based on the best estimate assumptions used in measuring the~~ accrued benefit obligation and plan assets, both determined based on the best estimate assumptions and the methodologies required by~~, measured in accordance~~ with Section PS 3250 ~~guidance~~ for these items. As noted above an ABA is defined as the ~~government's~~ sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan, this is the government's accumulated cash contributions less the ~~sum of the~~ government's share of the current and prior years' benefit expenses that are attributable to the government under the joint defined benefit plan. The Province's portion of OTPP resulted in an ABA of $10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (~~including~~ and the interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Paragraph 3250.80 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph 3250.50 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as the limit could result in an ABA ~~could be~~being measured at anything from $nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .50-.59 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the Province does not share equitably in the risks and rewards of the OTPP because they bear only the risk of increased liabilities without being able to bear any rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a joint defined benefit plan.

Concept of Shared Control and Asset Recognition

Included in the definition of a JDBP is the concept of shared control. Points (c) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of Shared Control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under PS 1000 would suggest that the government

must control the economic resource and access to the future economic benefits. Since shared control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under shared control and specifically for plan assets of joint defined benefit plans for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with joint defined benefit plans and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. ~~Section PS 3250 was developed by PSAB considering the current conceptual framework in the PSA Handbook.~~ As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for joint defined benefit plan assets, no further source of PSAS guidance need be considered.

- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, ~~joint~~ shared control is sufficient for asset recognition.

- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. With the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that PSAB did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, ~~-~~subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix B to this paper, and further support PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Commented [CV18]: We use both joint control and shared control in this section – is there a reason to distinguish – would rather use shared control since that is what is used in 3250 and 3060

Changed to shared control

Commented [CV19]: Should we also note that this section was developed by the standard setters with the current conceptual framework in place, which included a definition of an asset.

I have added a sentence

LD – Not sure this is correct. PS 3250 was issued in September 2001. However Section 1000 was not issued until January 2003. Therefore it was not actually in place when Section 1000 was initially included in the handbook.
This timing is reflected in the discussion in the third bullet point below.
Suggest deleting the sentence.

Formatted: Space After: 10 pt

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (PS 3060.20), yet the accounting model required by Section PS 3060 for non- GBPs[9] is that of proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership. Joint defined benefit plans are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (3060.06 footnote 3). This reason indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to ~~joint~~ shared control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is ~~joint~~ shared control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a joint defined benefit plan.

Commented [CV20]: I don't agree that this is what footnote 3 says – this is the discussion we are having a discussion with PSAB on ***

Lucy - consider edits

LD – Happy to redraft when I understand Cindy's point of view on the footnote/outcome of discussions with PSAB. Not sure how to redraft this currently.

Commented [CV21]: We may need to rework this ***
Lucy - consider edits

Concept of Contingent Asset

CONTINGENT ASSETS, Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset (Section PS 3320.04). It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, being the impact of cumulative contributions and benefit expense. There is no uncertainty regarding that there is shared control of the plan (and shared control is sufficient to result in asset recognition for the reasons noted above). Finally, the Province can support expected future benefits in a broad sense as any OTPP surplus must be shared in an "equitable manner" under the terms of the arrangement, and this is enabled through the ability to negotiate the utilization of the surplus including the ability to prevent the utilization of the surplus in a manner that does not benefit the Province. This expectation is further supported by past history of surplus utilization. The method, extent and timing of which the Province will obtain the expected future benefits (contributions reductions vs increase in benefits) is not certain. However PS section 3320 also states~~paragraph .07 indicates~~ "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof~~.~~" (Section PS 3320.07). Based on past history of surplus utilization for OTPP and based on the constating documents, expected future benefits for the Government are present. The

[9] Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

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uncertainty as with many types of assets relates to measurement uncertainty which will be discussed below.

Conclusion on recognition

Therefore the Province has concluded that PSAS permits the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, which is discussed in Question 2 of this position paper.

Question ~~32~~ – Measurement of a pension asset

For an asset to be recognized it must be reliably measureable (paragraph PS 1000.55). Section PS paragraphs 3250.050 to .059 address how to measure a pension asset. This is a two-step process. Firstly the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset when it is a net asset (a Debit) amount. When the resulting amount is an asset, the standard requires a second step to test that the asset is not impaired. It should be noted that impairment testing in some form is required for all assets recognized under PSAS standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset.~~"When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit."~~ The amount that is tested is the "adjusted benefit asset". When there are net unamortized gains the ABA is equal to the adjusted benefit asset. When there are net unamortized losses the ABA is reduced by those net unamortized losses to calculate the adjusted benefit asset. A graphical illustration of the calculation of the Accrued Benefit Asset (AcBA) and the Adjusted Benefit Asset (AdBA) are shown in appendix J. Section PS 3250 ~~P~~paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA or adjusted benefit asset. Note that for OTPP ~~for purposes of Section PS 3250.053 the Province has determined that no pension valuation adjustment is necessary and as such that~~ the accrued benefit asset equals the adjusted benefit asset as there are net~~(due to~~ unamortized actuarial gains. ~~exceeding unamortized actuarial~~

Commented [CV22]: We need to deal with all of the counter arguments that have been raised – e.g. contingent asset

I have added a paragraph above - can we say more?

LD – I think the added paragraph is helpful to emphasize that the concept here is measurement uncertainty and not contingent asset world.
I find it hard to add in more about contingent assets because I think the argument is that that PS 3320 is not relevant guidance (because PS 3250 is), rather than trying to argue using the wording of PS 3320, which is a going to be difficult.

LD2 – I had another go and trying to articulate what I believe is management's position on the contingent asset argument. Please see edits to the paragraph.

Commented [CV23]: Please reference

Added

Commented [CV24]: I think we need to put this is context – measurement is a two step process. The measurement of the asset is determined by the balance of 3250 (e.g. measurement of the plan assets, measurement of the pension obligation, etc. etc. and then there is a second measurement requirement when a plan is in an asset position – in paragraphs 50 to 59.

I've been trying to explain it as a see-saw – you record your share of the net obligations or net asset and when you get into a net asset position, there is an additional step that is required re: valuation.

Lucy - please consider rewording integrate illustration

LD – updated.
LD 2 – revised wording to highlight credits and debits as I think this may be more helpful then negatives/positives, although perhaps not for non-accountants.

Commented [LD25]: Is this helpful to include as an appendix to help explain these concepts?

Commented [CV26]: Are we going to reference the various models run?

See table 1 on page 27 updated by Pauline.

LD - Reference deleted here because the point here is just to state that AcBA = AdBA for the province. Table 1 is relevant when discussing the conclusions on the calculations, later on when the method of calculation has been discussed.

Note that the conclusion on the pension valuation adjustment is a separate conclusion from the adjusted benefit asset fact. I think we deal with it later, so no need to reference it here or would be repetitive.

~~losses) (Refer to Table 1 later in this document for a "Summary of Asset Ceiling Models performed for OTPP".~~

Section PS 3250.50-.59 are included here for completeness and ease of reference:

Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

~~Note that for purposes of Section PS 3250.053 the Province has determined that no pension valuation adjustment is necessary and as such that the accrued benefit asset equals the adjusted benefit asset (due to unamortized actuarial gains exceeding unamortized actuarial losses) (Refer to Table 1 later in this document for a "Summary of Asset Ceiling Models performed for OTPP".~~

Paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This~~It~~ is an explanatory paragraph on how a government may benefit from an ~~accrued benefit asset~~ABA and why a valuation allowance may be needed, rather than detailing the test to be applied. Part of this

justification is to note that that an ABA may be impaired when "the government is not entitled to benefit from [the ABA] fully". Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

Section PS 3250.059 gives additional guidance on when an entity is not entitled to a surplus withdrawal: "A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal". This

~~The Province's expected future benefits to the surplus is intended to be through reduced future contributions, and not through withdrawal of pension surplus. As such, PS 3250.059 is not considered relevant to the analysis when performing the asset ceiling test.~~ PS 3250.059 introduces the concept of a legally enforceable right but only in the context of a government's ~~reduction of future contributions~~withdrawal of surplus and not in the context of contribution holidays. If the standard setters had intended legal enforceability to be the test throughout the standard, they would not have raised it only in the context of a withdrawal of surplus, but as a more fundamental notion in the guidance on expected future benefit.

It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to shared control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays. When considering the ability to realize expected future benefits under Section PS 3250.052, the Province's legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts. Pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the

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Commented [LD27]: I'm concerned about repetition of the discussion of .059 and whether it flows in a sensible manner, but want to take a fresh read before trying to suggest edits.

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Commented [CV28]: I think we need more analysis on this – understanding the reason for .59 in setting a higher hurdle for withdrawing assets from the plan – there is content in the Deloitte opinion on this.

Wording added from DT letter

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Commented [CV29]: To consider the context of pension accounting – long term economic assumptions, the model allows for estimation .

Wording added from the Province's response letters to the AG.

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term used to describe the cap in the asset ceiling test is "expected- future benefit". Expected does not equate to certainty (Section PS 1000.056).

~~The Province's expected future benefits to the surplus is intended to be through reduced future contributions, and not through withdrawal of pension surplus. As such, PS 3250.059 is not considered relevant to the analysis when performing the asset ceiling test.~~

~~It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to joint control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays or withdraw surplus.~~ Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP ~~and take~~which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Further, paragraph PS 3250.055 indicates "The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of

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Commented [LD30]: I'm concerned about repetition of the discussion of .059 and whether it flows in a sensible manner, but want to take a fresh read before trying to suggest edits.

LD 2 – deleted as is repetition of the points made in the paragraph above, which also includes wording along the Deloitte lines.

Commented [CV31]: I think we need more analysis on this – understanding the reason for .59 in setting a higher hurdle for withdrawing assets from the plan – there is content in the Deloitte opinion on this.

Wording added from DT letter

Commented [CV32]: Can't they choose to leave the surplus in the plan? CRA cap.

LD – I don't think they can, absent a change to the partnership agreement. Ultimately the partners can agree to change anything, but under the current terms of the partnership agreement and the FMP it does not seem that they can.

Commented [CV33]: Are we sure – what are we referring to in making this statement? Assuming the FMP – can we reference. Also, its possible that the FMP could be changed, but that would require the consent of both parties – e.g. the Province can control that the FMP will not change.

Lucy

LD – reference added

Commented [CV34]: Isn't is also true that the OTF could block the province from reducing contributions?

Legal? Jim to follow up with Legal.

LD – yes, the OTF can block the province from reducing contributions, but they cannot block the province from negotiating an "equitable" sharing of the surplus.

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principles and is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix ~~G~~H for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the Sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.
3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[10]), and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

[10] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

Commented [CV35]: We need to explain this
Lucy

LD- have added a footnote. As I don't think it really affects the accounting outcome either way and if anything only supports the longer term sharing of surpluses, I think it is sufficient.

Commented [CV36]: Not sure its an equal opportunity to benefit – more of an equal opportunity to direct **how** the sponsors benefit

LD - Osler's opinion page 17 states "In any event, based on the plan documentation, both parties will have an equal opportunity to benefit from surplus utilization through the negotiation process".

I think that softer language of only directing how the sponsors benefit and not that they have access to the benefit weakens the arguments significantly by taking it one step back.
It's a difference between saying they can negotiate the use of their share of the surplus (equal opportunity to benefit) and saying they can negotiate how the sponsors share the benefit, which is a bit different.

Commented [CV37]: Balance between who – taxpayers and teachers?
LD - Yes

Commented [CV38]: I think we need to include the concept of the Province indirectly benefiting from benefit increases re: taking a view of total compensation tha the Province pays and the interpretation from one of the firms in IAS 19

LD – to discuss. Per an earlier discussion with Alex (I think) they do not negotiate pensions vs salaries.
Ultimately I'm not sure that it is helpful because if you argue that using the surplus to increase past (or future) benefits is an equally valid benefit to the Province it's harder to argue why they would negotiate contributions in the future rather than increased benefits. As an increase in past benefits does not result in "expected future benefit" I struggle with this helping to support the Limit calculation.

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This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, should also be considered. As previously discussed in respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. Similarly as the sponsors agreed to restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

Commented [CV39]: Not sure this is previously discussed – please check – if not, I think this needs to be explained in more detail

LD – Should this be added to Appendix H and then a reference made to that from here? Appendix H seems to be discusses this relevant point, but only goes up to 2003, not sure why.
For Jim to add?

5. In the event that the Sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, the matter can be submitted to an arbitration board of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

   As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Commented [NP40]: Jim – please check and insert reference to mediation if a first step.

The FMP does not specifically discuss mediation.

~~Further to the discussion in Section PS 3250.052 regarding entitlement to benefits, PS 3250.059 provides further guidance where such benefits are expected to be realized through an entitlement to withdraw surplus. "A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal." PS 3250.59 is clear that expected future benefit available from surplus~~

Commented [LD41]: This is a repetition of an earlier paragraph.

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~~withdrawal can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. Section PS 3250.59 introduces the concept of a legally enforceable right, however it does so solely in the context of a government's future withdrawal of a Plan surplus, and not in the context of a government's reduction of future contributions. Had PSAB intended legal enforceability to be the test, they would have included that notion throughout the guidance (for example in paragraph .052), instead of only raising it in the context of a withdrawal of surplus.~~

~~The Province would not envision realizing any expected benefits through a withdrawal of surplus, but rather through contribution reductions or holidays. As such, from the Province's perspective, PS 3250.059 which deals with the situation of surplus withdrawals is not considered pertinent to the pension asset recognition or measurement analysis.~~

Commented [LD42]: Suggest deleting also. If we don't think it is pertinent then we should not include a whole section on "withdrawal of surplus" on the next page.
I am suggesting leaving in the withdrawal of surplus discussion for completeness and removing this pargraph, but an alternative approach would be to leave in this paragraph and delete the entire "Through withdrawal of the surplus" section.

Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS 3250.52.

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

Section PS 3250.53 to .58 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as ~~that expected future benefit is~~ defined in paragraph ~~.~~56.

Therefore in accordance with Section PS 3250.56 the Province calculated the expected future benefit as the sum of:

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

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

Each of these is discussed separately.

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Through withdrawal of the surplus (Section PS 3250.056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, paragraph 3250.059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

The TPA for OTPP does not specify a method for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

Commented [CV43]: Does or does not?

Does not – it is done through the funding management policy

> 10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:
>
> 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

> Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that"...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution. The Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus.

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Through reducing future contributions (Section PS 3250.056 (a))

PS 3250.56(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

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

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significant diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in this second part of the calculation. Note that consistent with the calculation of the expected future accruals for service, no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (3250.56(a)). ~~There is no guidance on the meaning of minimum contributions for purposes of this calculation in PS 3250.~~

There is no further guidance in S 3250 as to how the calculation of minimum required contributions~~is calculation~~ should be performed and what restrictions or parameters should be factored into this calculation. Typically for defined benefit plans minimum contributions include those that are required by the pension regulator to be made for funding. However, minimum contributions regardless of any surplus, may be required by plan text, legislation or other agreements with employees. For OTPP a key element of judgment is determining what contributions are required by the current plan arrangements "regardless of any surplus".

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Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.
- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible

DRAFT

contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

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

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external consultants to conduct asset ceiling tests to assess the requirement for a valuation allowance against the $10.1 billion of net pension assets reported by the Province for OTPP . The results of those reports are summarized here:

Commented [CV44]: Let think about how best to summarize the various modelling done – can we put the results in one table and then talk about each?

Also – I think we're missing the results of the modelling that was done assuming 50% of the surplus was used to improve benefits and 50% to reduce contributions until the CRA limit is reached – at which point only contributions are reduced.

Pauline has added the results of various models

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. No minimum employer contributions are required regardless of any surplus.	$44.6	There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present. This view leads to no reduction in the expected future benefit (EFB) where no minimum percentage of contributions exist in the plan

		provisions.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the valuation report and until a new report is completed. EFB is reduced by 2 years of $1.7B.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 10 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year horizon) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B in minimum funding requirement.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	Assumes the Government uses 50% of the surplus above the ITA surplus threshold for a contribution holiday and the employees use the other 50%. ITA limit for surplus is attained at end of 2025, leading to forced contribution reductions from year 2026. EFB is reduced by minimum employer funding requirements of $21.4B as at March 31, 2016
5. Every year, 50% of new surplus is applied to improve member benefits and the remaining 50% of the new surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and Government.	$12.9	ITA limit for surplus is attained at the end of 2041. As surplus used at 50% before to improve employee benefits, once ITA limit is attained, forced contribution reduction from year 2042. EFB is reduced by minimum employer funding requirement of $37.7B.

Note: Models above made no assumption on any value of the surplus withdrawal.

DRAFT

~~The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (3250.56(a)). There is no guidance on the meaning of minimum contributions for purposes of this calculation in PS 3250.~~

Under the Partners' Agreement, the parties are mandated to negotiate benefits and contributions every three years as a minimum and if agreement is not reached, it is reasonable to expect that a change in contributions might occur rather than the 'status quo' being retained.

For purposes of the OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

In addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between $19.9 Billion and $22.3 Billion); therefore indicating that no valuation allowance is required.

The determination of the minimum contribution levels required as input to the calculation of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty'.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have

DRAFT

an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44.

The OAG and the Government differ regarding whether it needs to be "expected" that the Government will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in paragraph .059. The Government considers that it needs to be expected that future economic benefits are to be obtained as reflected in the definition of an asset in Section PS 1000 and as reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to use a plan surplus.

Other guidance in the PSA Handbook on measurement

~~Furthermore~~ MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the current year financial statements. PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

> *.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.*
>
> *.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.*

Commented [CV45]: We have some content from 3120 above – should we consolidate?

Jim/Lucy to consider.

LD – I had viewed the content on 3210 as being part of the "recognition discussion" whereas here we are only talking about additional guidance to answer the measurement question, so I was not sure that consolidation would work in a logical manner because they are two separate sections of the paper. I'm open to alternative suggestions though.

The estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is an acceptable alternative under PSAB and consistent with rates followed by other senior Canadian governments. Historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets reported in the Public Accounts.

Impact of valuation allowance

The current AG's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no pension accounting surplus should be recognized in the Province's Public Accounts for JDBPs until the joint sponsor agrees to a change in the plan text for the Province to provide for unilateral authority to access surplus or reduce future contributions to enters into an agreement by year-end enabling the government to take a contribution holiday. In the absence of meeting either the criteria set out by the AG, any ABA would therefore be fully provided for through a valuation allowance, impacting each year's statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in which increased funding is made and also higher when poor investment returns create actuarial losses that have not yet been amortized into the statement of operations. These examples are illustrated in Appendix J. ~~requirements are higher and assets are therefore increasing or when greater investments returns are recorded. In contrast, under the AG's view, the Province's annual surplus/deficit would reflect a gain (income) in years when there are less than expected investment returns. **NTD – statements to be supplement by the visual aid requested by the Minister]**~~

Commented [CV46]: Need to flush this out – the situation where there is income generated is where there ends up being a net actuarial loss – I don't think that just having income less than that expected would necessarily create income.

LD – have clarified and included the slide deck as an appendix to illustrate

For information purposes, refer to Appendix D for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS. Of particular note is the impact in 2008 when the deficit would have be lower by $3 billion in a year when pension asset values fell significantly because of the financial crisis.

Comparability of Ontario accounting for JDBPs to other Provinces

DRAFT

Included in Appendix C is a legal opinion prepared by lawyers, Koskie Minsky, comparing access to the pension surplus of OTPP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTPP.

Quebec, Nova Scotia, Manitoba and New Brunswick also have pension plans that are in a net accrued benefit asset position before valuation allowance. In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the province's access to the plan assets. As a result, the Province of New Brunswick records the value of plan net assets as nil. Any info on SK or QC? (seem to recall mention of these at some point as well)

Commented [CV47]: Is this taken from the KM opinion?

No, from BC Controllership's response email.

Commented [LD48]: This sentence is accurate, but I don't believe the New Brunswick plans are joint defined benefit plans. I think it would be helpful to be clear on this point as they are not as comparable as, say, the BC plans because of this.

Commented [CV49]: Pauline should now have a full review of the other senior governments in Canada.

Added for New Brunswick. Still following-up on SK, Manitoba and Quebec

Conclusion on measurement

As discussed, there is significant professional judgement and estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

DRAFT

Appendix A – Guidance in the PSA Handbook - FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210

Guidance in FINANCIAL STATEMENT CONCEPTS, Section PS 1000

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

.36 Assets have three essential characteristics:

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

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

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [Former paragraph PS 1000.36 retained in Archived Pronouncements.]

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

(a) no future economic benefit;

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

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

(paragraph PS 1000.38 deleted) [Former paragraph PS 1000.38 retained in Archived Pronouncements.]

~~.39 **Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.~~

~~.40 A financial asset is any asset that is:~~

~~(a) cash;~~

~~(b) a realizable asset that is convertible to cash;~~

~~(c) a contractual right to receive cash or another financial asset from another party;~~

~~(d) a contractual right to exchange financial instruments with another party under conditions that are potentially favourable to the government;~~

~~(e) an equity instrument of another entity;~~

~~(f) an investment in a government business enterprise or government business partnership;~~

~~(g) a financial claim on an outside organization or individual; or~~

~~(h) an inventory or item for sale that meets the criteria in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.055. [Former paragraph PS 1000.40 retained in Archived Pronouncements.]~~

~~.41 Non-financial assets include tangible capital assets, and other assets such as prepaid expenses and~~

Commented [LD50]: Consider if it is relevant to include the paragraphs on financial vs non-financial assets. I don't think it is as it does not impact the analysis, so suggest they can be deleted.

~~inventories of supplies.~~

~~.42 **Non-financial assets** are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:~~

~~(a) are normally employed to deliver government services;~~

~~(b) may be consumed in the normal course of operations; and~~

~~(c) are not for sale in the normal course of operations.~~

RECOGNITION

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

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

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

.55 The recognition criteria are as follows:

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

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

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

.57 Purchased natural resources and Crown lands are recognized in government financial statements. However, when natural resources and Crown lands have been inherited by the government in right of the Crown and have not been purchased, they are not given accounting recognition as assets in

government financial statements. These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Similarly, art and historic treasures are also not recognized as assets.

.58 In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements. The intangible often called "human capital" that embodies the talent or intellectual capital of government employees is not recognized as an asset under existing accounting principles.

.59 Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied. Accrual accounting recognizes an asset until the future economic benefit underlying the asset is partly or wholly used or lost.

~~MEASUREMENT~~

~~.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.~~

~~(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.~~

~~(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.~~

~~.61 Present value is the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. Present value is not a basis of measurement, but a valuation technique that may be used within historical cost based or current value models. This technique is used in the government reporting model, for example, to estimate the cost of retirement benefits, when determining the estimated total expenditure for closure and post closure care of a solid waste landfill site, and when determining the "grant portion" of concessionary loans and portfolio investments.~~

~~.62 Government financial statements are prepared on the basis that recognized economic resources used up are measured in financial terms with no adjustments made for the effect of a change in the general purchasing power of the currency during the period. Although a government's performance in the management of its service potential 2 is generally a focus more appropriate to the nature and objectives of government, it cannot entirely be measured in financial terms.~~

~~2. Service potential embodies both the quality of service provided and the efficiency with which it is provided.~~

Commented [LD51]: I'm also not convinced of the need to include the measurement guidance from Section 1000 as I don't think it is particularly pertinent to the discussion.

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~~.63 Financial statements are prepared on the assumption that the government is a going concern, meaning it will continue in operation, and will be able to realize assets and discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future.~~

Guidance in ASSETS, Section PS 3210

Economic resources

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

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

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

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

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

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

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

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

.09 Economic resources can be:

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

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

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

Future economic benefits

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

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

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

public sector resources generate cash inflows because they have user fees associated with them.

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

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

Control

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

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

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

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

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

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

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

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

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

.22 Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. For example, a public sector entity may control the economic resource and access to the future economic benefits through a capital lease arrangement yet not own the economic resource.

.23 A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset. A public sector entity may establish the regulatory environment in an

industry or sector within which organizations operate and impose conditions or sanctions on their operations. For example, a pollution control authority may have the ability to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority's interest extends only to the regulatory use of the economic resources and does not include the ability to control access to the future economic benefits.

.24 A public sector entity may act as trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the public sector entity merely administers the assets, following the terms and conditions set out in the agreement. It does not control the asset because it does not have access to the future economic benefits. Those benefits flow to the beneficiaries.

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Appendix B - Definitions of a Joint Defined Benefit Plan and Government Partnership

The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, paragraph PS 3060.06. GOVERNMENT PARTNERSHIP, Section PS 3060 was introduced into the PSA Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. RETIREMENT BENEFITS, Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A **government partnership** is not a government organization but is a contractual arrangement [2] between the government and a party or parties outside of the government reporting entity [3] that has all of the following characteristics:	A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners co-operate toward achieving significant clearly defined common goals;	(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the	Consistent in concept with the definition of a GP focusing on investments in the partnership and the

		non-government sponsor;	definition of a JDBP focusing on contributions into the plan.
Criteria 3	(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and	(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.	(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the	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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	government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

In addition to consistent wording, the concepts in the definitions of a government partnership and a joint defined pension plan are similar.

While similar in concept and wording, the definition of a joint defined pension plan is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including joint defined pension plans.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates "*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]". This principle is consistent with the proportionate consolidation method included in Section PS 3060.

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Appendix C – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners'

Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan ("PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

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In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[11] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect

[11] It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

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to ongoing PSPP surpluses

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the

same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.
1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize 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.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

We trust that these comments have been of assistance to you. Should you have any questions in regard to them, please do not hesitate to contact the undersigned.

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Appendix D - Comparison of key measurements of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS.

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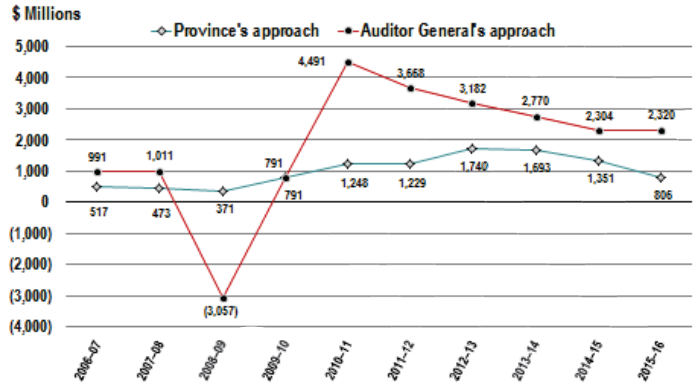
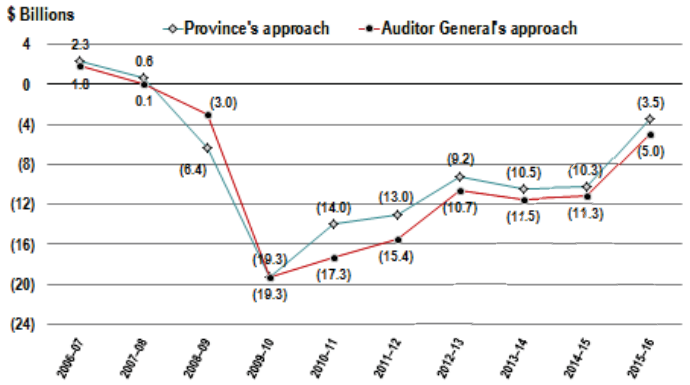
Pension expense comparison — 10-year Chart 1



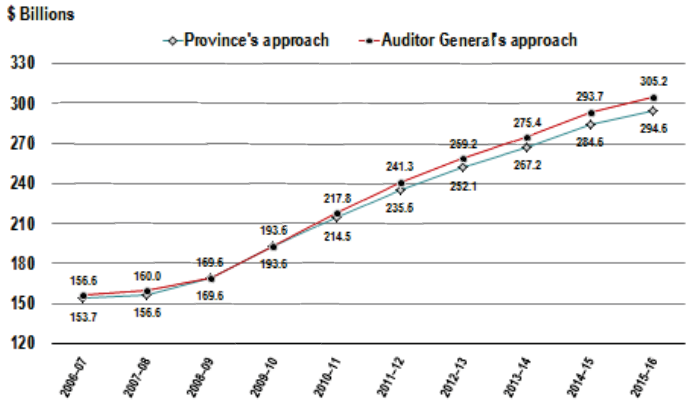
Surplus/(deficit) comparison — 10-year

Chart 2

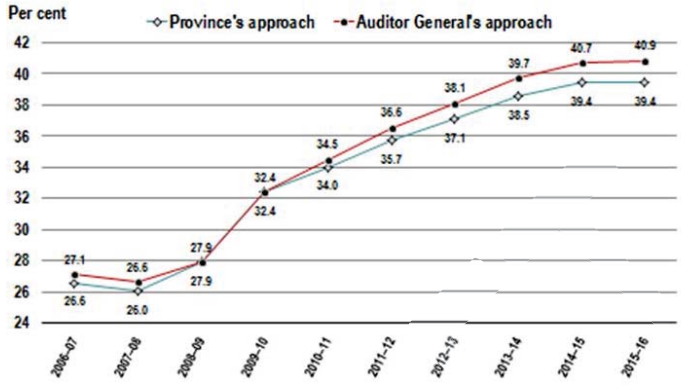


Net debt comparison — 10-year

Chart 3



Net debt-to-GDP comparison — 10-year Chart 4



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Appendix E – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities

Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Act and to the Partners' Agreement and FMP in order to determine how ongoing surplus is dealt with under the OTPP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the Teachers' Act provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the Pension Benefits Act, appointing the OTTP Board, and defining the role of the Board. By contrast, section 19 of the Partners Agreement sets out the responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the Sponsors to the OTPP have the authority to utilize ongoing surpluses. The process governing the use of ongoing surpluses by the Sponsors is set out in the Partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every

Commented [LD54]: JIM
Can you also insert references to Sections 10 and section 57.
Also to Section 58 to 60 that are relevant.
Section 19 requires a valuation to be prepared every three years.
This is also important.

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three years (section 73).

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

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

Section 77 of the Partners' Agreement anticipates that the Sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

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

We note that the mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the Sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the Sponsors do not agree to file the valuation, then the Sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

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

Funding Management Policy (FMP)
The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and

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how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP.
The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:
i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

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

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

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

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the Sponsors mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners; Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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Appendix F – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	**(405)**	**29**	**221**	**241**	**250**	**305**
Expense increase (reduction) in valuation Allowance						
Pension Expense after valuation Allowance	**(405)**	**29**	**221**	**241**	**250**	**305**

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772
Adjustment for different year ends	529	650	687	764	774
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220
Pension liability (Asset) at March 31 Reported before any valuation	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	998	1,051	1,118	1,175	1,217
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(146)	38	34	30	(4)
Pension expense before valuation	**359**	**354**	**60**	**266**	**523**
Expense increase (reduction) in valuation Allowance					
Pension Expense after valuation Allowance	**359**	**354**	**60**	**266**	**523**

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Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**(10,147)**
Valuation Allowance	**-**	**-**	**-**	**-**	**10,147**
Pension Liability (Asset) after valuation Allowance	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**-**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	**519**	**892**	**875**	**569**	**118**
Expense increase (reduction) in valuation Allowance					**1,480**
Pension Expense after valuation Allowance	**519**	**892**	**875**	**569**	**1,598**

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Appendix G - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP [Tables are to be updated]

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

1

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	3.25%	Market rate of Provincial Bonds

2

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	5.95%	LT return on plan assets
Alberta				
Teachers' Post-1992 Pension Plan	7.00%	LT return on plan assets	7.25%	LT return on plan assets
Universities Academic Pension Plan	6.10%	LT return on plan assets	6.25%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)				
Local Authorities Pension Plan	5.80%	LT return on plan assets	5.80%	LT return on plan assets
Public Service Pension Plan	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Management Employees Pension Plan	6.40%	LT return on plan assets	6.40%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.75%	LT return on plan assets	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Special Forces Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan				
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.80%	LT return on plan assets	6.80%	LT return on plan assets
British Columbia				
Public Service Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec				
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	6.40%	LT return on plan assets less inflation
Newfoundland				
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets
Nova Scotia				
Nova Scotia Public Service Superannuation Plan (PSSP)	6.75%	LT return on plan assets	6.35%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	6.40%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba				
Civil Service Superannuation Plan	6.00%	LT return on plan assets	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.50%	LT return on plan assets	6.25%	LT return on plan assets

7

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Appendix ~~H~~G – History of Surplus Utilization for OTPP

Commented [LD55]: Two Appendix G's

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining	$0

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			special payments	
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion		

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the Sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

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Appendix ~~H~~ I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

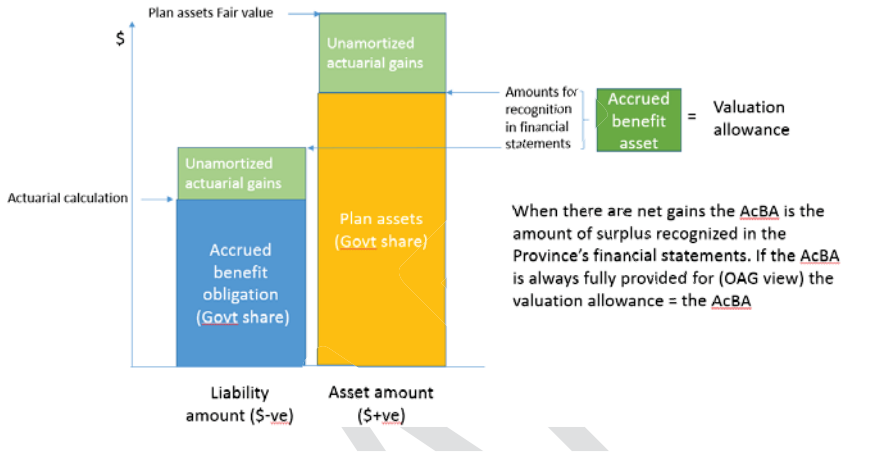
Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.
Actuarial cost method	*[To confirm – not clear from the valuation report]*	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation]	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. The Province uses adjusted market values for some classes of assets in certain plans.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate.	In measuring a pension obligation amount, the defined benefit obligation amount determined by the	Not specified. However two methods are specifically acknowledged – a)

	For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation]	plan's sponsor may be (but is not required to be) used. Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[12] The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.
Underlying population data	All valuation methodologies should use consistent underlying data of the population covered by the plan		
Inflation rate	All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Demographic assumptions	All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Other economic assumptions	All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		

[12] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

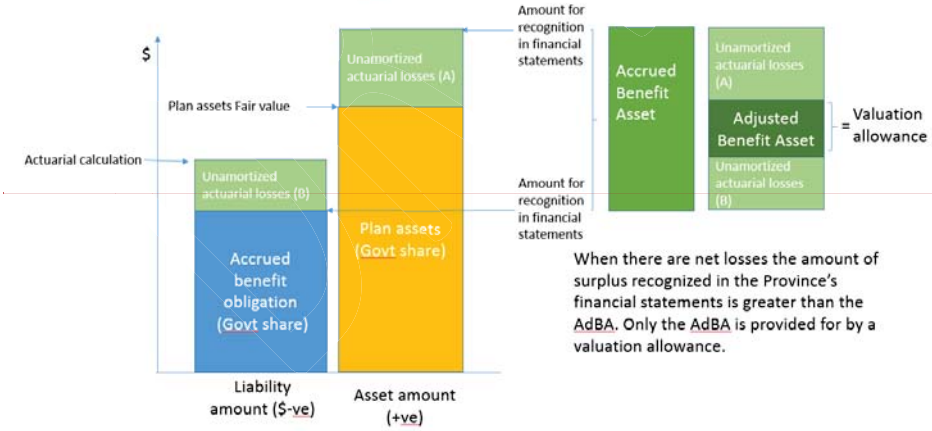
Appendix J – Impact of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses

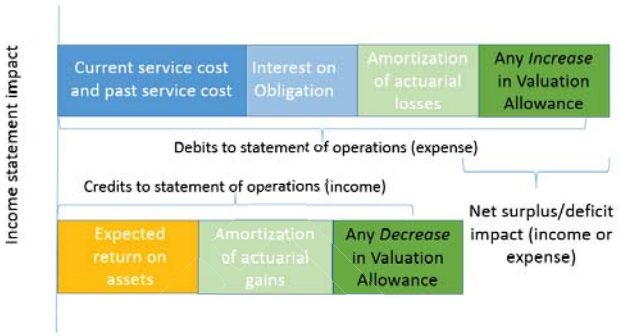


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the AdBA. Only the AdBA is provided for by a valuation allowance.

Components of Expense

The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

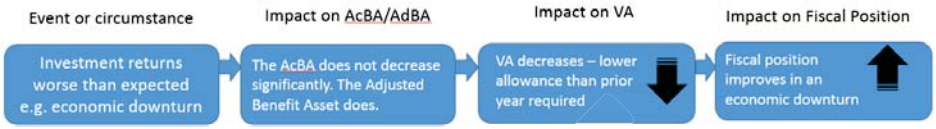
Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]

Event or circumstance	Impact on ABA	Impact on VA	Impact on Fiscal position
Contributions in excess of current service cost – i.e. additional funding	Plan assets increase more than the ABO ↑	VA increases to reduce ABA to zero ↑	Fiscal position worsens with additional funding ↓
2015-2016 example: Contributions of $1,812M exceeded other elements of pension expense by $1,514M	2015-2016 example: Additional contributions increase plan assets. AcBA increases by $1,514M	2015-2016 example: AcBA increase of $1,514M results in an increase to the VA of $1,514M	2015-2016 example: Deficit increases by $1,514M. The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.

Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

DRAFT

Re_ Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Keates, James (TBS) [James.Keates@ontario.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx
Date: Wednesday, October 26, 2016 17:40:24

Thanks Lucy.
Please let us know your availability for a call later this week/early next week. N
From: lucy.durocher@ca.pwc.com
Sent: Wednesday, October 26, 2016 4:45 PM
To: Petsche, Nadine (TBS)
Cc: Keates, James (TBS)
Subject: Re: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx

Hi Nadine,

I have some suggested edits made to the attached and have also added responses into the comments where I thought my input was appropriate to explain the edits or explain no edits in some cases.

I also want to take a "clean" read of this later to make sure it flows.

In respect to the footnote 3 in 3060, it might be better to have a quick call to discuss how best to approach this.

Regards,
Lucy

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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/25/2016 04:32 PM
Subject: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx

---

Lucy,

As discussed, attached is the updated version of the paper reflecting additional edits from staff (track changes). Some additional work being done on interjurisdictional analysis that will follow.
Please let us know if you would like to discuss, and feel free to get in touch with Jim directly.
N[attachment "Draft Pension Asset Position Paper Oct 22 np to ld with responses np2_cvnp v2.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Draft Position Paper.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Re: Draft Position Paper
Date: Saturday, October 22, 2016 09:44:39

Thanks Lucy. I'll review and connect on any questions. Nadine

From: lucy.durocher@ca.pwc.com
Sent: Saturday, October 22, 2016 8:49 AM
To: Petsche, Nadine (TBS)
Subject: Re: Draft Position Paper

Hi Nadine,

Please see attached the revised position paper. I attach a tracked changes for reference (although I moved lots of paragraphs around so it looks like more red ink then it really is). I also attach a clean version for ease of reading and as I assume that Cindy would read a clean version. I thought you might want to take a look before passing on to Cindy, but let me know if you would like me to forward the clean version to Cindy directly.

In respect of the outstanding questions from the differences between the various valuations. I have left highlighted comments in the appendix for where these should be resolved. Specifically they include:

- In respect of the funding valuation for OTTP - What is the actuarial cost method used? The valuation report indicates that it might diverge from those required by regulation and applies that required by the TPA, but it is not clear to me what the basis for this is - whether it is the projected benefit method pro rated on services or another method.
- In respect of the funding valuation for OTTP - What was the asset valuation methods actually used? Was it a combination of all of the methods listed (depending on class of asset) or some other approach.
- In respect of the funding valuation for OTTP - What was the "best estimate" approach used in the going concern funding valuation before an adjustment for adverse deviations - Can it be confirmed as being an asset return amount or was it based on fixed income investments.
- In respect of the funding valuation and OTTP financial statements - Were the best estimates for other assumptions consistent with those used by the Province in their pension surplus calculations under PSAS. If the same "Management" is making the assumptions one would expect them to be the same. However, if different management is making those judgements then the actual estimates could be different - for example if the OTPP board determines the inflation rate for use in the OTTP financial statements and the funding valuation but the Province separately determines the inflation rate used in their PSAS calculations.

Please let me know if you have any questions. I will work on the "visual aid" of the impacts of the asset valuation this weekend.

Lucy

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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: 10/21/2016 04:16 PM
Subject: Draft Position Paper

Thanks for the update Lucy. I'm sure that Cindy won't mind receiving it tomorrow morning. I'll look forward to reviewing the draft.
Take care,
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 21, 2016 4:15 PM
To: Petsche, Nadine (TBS)
Subject: RE: Draft input to position paper (background)

Hi Nadine,

The paper is coming together, but it is taking a bit longer then I expected. I'd like to work on it a bit more this evening, so "end of day" today seems a bit ambitious. Would you rather than I send you what I have at end of day (5pm) for you to circulate for initial comments from Cindy or send it later, say tomorrow morning.

Let me know.

Lucy

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Re_ Draft SOW for your review.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Draft SOW for your review
Date: Friday, September 16, 2016 16:21:58
Attachment 1: PWC SOW Pensions Accounting Opinion 20160915.docx
Attachment 2: PWC SOW Pensions Accounting Opinion 20160915 Compare .docx

---

Hi Nadine,

Please see attached draft SOW for my comments (Clean and compare version to the one Shyrose sent over.

I did a couple of questions on the SOW

- I'm not sure what "General Consultant, Level 2" and "Service Category 2" means in terms of your expectations. Based on the cap and trade SOW I believe that partners are equivalent to a "level 2" so I have left as is, but any guidance on this would be helpful.
- Names and Roles of Vendor Personnel - For an accounting opinion there will be a number of internal levels of review in addition to the technical analysis (a quality review partner and review by our Chief Accountant). Should I list the names of the partners expected to do the internal review as well, although they will not be directly involved in the reading of the source documentation and analysis. I have currently listed them. (Note the quality review partner is still TBC based on availability).
- I changes some of the references to the Master agreement to be consistent with that in our Cap and Trade SOW as I assume it is the same master agreement as for that arrangement. Please confirm. These are highlighted in the "compare" document

- In terms of making of the document available to public, we do usually request that consent is obtained from us when making use or referring to the opinion publicly. This is because it is an opinion, and we would be associated with any document that includes our report. We have certain responsibilities under the current association rules in the CPA Canada Handbook - Assurance. Therefore I am proposing the following language, which just requests that you obtain our consent before referencing our opinion, so we can ensure that the context is appropriate to the work that we performed.

The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.

- Please note I put in a maximum amount of $60,000 - I do not think that it will be this amount (or likely anywhere close), but as it is uncertain how many hours will be required and whether it will be an opinion or not, I left it with ample room. Please let me know if you would like it reduced and what your suggested cap would be.

- Please note the acknowledgements and agreements are consistent with those in the cap and trade agreement, amended where appropriate for these circumstances.

Please let me know whether this is satisfactory to you or if you have any questions on the edits. I have received the information from Shyrose and will start work this weekend, assuming the terms of the SOW

are agreed.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/16/2016 12:38 PM
Subject: Draft SOW for your review

Lucy,
Further to your discussion with Nadine Petsche, Director of Accounting Policy and Financial Reporting, please find attached a copy of the draft SOW for the work related to pensions accounting.
Please provide your suggested edits directly to me. Please call if you have any questions or would like to discuss.
Thanks.
Shyrose Virani
416 325 1448[attachment "PWC SOW Pensions Accounting Opinion 20160915.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

This e-mail is intended only for the person to whom it is addressed (the "addressee") and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use that a person other than the addressee makes of this communication is prohibited and any reliance or decisions made based on it, are the responsibility of such person. We accept no responsibility for any loss or damages suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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PWC SOW Pensions Accounting Opinion 20160915.pdf

Statement of Work for Management Consulting Services

This Statement of Work no. **OPCD-PWC-01** is made in duplicate and effective September 16, 2016.

PricewaterhouseCoopers LLP (the "Vendor" or "PwC") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client" or the "Province") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of March 22, 2016 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

Commented [LD1]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was March 22, 2016, so I am assuming it would be the same date for purposes of this SOW. Please confirm.

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$60,000.00, excluding HST.

4. *Project Start Date:* September 16, 2016.

5. *Project End Date:* December 31, 2016.

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

   The Vendor shall provide accounting advice (the "accounting advisory services") regarding the acceptability of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards. The accounting advice may include:

   - Review of background information, position papers developed by the Client or third parties that have been engaged by the Client to draft accounting positions on accounting for the recognition and measurement of pension assets for jointly-sponsored pension plans, and other supporting information.
   - Provide written or oral comments on draft position papers as provided by the Client with respect to the application of Canadian Public Sector Accounting Standards.
   - Participation in discussions with internal and external stakeholders and other parties as directed by the Client.

   During the course of this project, the Client will provide to PwC a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of

any relevant disagreements with the Client's auditor; and the Client's auditor will confirm to us in writing that the information the Client has provided to PwC is complete and consistent with their knowledge of the facts and circumstances of the specific transaction.

If requested to by the Client during the course of the project, the Vendor shall provide an accounting opinion (the "accounting opinion"), prepared in accordance with Section 7600, *Reports on the application of accounting principles* of the CPA Canada Handbook – Assurance ("Section 7600"), regarding the appropriateness of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards.

Vendor may be required to participate in meetings with the Client and other stakeholders, and to support the Client with respect to the Vendor's accounting advice or accounting opinion (if applicable), including discussions with the Office of the Auditor General.

The Client agrees that any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC, other than an accounting opinion prepared in accordance with Section 7600, will not be made available to any other persons or entities. However the Client may provide access to PwC's observations to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.

Acknowledgements and agreements

The Client acknowledges and agrees to the following:

a. The performance of the accounting advisory services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada ("CPA Canada") and, therefore, PwC will not express an opinion or any other form of assurance with respect to the accounting advisory services.
b. The accounting advisory services and accounting opinion (if applicable) to be provided do not include the delivery of any verbal or written advice on the application of accounting principles to a hypothetical transaction.
c. This engagement cannot be relied on to disclose internal control deficiencies, errors or fraud, should they exist.
d. PwC has no responsibility for updating the accounting advisory services or accounting opinion or for performing any additional services, except as agreed to in writing with the Client.
e. The Client's purpose for engaging PwC to perform the accounting advisory services is to supplement management's own technical accounting resources in performing accounting analysis and to assist management in making its determination as to the application of accounting principles and not to obtain an opinion from PwC as to such application, unless an accounting opinion is requested by the Client.
f. The Client shall be solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) designating one or more individuals who possess suitable skill, knowledge and/or

experience, preferably within senior management to oversee the accounting advisory services (c) evaluating the adequacy and results of the accounting advisory services; (d) accepting responsibility for the results of the accounting advisory services; and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

g. All management decisions and final conclusions reached in connection with the accounting advisory services will be the responsibility of the Client. PwC will not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of the Client.
h. PwC has no responsibility related to the Client's accounting or disclosure conclusions, whether or not such conclusions of the Client are related to the accounting advisory services and PwC has no responsibility for any disagreements between the Client and its independent auditor related to the Client's accounting.
i. The Client will be solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the accounting advisory services do not include the recording of any amounts in the Client's books or records. All amounts derived from the performance of the accounting advisory services will be reviewed and approved by, and will be the responsibility of, the Client's management.
j. The nature, scope and design of the accounting advisory services and the accounting opinion are solely the responsibility of the Client. PwC will rely, without independent verification, on the facts, information and assumptions provided by the Client. PwC will make no representation nor provide any assurance with respect to the adequacy of the services for the Client's purposes. Furthermore, PwC has no responsibility to advise the Client of other procedures that might be performed.
k. The Client will be solely responsible for providing accurate and complete information requested by PwC. PwC has no responsibility for the accuracy or completeness of the information provided by or on behalf of the client.
l. PwC's accounting and technical assistance will be based on the existing public sector generally accepted accounting principles. Should those generally accepted accounting principles be amended, superseded or revised in any manner, PwC's advice might change. PwC has no responsibility to inform the Client of any changes in generally accepted accounting principles that may occur after the completion of the engagement or any other oral or written work product prepared hereunder that would impact PwC's advice on the appropriate application of generally accepted accounting principles or to update its recommendations or any other oral or written work produce to take any such changes into account.
m. This engagement does not create a relationship between PwC and any person or party other than the Client. This engagement is not intended for the express of implied benefit of any third party.
n. The Client will identify an appropriate individual to serve as the project manager, including overseeing the accounting advisory services.

7. *Ownership and Licences* - **Attachment D** of the Master Agreement forms a part of this Statement of Work.

Commented [LD2]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was attachment D, so I am assuming it would be the same attachment for purposes of this SOW. Please confirm.

8. *Communications and Reporting* - The structure of Vendor's working relationship with OPCD is vital to the success of their engagement. Vendor's main point of contact will be Lucy Durocher who is the engagement leader.

9. *Work Location* - All meetings will be within the Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive. If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. *Charges On Per Diem Rate Basis*– The Vendor and the Client agree that Work performed under this Statement of Work will be charged on a Per Diem Rate basis. The Per Diem Rate will vary, based on the nature of the final deliverable, as follows:

Nature of final deliverable	Per Diem Rate	Service Category	Estimated hours	Per Diem Rate
Accounting Advisory	General Consultant, Level 2	Service Category 2	20-25	$390
Accounting Opinion	General Consultant, Level 2	Service Category 2	30-35	$990

13. *Billing and Payment Process* – The Vendor shall invoice the Client in accordance with the requirements of the Master Agreement. Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Individual's Legal Name	Individual's Role and Experience Level	Service Category	Per Diem Rate
Lucy Durocher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"
Martin Boucher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"
Sean Cable (TBC)	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"
Michael Walke	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"

14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

Client:	Treasury Board Secretariat, Office of the Provincial Controller Division
Branch:	Accounting Policy and Financial Reporting
Representative:	Nadine Petsche
Title:	Director, Accounting Policy and Financial Reporting
Phone number:	416-325-8027
Email:	Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Clients designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all Confidential information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards

requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416-325-8027**
E-mail:	**Nadine.petsche@ontario.ca**

18. *Vendor Representative and Receipt of Notices*

Vendor's address for receipt of notices:	**PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2**
Vendor Representative:	**Lucy Durocher**
Telephone number:	**416-869-2311**
E-mail:	**Lucy.durocher@ca.pwc.com**
Backup Vendor Representative:	**Martin Boucher**
Telephone number:	**514-205-5415**
E-mail:	**Martin.boucher@ca.pwc.com**

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by The President of the Treasury Board

Per:

Signature: _____

Name: _____

Title: _____

Pursuant to delegated authority.

PRICEWATERHOUSECOOPERS LLP

Per:

Signature: _____

Name: _____

Title: _____

I have the authority to bind the Vendor.

PWC SOW Pensions Accounting Opinion 20160915 Compare .pdf

Statement of Work for Management Consulting Services

This Statement of Work no. **OPCD-PWC-01** is made in duplicate and effective ~~[insert date].~~September 16, 2016.

PricewaterhouseCoopers LLP (the "Vendor" or "PwC") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client~~"~~)" or the "Province") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of ~~June 16, 2014~~ March 22, 2016 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

Commented [LD1]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was March 22, 2016, so I am assuming it would be the same date for purposes of this SOW. Please confirm.

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$~~xx~~060,000.00, excluding HST.

4. *Project Start Date:* September ~~15~~16, 2016.

5. *Project End Date:* December 31, 2016.

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

   The Vendor shall provide ~~an accounting opinion~~accounting advice (the "accounting advisory services") regarding the acceptability of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards. The accounting advice may include:

   - Review of background information, position papers developed by the Client or third parties that have been engaged by the Client to draft accounting positions on accounting for the recognition and measurement of pension assets for jointly-sponsored pension plans, and other supporting information.
   - Provide written or oral comments on draft position papers as provided by the Client with respect to the application of Canadian Public Sector Accounting Standards.
   - Participation in discussions with internal and external stakeholders and other parties as directed by the Client.

During the course of this project, the Client will provide to PwC a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of any relevant disagreements with the Client's auditor; and the Client's auditor will confirm to us in writing that the information the Client has provided to PwC is complete and consistent with their knowledge of the facts and circumstances of the specific transaction.

If requested to by the Client during the course of the project, the Vendor shall provide an accounting opinion (the "accounting opinion"), prepared in accordance with Section 7600, *Reports on the application of accounting principles* of the CPA Canada Handbook – Assurance ("Section 7600"), regarding the appropriateness of the Province's accounting treatment and measurement of pension assets for jointly-sponsored ~~pensions~~pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards.

Vendor may be required to participate in meetings with the Client and other stakeholders, and to support the Client with respect to the Vendor's accounting advice or accounting opinion~~,~~ (if applicable), including discussions with the Office of the Auditor General.

~~Vendor~~The Client agrees that ~~the~~any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC, other than an accounting opinion ~~or a summary of it~~prepared in accordance with Section 7600, will not be made available to any other persons or entities. However the Client may ~~be disclosed by Ontario to the public,~~provide access to PwC's observations to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.
~~[insert other services/deliverables required.~~

Acknowledgements and ~~any terms~~agreements

The Client acknowledges and ~~conditions in respect~~ agrees to the following:

a. The performance of the accounting advisory services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada ("CPA Canada") and, therefore, PwC will not express an opinion~~.~~ or any other form of assurance with respect to the accounting advisory services.

b. The accounting advisory services and accounting opinion (if applicable) to be provided do not include the delivery of any verbal or written advice on the application of accounting principles to a hypothetical transaction.
c. This engagement cannot be relied on to disclose internal control deficiencies, errors or fraud, should they exist.
d. PwC has no responsibility for updating the accounting advisory services or accounting opinion or for performing any additional services, except as agreed to in writing with the Client.
e. The Client's purpose for engaging PwC to perform the accounting advisory services is to supplement management's own technical accounting resources in performing accounting analysis and to assist management in making its determination as to the application of accounting principles and not to obtain an

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opinion from PwC as to such application, unless an accounting opinion is requested by the Client.

f. The Client shall be solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) designating one or more individuals who possess suitable skill, knowledge and/or experience, preferably within senior management to oversee the accounting advisory services (c) evaluating the adequacy and results of the accounting advisory services; (d) accepting responsibility for the results of the accounting advisory services; and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

g. All management decisions and final conclusions reached in connection with the accounting advisory services will be the responsibility of the Client. PwC will not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of the Client.

h. PwC has no responsibility related to the Client's accounting or disclosure conclusions, whether or not such conclusions of the Client are related to the accounting advisory services and PwC has no responsibility for any disagreements between the Client and its independent auditor related to the Client's accounting.

i. The Client will be solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the accounting advisory services do not include the recording of any amounts in the Client's books or records. All amounts derived from the performance of the accounting advisory services will be reviewed and approved by, and will be the responsibility of, the Client's management.

j. The nature, scope and design of the accounting advisory services and the accounting opinion are solely the responsibility of the Client. PwC will rely, without independent verification, on the facts, information and assumptions provided by the Client. PwC will make no representation nor provide any assurance with respect to the adequacy of the services for the Client's purposes. Furthermore, PwC has no responsibility to advise the Client of other procedures that might be performed.

k. The Client will be solely responsible for providing accurate and complete information requested by PwC. PwC has no responsibility for the accuracy or completeness of the information provided by or on behalf of the client.

l. PwC's accounting and technical assistance will be based on the existing public sector generally accepted accounting principles. Should those generally accepted accounting principles be amended, superseded or revised in any manner, PwC's advice might change. PwC has no responsibility to inform the Client of any changes in generally accepted accounting principles that may occur after the completion of the engagement or any other oral or written work product prepared hereunder that would impact PwC's advice on the appropriate application of generally accepted accounting principles or to update its recommendations or any other oral or written work produce to take any such changes into account.

m. This engagement does not create a relationship between PwC and any person or party other than the Client. This engagement is not intended for the express of implied benefit of any third party.

n. The Client will identify an appropriate individual to serve as the project manager, including overseeing the accounting advisory services.

7. *Ownership and Licences* - **Attachment ~~E~~ D** of the Master Agreement forms a part of this Statement of Work.

Commented [LD2]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was attachment D, so I am assuming it would be the same attachment for purposes of this SOW. Please confirm.

8. *Communications and Reporting* - The structure of Vendor's working relationship with OPCD is vital to the success of their engagement. Vendor's main point of contact will be [insert name],Lucy Durocher who is the [insert title].engagement leader.

9. *Work Location* - All meetings will be within the Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive. If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. [*Charges On Per Diem Rate Basis*– The Vendor and the Client agree that Work performed under this Statement of Work will be charged on a Per Diem Rate basis.] [TBD]. The Per Diem Rate will vary, based on the nature of the final deliverable, as follows:

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Nature of final deliverable	Per Diem Rate	Service Category	Estimated hours	Per Diem Rate
Accounting Advisory	General Consultant, Level 2	Service Category 2	20-25	$390
Accounting Opinion	General Consultant, Level 2	Service Category 2	30-35	$990

13. *Billing and Payment Process* – The Vendor shall invoice the Client in accordance with the requirements of the Master Agreement. Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Individual's Legal Name	Individual's Role and Experience Level	Service Category	Per Diem Rate [TBD]
[insert name]Lucy Durocher	General Consultant, Level 2	Service Category 2	$See "charges on a per diem rate basis"
[insert name]Martin Boucher	General Consultant, Level 2	Service Category 2	$See "charges on a per diem rate basis"
[insert name]Sean Cable (TBC)	General ConsultantQuality reviewer, Level 2	Service Category 2	$See "charges on a per diem rate basis"
Michael Walke	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"

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[Note to Draft: Confirm role and experience level and service category.]

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14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

Client:	Treasury Board Secretariat, Office of the Provincial Controller Division
Branch:	Accounting Policy and Financial Reporting
Representative:	Nadine Petsche
Title:	Director, Accounting Policy and Financial Reporting
Phone number:	416-325-8027
Email:	Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Clients designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all Confidential information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416-325-8027**
E-mail:	**Nadine.petsche@ontario.ca**

18. *Vendor Representative and Receipt of Notices*

Vendor's address for receipt of notices:	~~[insert address]~~PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
Vendor Representative:	~~[insert name and title]~~Lucy Durocher
Telephone number:	~~[insert telephone number]~~416-869-2311
E-mail:	~~[insert email address]~~Lucy.durocher@ca.pwc.com
Backup Vendor Representative:	~~[insert name]~~Martin Boucher
Telephone number:	~~[insert telephone number]~~514-205-5415
E-mail:	~~[insert email address]~~Martin.boucher@ca.pwc.com

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by The President of the Treasury Board

Per:

Signature: _____

Name: _____

Title: _____

Pursuant to delegated authority.

PRICEWATERHOUSECOOPERS LLP

Per:

Signature:

Name: _____

Title: _____

I have the authority to bind the Vendor.

Re_ Draft memo - sections 3 and 4.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]
Subject: Re: Draft memo - sections 3 and 4
Date: Thursday, September 01, 2016 13:46:46

Hi Nadine,

I am on vacation this week. I think it would be better to defer until you have had a chance to review.

Lucy

Sent from my iPhone

On Sep 1, 2016, at 12:11 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> Thanks for sending the document. Ian and I have both been extremely busy with Public Accounts related matters and haven't had a chance to review it yet. We were wondering if we should plan to proceed with today's call or defer it until we've had a chance to review. Perhaps we could use the call for you to walk us through the report?
>
> Thanks.
>
> Nadine
>
> **From:** lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
> **Sent:** August 31, 2016 2:35 PM
> **To:** Petsche, Nadine (TBS); Provis, Ian (TBS)
> **Cc:** michael.hawtin@ca.pwc.com
> **Subject:** Draft memo - sections 3 and 4
>
> Hi Nadine and Ian
>
> Please find Sections 3 and 4 of the draft memo for your consideration as to the preliminary conclusions and analysis performed.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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Re_ ETA on feedback_.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: ETA on feedback?
Date: Sunday, September 25, 2016 09:34:27

Not before 10.

Lucy Durocher
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PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/25/2016 09:31 AM
Subject: ETA on feedback?

Just checking. Have a meeting at 10. N

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toutes les copies.

Re_ Expert Panel.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Expert Panel
Date: Saturday, December 03, 2016 09:40:13

Thank you Nadine. I will be there.

Is it possible for you to share the agenda with me in advance?

Thank you.

Lucy

Sent from my iPad

On Dec 2, 2016, at 12:42 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> I have been advised that the necessary approvals and paperwork will be in place for you to start an engagement for the Expert Advisory Panel on Monday, December 5th. Please plan to arrive on Monday around 8:30 am and call Shyrose upon arrival (51448).
>
> Thanks and have a great weekend.
>
> Nadine

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Re_ Expert Panel - end of work.rtf

From: Petsche, Nadine (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: Re: Expert Panel - end of work
Date: Monday, March 27, 2017 10:49:34
Attachment 1: image001.gif

Good morning Uros. Thank you for your email. Since your work on the Panel is complete, we look forward to your participation on the pension engagement following your PSAB taskforce meetings.
Best regards,
Nadine

From: Uros Karadzic
Sent: Monday, March 27, 2017 9:14 AM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani; Christina Chan
Subject: Expert Panel - end of work

Hi Nadine,

I've just submitted my timesheet to Nelson for the Expert Panel work. I believe we are now done, although my understanding is that the official mandate only ends on 31st.

I'm in all-day PSAB Taskforce meetings until Thursday, but following that please let me know if you're now comfortable with me joining Shayan and Christina.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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image001.pdf

Re_ Expert Panel.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Re: Expert Panel
Date: Saturday, December 03, 2016 17:13:50

Hi Lucy.
Just wanted to let you know that I've requested a copy of the agenda, but still haven't received it. I'll forward it when I get it.
Take care,
Nadine

From: lucy.durocher@ca.pwc.com
Sent: Saturday, December 3, 2016 8:40 AM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: Re: Expert Panel

Thank you Nadine. I will be there.

Is it possible for you to share the agenda with me in advance?

Thank you.

Lucy

Sent from my iPad

On Dec 2, 2016, at 12:42 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> I have been advised that the necessary approvals and paperwork will be in place for you to start an engagement for the Expert Advisory Panel on Monday, December 5th. Please plan to arrive on Monday around 8:30 am and call Shyrose upon arrival (51448).
>
> Thanks and have a great weekend.
>
> Nadine

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Re_ FW_ Pension file.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: FW: Pension file
Date: Thursday, November 24, 2016 16:06:29

I'm glad it went well.

Lucy

Lucy Durocher
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 11/24/2016 02:55 PM
Subject: FW: Pension file

Hi Lucy.
Sorry I had to leave before the meeting was over. I had another external meeting I had to get to which started at 12:15.
With regards to your note below, the Panel discussion went very well. The position paper and accompanying deck provide some very useful background and perspective on the complex accounting considerations, as well as background info on ON plans and comparative plans.
The Panel was very inquisitive and I believe we were able to answer most of their questions. A number of presenters were asked to address the Panel as well to share additional details on the plans and how they work.

Please feel free to send the invoice.
Thanks again.
Nadine

From: lucy.durocher@ca.pwc.com
Sent: Thursday, November 24, 2016 12:21 PM

To: Petsche, Nadine (TBS)
Subject: Pension file

Hi Nadine,

I didn't get a chance to catch up with you after our meeting yesterday - I think everyone had other things to get to. I wanted to ask you how the pension panel presentation went on Friday?

Michael has mentioned that the SOW for the panel is being worked on - I am connecting with him on this.

In the meanwhile, it seems it would be a good time to send you an invoice for the rest of the work performed on the memo and slide deck for the panel. We currently have a WIP balance of $14,097, based on the agreed upon hourly rates. If you agree, I can get my assistant to draft up an invoice.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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Re_ FW_ Position Paper and Slide Deck.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: FW: Position Paper and Slide Deck
Date: Tuesday, November 15, 2016 16:36:18
Attachment 1: ATT00001.jpg
Attachment 2: OTPP Pension Accounting Deck - November 14 2016 - PwC suggested edits.pptx
Attachment 3: Impact of a Valuation Allowance on Pension Assets v3.pptx
Attachment 4: Draft Pension Asset Position Paper November 14 PwC.docx

---

Hi Nadine,

In regards to Friday, - my items are items 2 and 3 on the PSA discussion group agenda, so I should be finished by 12:00pm and can join the panel in the afternoon between 12:30 and 5pm, if that would be desirable.

Slide deck - I have inputted the following suggestions into the deck but kept the font red for ease of identification.

Slide 3 - I think it might be helpful to include the word "unilateral". Perhaps "There is no legally enforceable right to unilaterally access the asset" would be better. This is actually the phrase used by the AG in her letter of September 13, 2016 so I think captures the OAGs views appropriately.

Slide 22 - I don't think the ITA limits the level of surplus, but rather, "In addition, the Income Tax Act imposes limits on the level of contributions that may be made to a pension plan that has an "excess surplus" (as defined by the ITA)"

Additional comments:

Slide 13 - Second bullet point - I found this paragraph a bit confusing as to the point it is trying to make. My suggestions are below. I have not updated the deck for this, pending whether you agree.

- The Financial Statement Concepts definition of an asset references “control” over an economic resource in Section PS 1000 and does not address “shared control”, which is relevant to the situation of a joint defined benefit plan, in respect of asset recognition. However, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards, indicating that an asset subject

to shared control with another party can be recognized in the financial statements.

Appendix 1 - there is a total for the OTF, but not a total for the Ontario government. The position paper has $9.3bn as a total, so I have taken the liberty to add it to the slide deck as I think it was omitted in error
- It's not clear why 1990 is included as it is a deficit and not a surplus and the numbers aren't included in the $9.3bn total but other years when there was a deficit (e.g. 2003 onwards) are not shown. Is there a reason for including 1990 specifically? Perhaps it should be indicated why?

Appendix 4 - there is an asterisk by OTPP Filed Discount rate, but not clear what it references to. Should it be clearer in this appendix that "OTPP filed discount rate" relates to that used in OTPP's financial statements prepared using Part IV and that the "Province Economic Assumption for Nominal Return" relates to that used in the Province's financial statements prepared using PSAB in relation to the OTPP plan.

Position paper:

I have updated the pictures. For reference, the pictures are done in power point and I just used a "snipping tool" to copy them into the paper. I attach the PPT deck for reference also.

Here is the revised position paper - I have added in couple of comments - relatively minor. I think it is looking in really good shape.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 11/14/2016 04:44 PM
Subject: FW: Position Paper and Slide Deck

Hi Lucy.

Can you please review the attached and help out with the diagrams. Thanks. Nadine

From: Keates, James (TBS)
Sent: November 14, 2016 3:36 PM
To: Petsche, Nadine (TBS)
Subject: Position Paper and Slide Deck

Nadine, here is the current version of the position paper and slide deck. We need Lucy's help with comments 1 and 14 for the paper. 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 | 416 327-2721

[attachment "Draft Pension Asset Position Paper November 14.docx" deleted by Lucy Durocher/CA/ABAS/PwC]
[attachment "OTPP Pension Accounting Deck - November 14 2016.pptx" deleted by Lucy Durocher/CA/ABAS/PwC]

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ATT00001.pdf

TBS

OTPP Pension Accounting Deck - November 14 2016 - PwC suggested edits.pdf

TBS

Office of the Provincial Controller Division

Briefing:
Accounting by the Province of Ontario for the Ontario Teachers' Pension Plan

DRAFT – For Discussion Purposes Only

Overview

Content	Slide
Issue (background)	3
Background	4-7
Question 1 – Classification of a pension asset	8-11
Question 2 – Recognition of a pension asset for a JDBP	12-15
Question 3 – Measurement of a pension asset	16-26

Appendices	Slide
Appendix 1: History of Surplus Utilization for OTPP	28
Appendix 2: Comparison of key measurements of the Province over the prior 10 years	29 -32
Appendix 3: Surplus Zones	33
Appendix 4: OTPP funding vs. accounting discount rates and actual performance	34
Appendix 5: Summary results of Ceiling Test for OTPP (various scenarios)	35
Appendix 6: Discount Rates used by other Senior Canadian Governments and Pension Plans	36

Issue (background)

- The Province had accounted for the Ontario Teachers' Pension Plan (OTPP) for the prior 14 years since adopting the pension accounting standard (RETIREMENT BENEFITS, Section PS 3250) in 2001/02
- In relation to the 2015-16 Public Accounts for the Province of Ontario, the Auditor General of Ontario (AG) challenged the Province's previous accounting for OTPP and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP)
- The AG disagrees that the surplus in OTPP is a reportable asset to the Province on the basis that:
  - there is no legally enforceable right to unilaterally access the asset
  - no agreement was in place at March 31, 2016 with the Ontario Teachers' Federation (OTF) to reduce future contributions
- The following analysis is specific to OTPP; OTPP's constating documents are different than for other pension plans in Ontario and in other provinces

Reporting in the 2015-16 Public Accounts

- The Province disagrees with the Auditor General's interpretation of Public Sector Accounting Board (PSAB) standards
- The Province believes its share of OTPP's accounting surplus should be recognized as an asset. The Province expects to benefit from the reported pension assets through reduced contributions and has performed the requested pension asset ceiling test to confirm that the Province's estimated asset value is not impaired
- For purposes of the 2015/16 Public Accounts, the Province regulated the accounting treatment for pension assets for the jointly sponsored pension plans (OTPP and OPSEUPP) to reflect the Auditor General's (AG's) interpretation of PSAB standards. Since Management does not agree with the AG's interpretation of PSAB standards as related to jointly sponsored pension plans, the regulation was necessary to achieve the AG's accounting treatment and to allow management to sign off on the Statement of Responsibility

Overview of OTPP

- OTPP meets the definition of a jointly sponsored pension plan (JSPP) as defined in the Pension Benefits Act. Sponsors are the Province of Ontario and the OTF
- The sponsors are jointly responsible for decision making, share in contributions, and collectively address any plan funding surplus/deficit (at least every 3 years). While not binding upon the sponsors, as the sponsors can change the Funding Management Policy at any time, any changes are required to have the mutual consent of both sponsors. Accordingly, the sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process
- The plan administrator is an independent board of directors that follows the direction of the co-sponsors on all key decisions, which includes plan structure, level of plan benefits, contribution rates, funding levels and contingency reserves and changes to the plan documents

Prior accounting for OTPP by the Province

- Since 2001-2002, the Province has recorded its portion (50%) of the pension asset of OTPP in accordance with Section PS 3250
- With regards to expected future benefit of the surplus, the Province would not expect to withdraw any surplus, but benefit through reduced future contributions
- The Province and OTF have a history of equally sharing the benefits of surplus utilization as demonstrated from the time OTPP became a JSPP to the date the Funding Management Policy in 2003 was established (included in Appendix 1)
- OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting (PSAB standards) and is also a different framework than is used to calculate the net surplus or deficit for funding purposes. Different assumptions are used, for example relating to the discount rate (See Appendix 4)

Primary sources of GAAP

- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of generally accepted accounting principles (GAAP) that deals with the transactions and events encountered by that entity
- Section PS 3250 provides clear guidance that a joint defined benefit plan is accounted for using Section PS 3250 and therefore is the primary source of GAAP that must be applied
- Other PSAB standards including the Financial Statements Concepts should be referred to if Section PS 3250 does not provide specific guidance for a circumstance

Question 1 – Classification of a pension asset

For accounting purposes, what type of pension plan is OTPP and how should it be classified under Public Sector Accounting Standards (PSAS)?

Section PS 3250 Applicability to OTPP

- Section PS 3250 paragraph .001 states "This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements"
- Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services (Section PS 3250 paragraph .03)
- Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services
- Section PS 3250 on its own is sufficient to assess the accounting for OTPP by the Province

Definition of a JDBP

- The Teachers' Pension Act, the Partners' Agreement and the plan text collectively set out the terms surrounding the sharing of control of OTPP between the Province and OTF. The Province of Ontario has an equitable share of the risks and rewards (surpluses and deficits) of OTPP, thus meeting the definition of a Joint Defined Benefit Plan (JDBP) in PSAS

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

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

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

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

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

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan (glossary to Section PS 3250).

Conclusion on classification

- The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan
- The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS which is a primary source of GAAP

Question 2 – Recognition of a pension asset for a JDBP

As a result of its classification as a joint defined benefit plan, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?

Concept of shared control and asset recognition

- Section PS 3250 requires the government to account for its portion (as there is shared control) of a JDBP following the accounting requirements for a defined benefit plan within Section PS 3250; no distinction is made as to whether the plan is in a surplus or deficit position. In a JDBP the risks and rewards of a plan are equitably shared, so the Province's portion of the plan includes its share of any asset as well as its share of any liability
- Notwithstanding that Section PS 3250 is a primary source of GAAP, the Financial Statement Concepts definition of an asset references "control" over an economic resource in Section PS 1000. Despite the conceptual framework not directly addressing "shared control" which is relevant to the situation of a joint defined benefit plan, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards

Concept of Contingent Asset

- Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset
- It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, representing the impact of cumulative contributions and benefit expense
- The Province does however, acknowledge that uncertainty does exist with regards to measurement of the accrued benefit asset and potential impairment thereof

Conclusion on recognition

- Section PS 3250 requires recognition by the Province of 50% of the plan assets of OTPP
- Unilateral control is not necessary for asset recognition (as also seen with government partnerships); shared control is appropriate for a JDBP
- Uncertainty relating to OTPP's pension surplus relates to measurement, not uncertainty regarding expected future benefits for the Province

Question 3 – Measurement of a pension asset

How should the pension asset of OTPP be measured for purposes of reporting in the Public Accounts of the Province of Ontario?

Guidance in Section PS 3250 on measurement

- Section PS 3250 paragraphs .050 to .059 address how to measure a pension asset
- This is a two-step process
- Firstly the accrued plan obligation (a Credit) and the plan asset (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset (AcBA) when it is a net asset (a Debit) amount

Guidance in Section PS 3250 on measurement (continued)

- When the resulting amount is an asset, the standard requires a second step to test for asset impairment. It should be noted that impairment testing in some form is required for all assets recognized under PSAB standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset. The amount that is tested is the “adjusted benefit asset”. When there are net unamortized gains the AcBA is equal to the adjusted benefit asset (AdBA). When there are net unamortized losses the AcBA is reduced by those net unamortized losses to calculate the adjusted benefit asset (AdBA)
- The AcBA is then compared to the expected future benefit (referred to as the asset ceiling test). The objective is to limit a government's accrued benefit asset to the amount it can realize in the future. A government may benefit from an AcBA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions (Section PS 3250 paragraph .056)

Government Expectations

- The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions, not withdrawals. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years as a minimum, and when there is a surplus. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'.
- Expectations of benefitting from the surplus are based on:
  1. The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
  2. The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
  3. No sponsor of OTPP can unilaterally utilize the plan's surplus; and
  4. If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to arbitration.
- The Province considers that the uncertainties around how and when to utilize the surplus do not result in an inability or lack of entitlement to utilize the surplus

Calculating the limit on the carrying amount of an accrued benefit asset (asset ceiling test)

- Calculation of the asset ceiling test involves professional judgement
- Section PS 3250 indicates the expected future benefit to be recorded by the government is the sum of:
  a. The present value of its expected future accrual for service for the current number of active employees less the present value of minimum contributions the government is required to make regardless of any surplus; plus
  b. The amount of the plan surplus that can be withdrawn in accordance with the existing plan and any laws and regulations
- The following slides consider this calculation relative to the Province's 50% share of OTPP

Considerations re: surplus withdrawal (Part b of the asset ceiling test)

- The Province does expect to realize its expected future benefit through withdrawal of any plan surplus
- Section PS 3250 specifies that an amount for withdrawal of surplus is only included when a government has a legally enforceable right of withdrawal
- In accordance with the Funding Management Policy for OTPP, the parties must negotiate in order for a withdrawal of the surplus to happen
- As at March 31, 2016 the Province did not have a signed agreement with OTF regarding withdrawal of the surplus

Considerations re: reduced future contributions (Part a of the asset ceiling test)

- While Section PS 3250 states that legal enforceability is required to report an expected benefit for a withdrawal of the plan surplus, it does not include a similar requirement in respect of the ability to benefit through future contribution reductions.
- The Province expects to benefit fully from the asset by exercising their current rights under the plan arrangements to negotiate the use of surpluses in the form of contribution holidays/reductions. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years, or when there is a surplus. The surplus "zone" for OTPP impacts how the pension surplus may be utilized by the Province summarized in Appendix 3
- In addition, the Income Tax Act (ITA) imposes limits on the level of contributions that may be made to a pension plan that has "excess surplus" (as defined by the ITA).
- The present value of its expected future accrual for service is typically calculated based on the Province's share (50% for OTPP) of the current service cost reported in the most recent actuarial valuation, taken into perpetuity

Through reducing future contributions (Part a of the asset ceiling test)(continued)

- There is very limited guidance in PSAB standards on determining the present value of minimum contributions the government is required to make regardless of any surplus; professional judgement is required. The Province engaged consultants to calculate this value for OTPP considering different assumptions on future minimum contributions. The key scenarios considered and results are summarized in Appendix 5.
- For purposes of OTPP in the 2015-16 public accounts, 11 years was used by the Province reflecting management's best estimate of the number of future years for which current minimum contributions are to be made until the Income Tax Act limits are reached
- Based on the Province's best estimate calculation of the expected future benefit and the results of the actuarial valuations performed as part of the pension asset ceiling test, no valuation allowance was deemed necessary in relation to the pension asset of OTPP at March 31, 2016

Other guidance in PSAS on measurement

- Section PS 2130 provides guidance on dealing with measurement uncertainty
- Measurement uncertainty in pension plan accounting exists for example in the estimation of the valuation allowance and in the determination of the discount rate (both in terms of selection of rate under PSAS and in Ontario's case, management's best estimate of the long-term rate of return on plan assets)
- Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP (see Appendix 4)
- The choice of rate used by the Province (long-term rate of return on plan assets) is consistent with the rate used by other Provinces in Canada for their pension plans (see Appendix 6)
- PSAS acknowledges that the objective of funding and accounting are different (Section PS 3250 paragraphs .008 to .010). Because of the different objectives, the discount rates used will also be different

Accounting for JDBP by other Provinces

- Provinces such as British Columbia, New Brunswick, Manitoba and Nova Scotia do not report assets for their provincial sponsored pension plans or alternatively provide a valuation allowance to reduce the value of a pension asset balance to nil
- The different accounting treatment in the Province of Ontario (for OTPP) reflects the difference circumstances in these other provinces with regards to expected future benefits related to pension surpluses

Conclusion on measurement

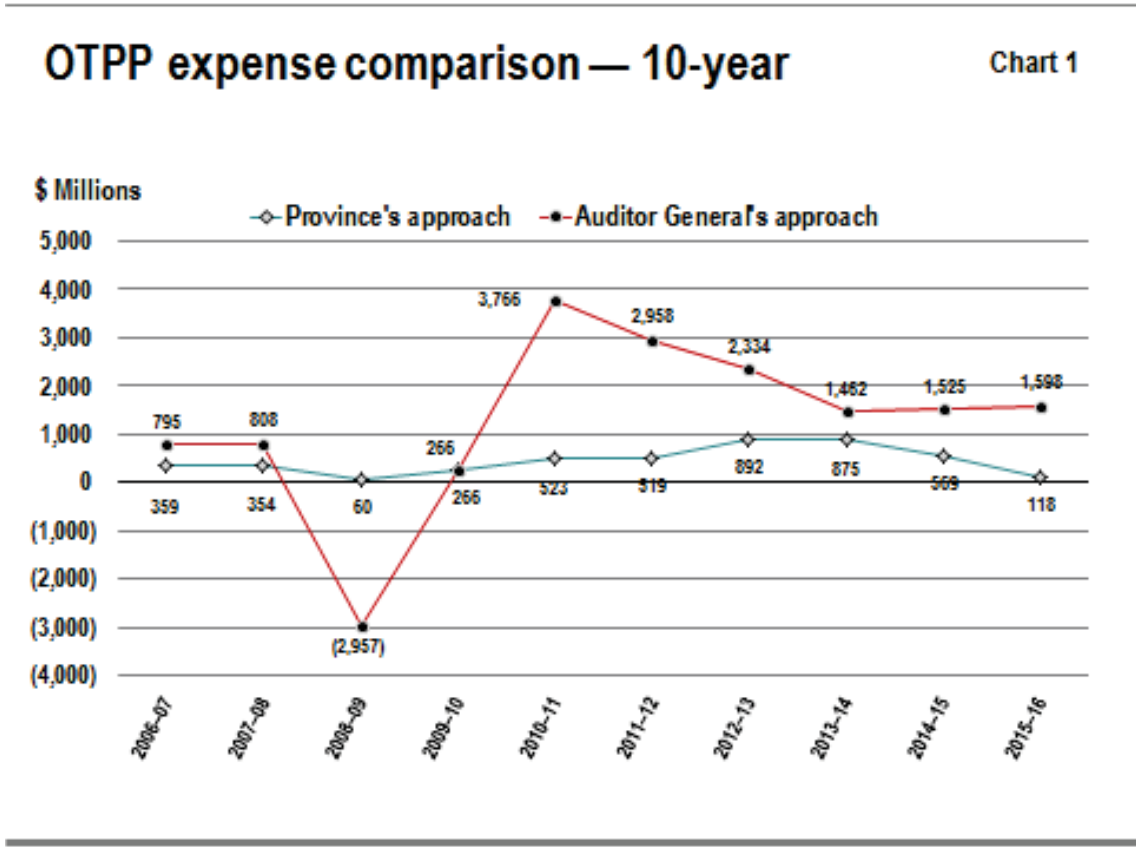
- The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions
- Significant professional judgement and estimation is involved in determining the valuation allowance under Section PS 3250; the Province has applied reasonable estimates and assumptions
- Based on the result of modelling performed in relation to the asset ceiling test, the Province concluded that no valuation allowance was necessary to the pension asset relating to OTPP that would have otherwise been reported on the Province's books as at March 31, 2016
- Refer to Appendix 2 for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS

APPENDICES

Appendix 1:
History of Surplus Utilization for OTPP

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

Appendix 2:Comparison of key measurements of the Province over the prior 10 years



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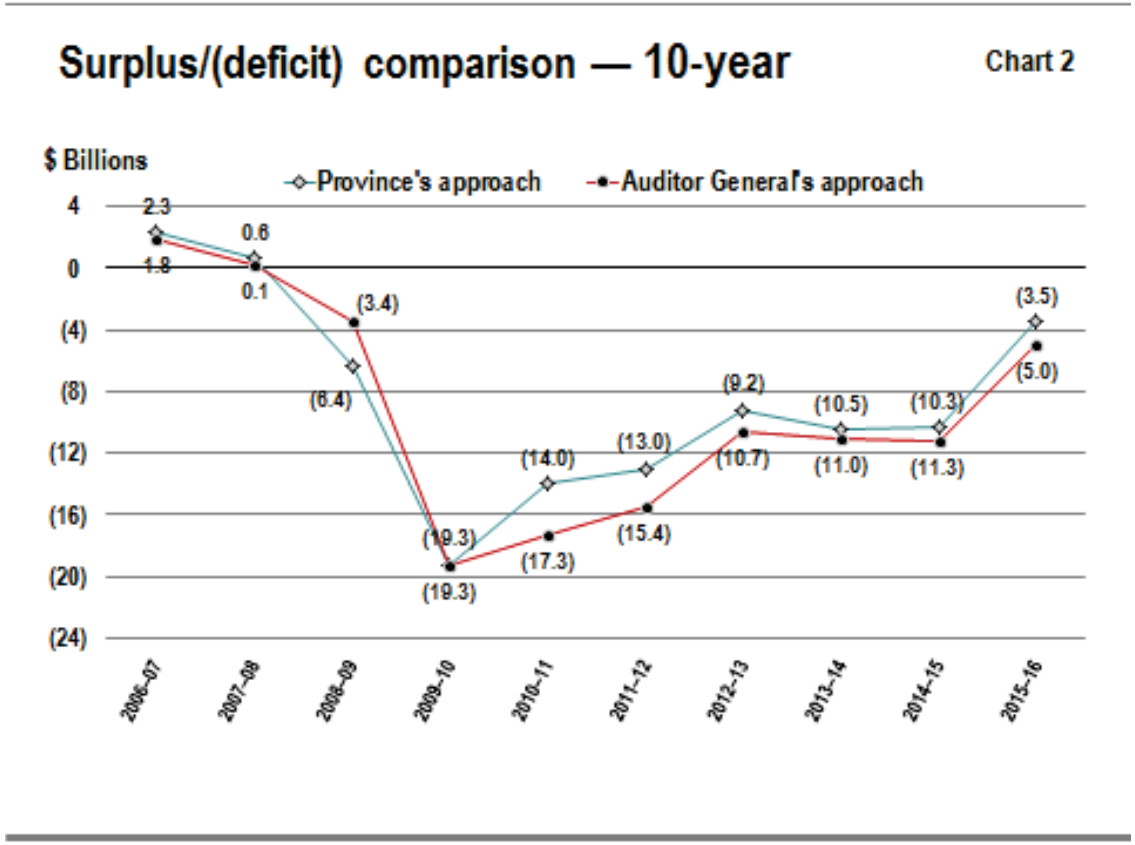

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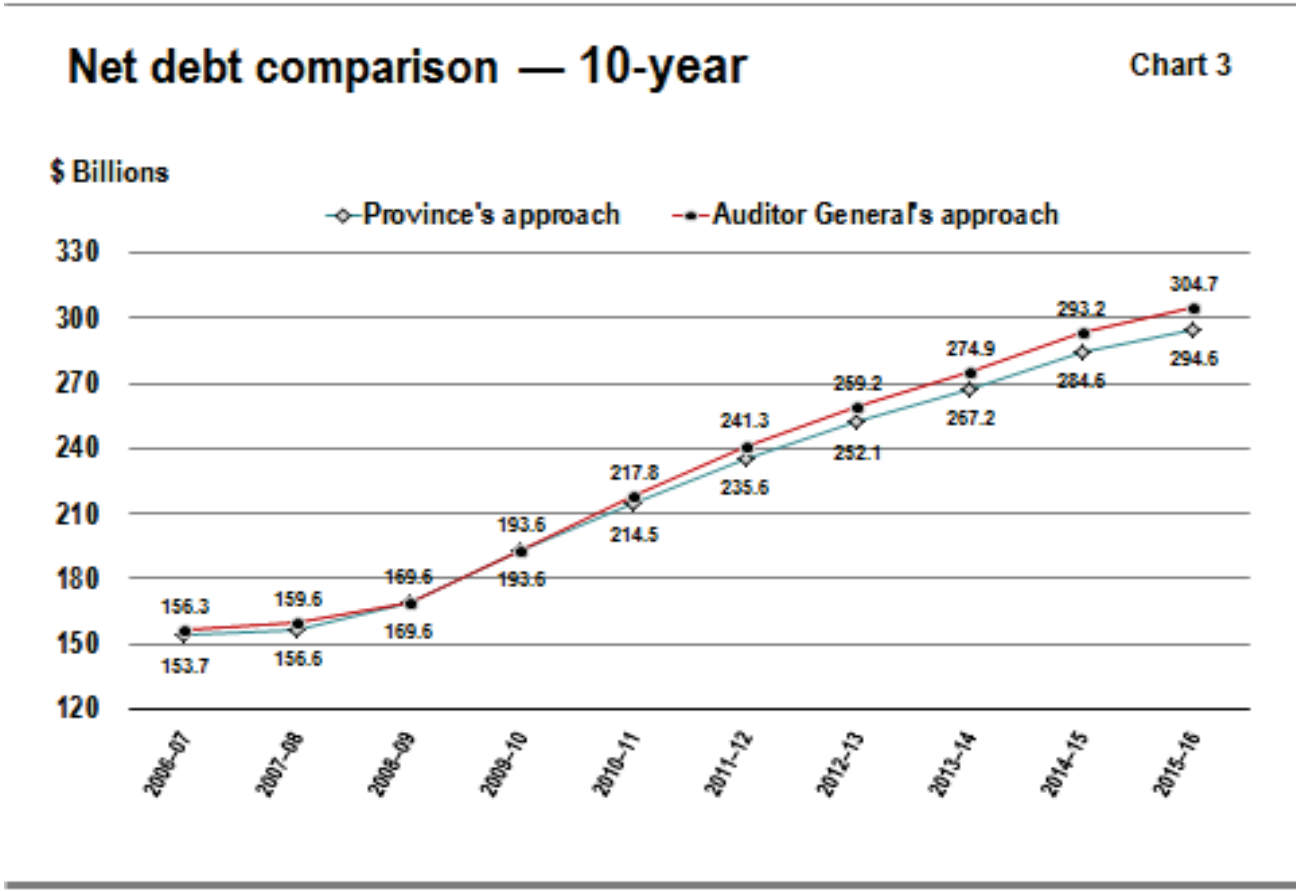

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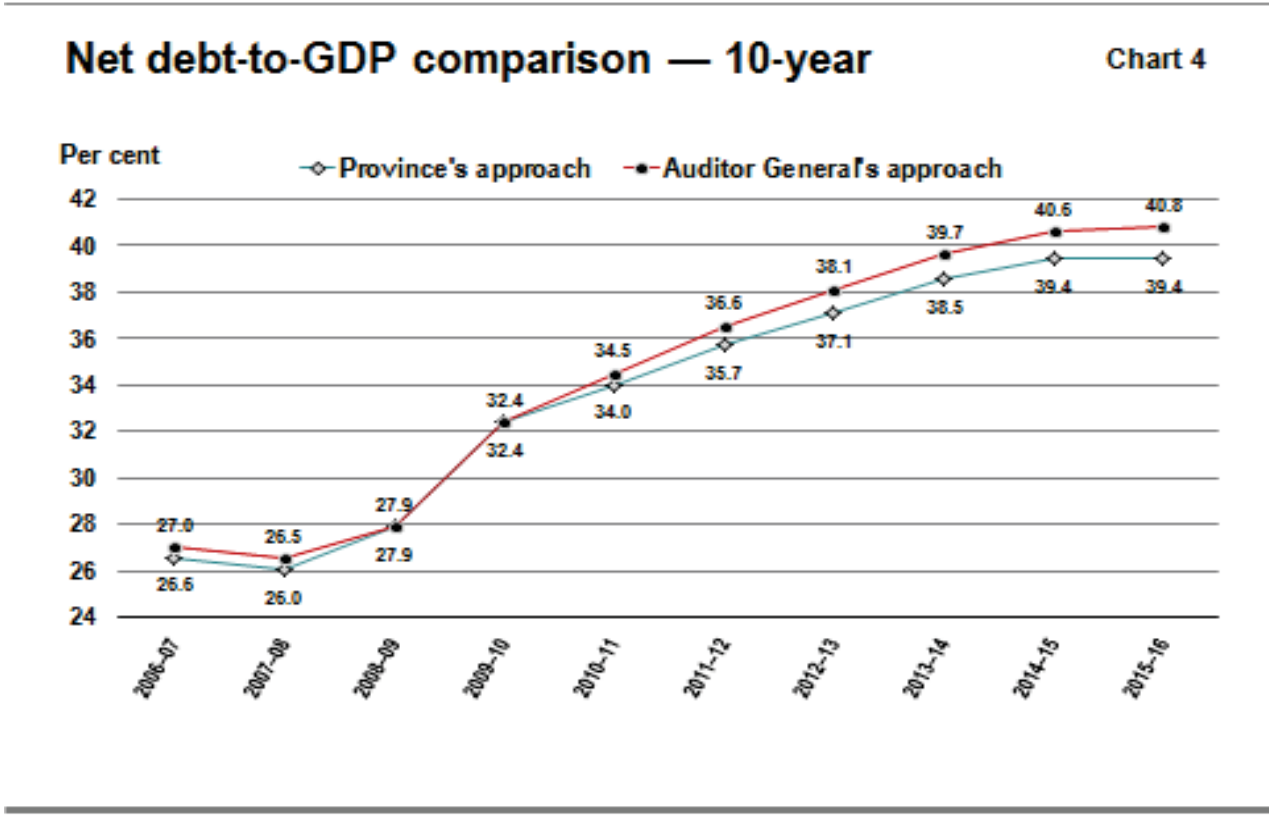


Appendix 3: Surplus Zones

The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Appendix 4: OTPP funding vs. accounting discount rates and actual performance

Ontario Teacher's Pension Plan Rate Comparison			
	OTPP Annual Performance	OTPP Filed Discount Rate *	Province Economic Assumption for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

Appendix 5: Summary of Ceiling Test Results (Various Scenarios)

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Appendix 6: Discount rates used by other Senior Canadian Governments and Pension Plans

Government

Ontario – LT ROR	6.25
Alberta – LT ROR	6.5
Saskatchewan – LT ROR	6.5
BC – LT ROR	6.5
Quebec LT ROR	6.5
NFLD – LT ROR	6.3
NS – LT ROR	7.75
MB – LT ROR	6.25

Plan - Funding

OTPP	4.85%
AB	NA
SK	NA
BC	NA
QC	NA
NFLD	NA
NS	NA
MB	NA

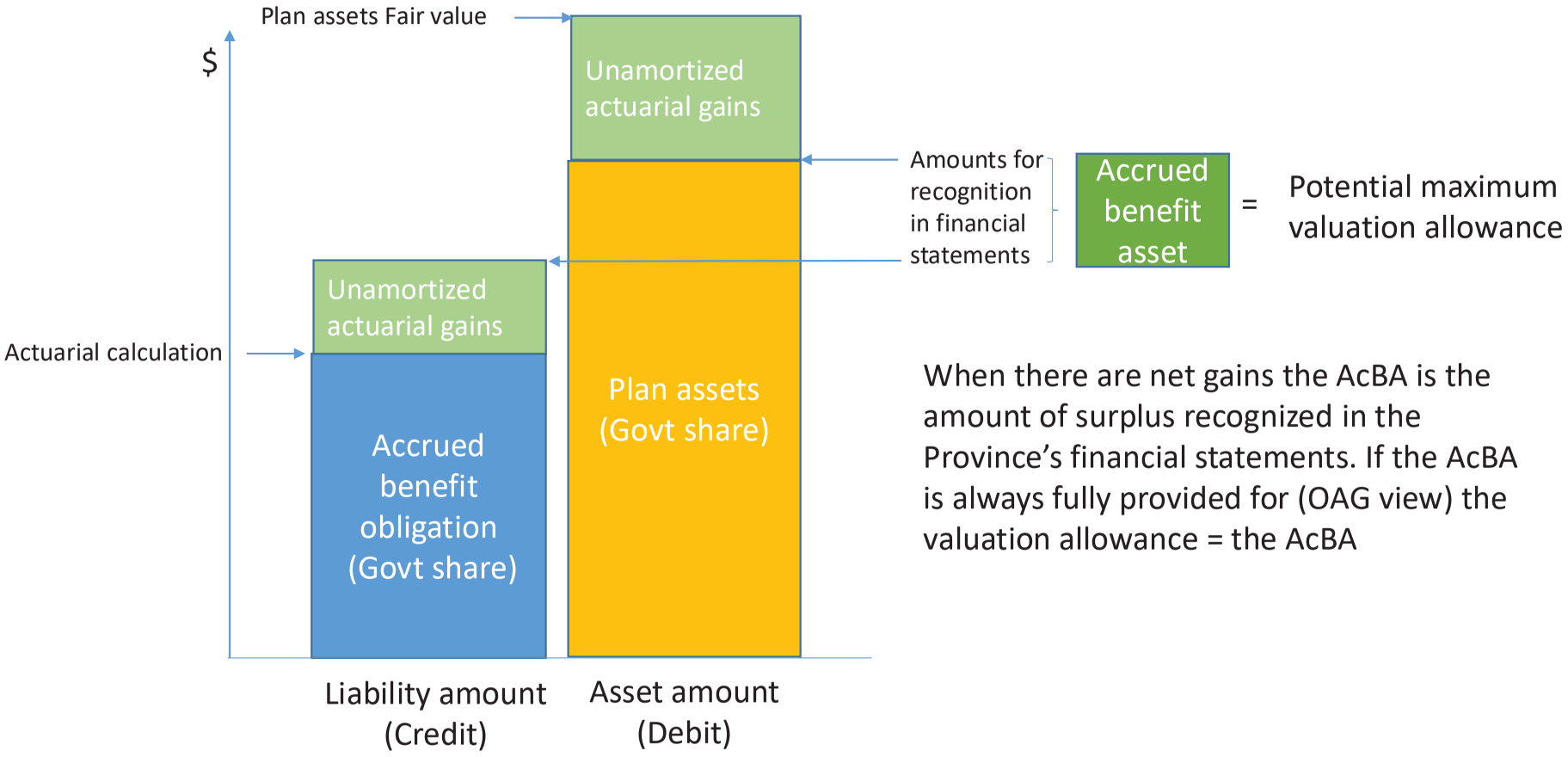
Plan F/S

OTPP – MR of Prov. Bonds	*3.25*
AB TPP – LT ROR	7.0
SK – LT ROR	6.5
BC – LT ROR	6.5
QC – LT ROR	6.4
NFLD – LT ROR	5.8
NS – LT ROR	6.25
MB – LT ROR	6

Impact of a Valuation Allowance on Pension Assets v3.pdf

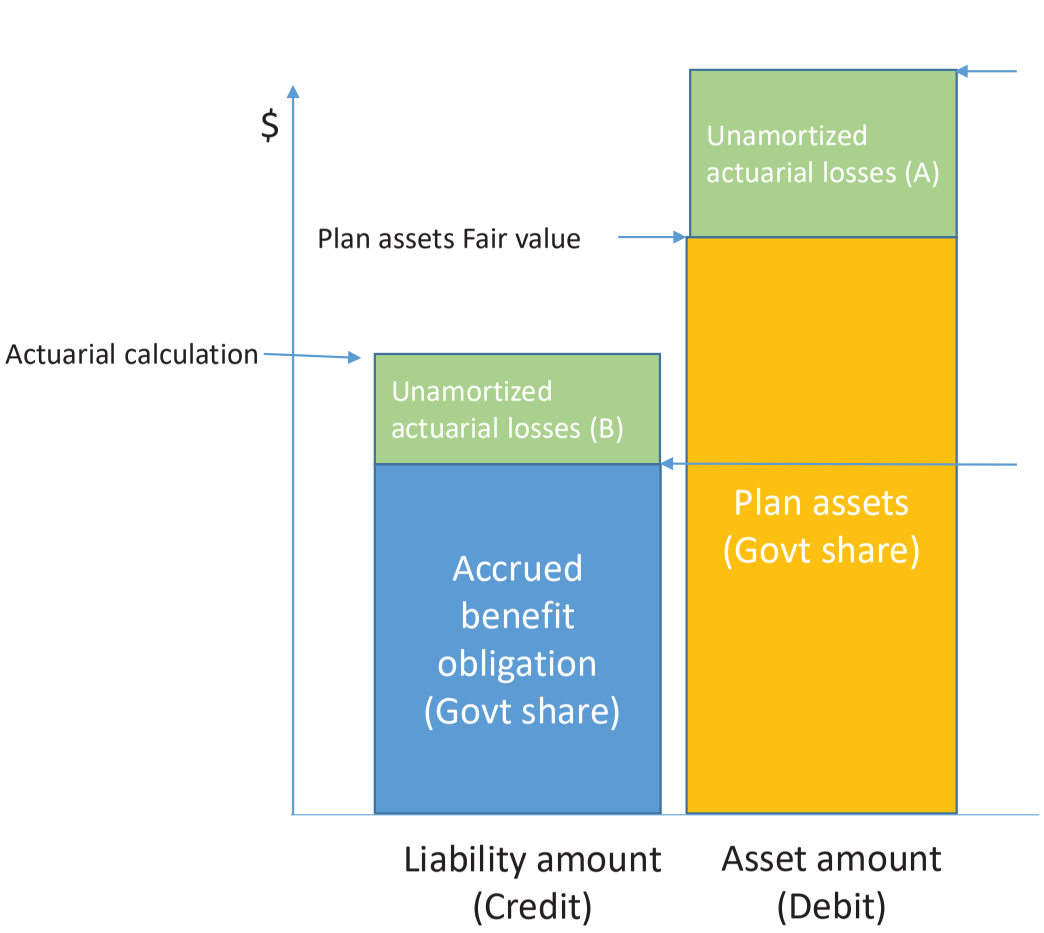
Impact of a Valuation Allowance on Pension Assets

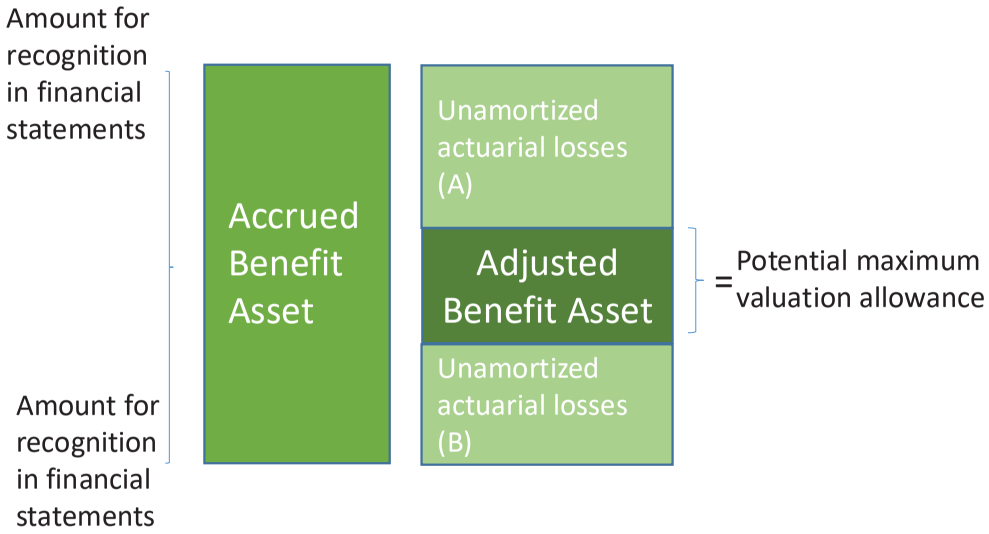
An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses



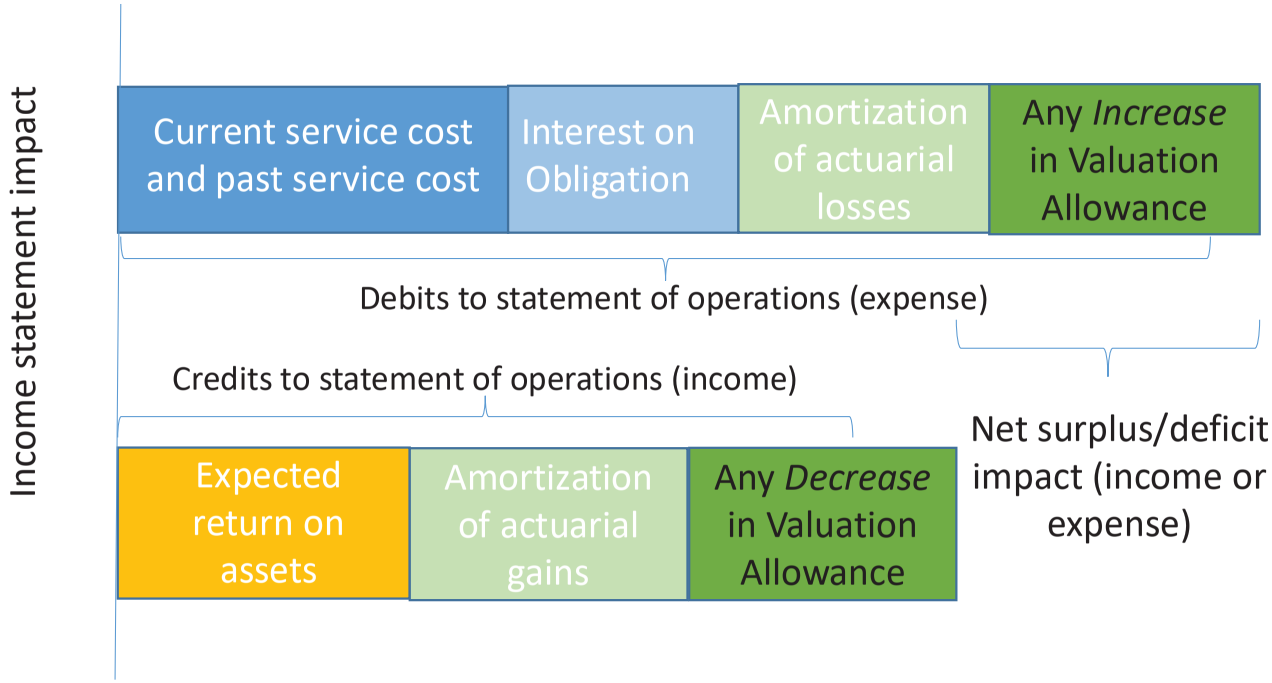


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the AdBA. Only the AdBA is provided for by a valuation allowance.

Components of Expense

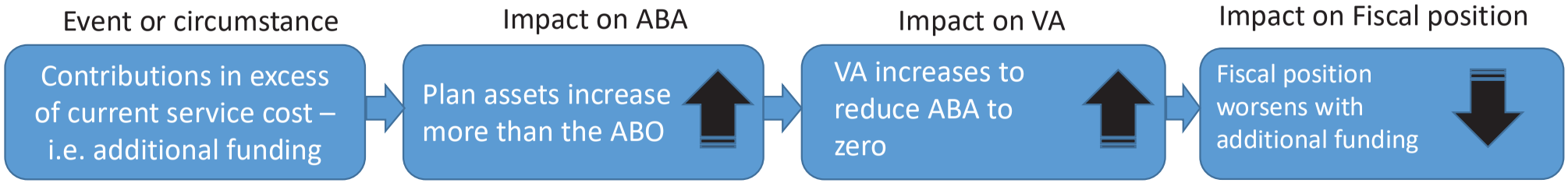
The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]



2015-2016 example:
Contributions of $1,812M exceeded other elements of pension expense by $1,514M

2015-2016 example:
Additional contributions increase plan assets. AcBA increases by $1,514M

2015-2016 example:
AcBA increase of $1,514M results in an increase to the VA of $1,514M

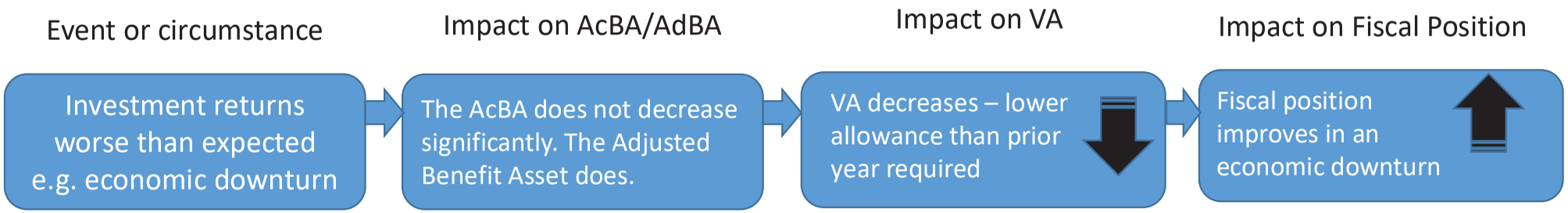
2015-2016 example:
Deficit increases by $1,514M.

The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.

Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

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Contents

1.0 Preamble 1

2.0 Issue to be considered 1

3.0 Conclusions 1

4.0 Background Information 2

4.1 Accrued benefit asset 2

4.2 Overiew of OTPP 4

4.3 Accounting for OTPP by the Province 8

4.4 Applicability of PS 3250 as primary source of GAAP~~in assessing appropriate accounting for pension assets~~ 10

5.0 Question 1 – Classification of a pension asset 11

5.1 ~~Standards in the~~ PSAS 3250 RETIREMENT BENEFITS ~~Handbook~~ 11

5.1.1 ~~RETIREMENT BENEFIT, Section~~ PS 3250 – Purpose and Scope 12

5.1.2 ~~RETIREMENT BENEFITS, Section~~ PS 3250 – Types of pension plans 12

5.2 Conclusion on classification 14

6.0 Question 2 – Recognition of a pension asset for a JDBP 15

6.1 Standards in the PSA Handbook 15

6.2 Concept of Shared Control and Asset Recognition 17

6.3 Concept of Contingent Asset 19

6.4 Conclusion on recognition 19

7.0 Question 3 – Measurement of a pension asset 19

7.1 Standards in the PSA Handbook 19

7.2 Calculating the limit on the carrying amount of an accrued benefit asset 26

7.3 Considerations re: ~~Through~~ withdrawal of the surplus (Section PS 3250 paragraph .056 (b)) 26

7.4 ~~Through~~Considerations re: reduc~~ing~~ed future contributions (Section PS 3250 paragraph .056 (a)) 27

7.5 Other guidance in the PSA Handbook on measurement 33

7.6 Impact of valuation allowance 34

7.7 Comparability of Ontario's accounting for JDBPs with other Provinces 35

7.8 Conclusion on measurement 36

DRAFT

Appendix A – Historial Reporting of ~~p~~Pension liability (asset) and expense reported by the Province of Ontario for OTPP ~~over the prior 14 years~~ 38

Appendix B – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities 40

Appendix C – ~~Impact~~Overview of a Valuation Allowance on Pension Assets 45

Appendix D – Summary of different valuation methodologies for pension valuations 49

Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP 55

Appendix F – ~~–~~ Comparison of d~~D~~efinitions of a Joint Defined Benefit Plan and Government Partnership 60

Appendix G – History of Surplus Utilization for OTPP 63

Appendix H – ~~Comparison~~Illustrative impact of 100% valuation allowance on OTPP ~~of key~~ on key indicators ~~measurements of the Province over the~~for prior 10 years 65

Appendix J – Summary of OTPP Funding Rate Assumptions and Provincial Discount Rates vs. Actual Performance

~~1.0 Preamble ..... 1~~

~~2.0 Issue to be considered ..... 1~~

~~3.0 Conclusions ..... 1~~

~~4.0 Background Information ..... 2~~

~~4.1 Accrued benefit asset ..... 2~~

~~4.2 ..... 4~~

~~Overview of OTPP ..... 4~~

~~4.3 Accounting for OTPP by the Province ..... 8~~

~~4.4 Applicability of PS 3250 in assessing appropriate accounting for pension assets ..... 10~~

~~5.0 Question 1 – Classification of a pension asset ..... 11~~

~~5.1 Standards in the PSA Handbook ..... 11~~

~~5.1.1 RETIREMENT BENEFIT, Section PS 3250 – Purpose and Scope ..... 11~~

~~5.1.2 RETIREMENT BENEFITS, Section PS 3250 – Types of pension plans ..... 12~~

~~5.2 Conclusion on classification ..... 14~~

~~6.0 ..... 15~~

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Question 2 – Recognition of a pension asset for a JDBP 15
6.1 Standards in the PSA Handbook 15
6.2 Concept of Shared Control and Asset Recognition 17
6.3 Concept of Contingent Asset 19
6.4 Conclusion on recognition 19
7.0 Question 3 – Measurement of a pension asset 19
7.1 Standards in the PSA Handbook 19
7.2 Calculating the limit on the carrying amount of an accrued benefit asset 26
7.3 Through withdrawal of the surplus (Section PS 3250 paragraph .056 (b)) 26
7.4 Through reducing future contributions (Section PS 3250 paragraph .056 (a)) 27
7.5 Other guidance in the PSA Handbook on measurement 33
7.6 Impact of valuation allowance 34
7.7 Comparability of Ontario's accounting for JDBPs with other Provinces 35
7.8 Conclusion on measurement 36
Appendix A – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years 37
Appendix B – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities 39
Appendix C – Impact of a Valuation Allowance on Pension Assets 44
Appendix D – Summary of different valuation methodologies for pension valuations 48
Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP 53
Appendix F - Definitions of a Joint Defined Benefit Plan and Government Partnership 57
Appendix G – History of Surplus Utilization for OTPP 60
Appendix H - Comparison of key measurements of the Province over the prior 10 years 62

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~~TABLE OF CONTENTS~~

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1.0 Preamble

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This document addresses the accounting for the net pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

2.0 Issue to be considered

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In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed ~~regarding the~~on an appropriate application of Public Sector Accounting Standards (PSAS) to net pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP. This position paper addresses the analysis for OTPP. A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, as well as HOOPP and CAAT.

This position paper addresses the following three questions in relation to the accounting for OTPP:

1. For accounting purposes, what type of pension plan is OTPP (i.e. how should OTPP be classified under Public Sector Accounting Standards (PSAS))?
2. As a result of the classification, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?
3. How should the pension asset of OTPP be measured in the Public Accounts of the Province of Ontario?

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3.0 Conclusions

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The following conclusions were reached regarding each of the above questions:

1. Classification of OTPP - The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTPP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

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2. Recognition of a pension asset for a joint defined benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets be subject to unilateral control. S~~,s~~hared control is relevant and appropriate for a situation involving a joint defined benefit plan. The Province's share of OTPP's pension surplus meets the definition of an accrued benefit asset under Section PS 3250~~. Section PS 3250~~ which requires the Province to recognize its portion of the plan (50% for OTPP).
3. Measurement of a pension asset - The Province has concluded that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surpluses to ~~through~~ reduce ~~d~~ contributions in the future. The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should be recorded on the books of the Province. The Province recognizes ~~there is significant~~that professional judgement must be applied in ~~and estimation in determining how to measure~~deriving an estimate of ~~the~~a potential valuation allowance under Section PS 3250.

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4.0 Background Information

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4.1 Accrued benefit asset

As described in PSAS, an accrued benefit asset (net pension asset) arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. An Accrued Benefit Asset (AcBA) includes the effect of net unamortized experience gains or losses. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation. OTPP currently has net unamortized experience gains. The following illustration reflects the compilation of the net pension asset (accrued benefit asset) reported on the Province's books for the OTPP.

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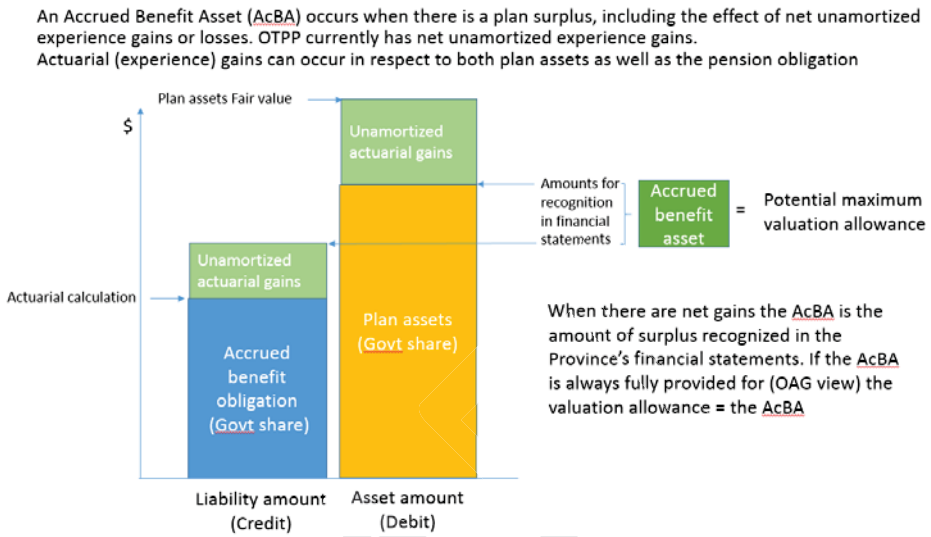

It is important to note that contributions to the plan are based on funding objectives of the plan. In contrast, ~~Benefit~~ benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the net asset balance (plan surplus for accounting purposes) in OTPP is an asset to the Province and it is appropriate to reflect it in the financial results in accordance with PSAS. The Province has also concluded that no valuation allowance under PSAS is required against the asset as at March 31, 2016.

The OAG disagrees with ~~this~~ the Province's position. Specifically, t~~T~~he OAG has indicated that the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and as such that the Province does not control the assets which the OAG interprets PSAS as requiring. Further, the OAG considers the lack of an enforceable agreement at year-end with the Ontario Teachers' Federation (OTF ~~and~~d the joint sponsor of the plan) ~~dictating~~ that would provide for lower contributions in the future as requiring that a full asset valuation allowance be taken against the net asset under PSAS.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook, addresses the accounting of obligations for employee retirement benefits in government financial statements. Since 2001, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the period is

reflected in Appendix A. Unqualified audit reports have been received for each of the years from the OAG on the Public Accounts. The pension accounting initially adopted by the Province for OTPP had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

In light of the contrasting views on interpretation of PS 3250 to the Province's jointly sponsored pension plans, a regulation was necessary to allow the public service to sign-off on the impact of the OAG's view on accounting for net pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for net pension assets of its two jointly-sponsored pension plans (OTPP and OPSEUPP) for 2015-16 in a manner that is consistent with the ~~fiscal~~ interpretation~~outcome~~ proposed by the Auditor General. The change in accounting treatment for 2015-16 resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the 2015-16 annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's ~~accounting~~interpretation, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt and would have only been appropriate if the government had agreed with the Auditor General's interpretation of PSAS which would have acknowledged errors in the prior year's comparative results.~~.~~

4.2 ~~Background~~

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Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1. The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the OTF (collectively, the "sponsors").

[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
a. It provides defined benefits.
b. The defined benefits are contributory benefits.
c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. ~~The~~ OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for ~~the~~ OTPP ;
d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP); and
f) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under ~~the~~ OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).

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Despite this general principle, under the TPA the Province is required to make additional contributions to ~~the~~ OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. [5] This clause has been interpreted as a short term solvency protection clause, rather than a clause that transfers substantive residual risk to the Province, as the rest of the arrangement is structured such that the risk of these payments is minimal and the risks of the long term funding of the plan must still be equitably shared. The Province is also permitted to make additional contributions in respect of a solvency deficiency[6] (although, as noted above, solvency funding is not required under ~~the~~ OTPP). Notwithstanding that subsection 5(1.1) of ~~the~~ OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under ~~the~~ OTPP since ~~the~~ OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Joint governance and cost sharing form two of the core features of ~~the~~ OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the ~~Sponsors~~sponsors. In this regard, the Partner's Agreement requires the ~~Sponsors~~ sponsors to negotiate and agree upon decisions relating to surplus or deficit utilization, which currently is outlined in the FMP. [8] The FMP indicates that deficits (or surpluses) may be addressed through increases (decreases) to the contribution rates, lowering (increasing) the amount of indexation and/or other decreases (increases) in benefits. While not binding upon the ~~Sponsors~~sponsors, as the ~~Sponsors~~ sponsors can change the FMP at any time, any changes are required to have the mutual consent of both ~~Sponsors~~sponsors. Accordingly, the ~~Sponsors~~ sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the ~~Sponsors~~ sponsors are included in appendix B. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the

[5] TPA, subsection 5(3).
[6] TPA, subsection 5(7).
[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20% versus 10.4%/12%, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.
[8] See, for example, Section 3.09 and 3.11 of the FMP.

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employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the ~~Sponsors~~ sponsors regarding how any surpluses are to be utilized. We note that the ~~Sponsors~~ sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the ~~Sponsors~~ sponsors to utilize surplus in a variety of ways, depending on the funded status of ~~the~~ OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the ~~Sponsors~~ sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the ~~Sponsors~~ sponsors to agree upon the manner in which surplus is to be utilized, neither ~~Sponsor~~ sponsor has a legally enforceable right to unilaterally utilize surplus in ~~the~~ OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. Negotiations on the use of the surplus occur as specified in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding valuation shows a funding

surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is to be resolved prior to filing the funding valuation.

4.3 Accounting for OTPP by the Province

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Since fiscal year 2001-2002, the Province has recorded a net pension asset for OTPP on the Statement of Financial Position in accordance with Section PS 3250. A net pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus recognized investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense (see illustrative examples in Appendix J). The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

The various valuations prepared for the OTPP – i.e. those for the Province's public accounts, those for the funding valuation and those for the OTPP stand-alone financial statements, can create confusion when assessing the Province's accounting. Therefore, this next section sets out the differences in those valuations.

With regards to any comparisons between surplus or deficit amounts reported in the Province's financial statements verses ~~the~~ OTPP's financial statements or funding reports, it is important to acknowledge the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

> *.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.*
>
> *.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. …*
>
> *.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.*

Section PS 3250 paragraph .051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: “Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons…”

OTPP’s most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website (https://www.otpp.com/home). The Province’s relative portion of this surplus would be $6.6 billion. ~~The~~ OTPP’s ~~public~~ published stand-alone financial statements showed a deficit for accounting purposes of $1.8 billion in its financial statements as at December 31, 2015, for which the Province’s portion would be a deficit of $900 million. The following background helps to clarify the reasons for these different results. OTPP’s financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook (“Part IV”), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes.

Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a “funding valuation” on a going concern basis ~~may~~ also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP’s accounting valuation and the Province’s accounting valuation is shown in Appendix D.

Specifically, the discount rate used to value the obligations of the plan has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money ~~makes~~ results in the value the promises made today that will be paid out in the future cheaper. OTPP uses a discount rate based on corporate/government bond rates in its financial statements, as permitted by Part IV. The Province uses a discount rate based on the expected asset return, as permitted by PSAS. The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds. Both a discount rate based on the expected asset return and one based on corporate/government bonds are “best estimate” rates; they must both be based on management’s best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more “right” or “wrong” relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

Typically the funding discount rate used for the funding valuation falls between the bond discount rate and the expected asset return, but it differs in that it does not purport to be the "best estimate" of the discount rate, rather it is designed to indicate the contributions that are required to fund the promised benefits with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta there are seven plans which prepare their financial statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix E. The analysis demonstrates that in their stand-alone financial statements, a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is actually in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability for financial reporting purposes.

The above analysis explains how different discount rates impact the net surplus/deficit reported on OTPP's financial statements, OTPP's funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the 50% of the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under ~~PSAB standards~~PSAS ~~is~~ does not impact ~~of no consequence or relevance to~~ the net pension asset amount or pension expense reported by the Province for OTPP.

To further clarify, that there is ~~a~~ deficit reported in ~~the~~ OTPP's stand-alone financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, **if** ~~the~~ OTPP had chosen (as an acceptable accounting policy choice) to use a discount rate more consistent with its counterparts in other jurisdictions (see Appendix E) such as a discount rate based on an expected asset return which would be closer to that used by the Province, it would eliminate much of the existing difference~~s~~ between the reported net surplus/deficit amounts ~~between~~ in ~~the~~ OTPP's stand-alone financial statements and the Province's share of OTPP reported for accounting purposes in the Province's Public Accounts.

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4.4 ~~Sufficiency~~ Applicability of PS 3250 ~~in assessing appropriate accounting for pension assets~~as primary source of GAAP

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GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of GAAP are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources

of generally accepted accounting principles (GAAP) that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250 ~~which was based on Accounting Statement No. 5~~).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to shared control, as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- CONTINGENT ASSETS, Section 3320 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception of ASSETS, PS 3210 and CONTINGENT ASSETS, Section PS 3320 which ~~is~~ are more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

~~Accounting Analysis~~

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5.0 Question 1 – Classification of a pension asset

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The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSA ~~standards~~S under Section PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

5.1 RETIREMENT BENEFITS PSAS 3250 ~~Standards in the PSA Handbook~~

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The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 ~~RETIREMENT BENEFIT,~~ Section PS 3250 – Purpose and Scope

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The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

> *.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.*

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

> *.003 Obligations for **retirement benefits** result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.*

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

5.1.2 ~~RETIREMENT BENEFITS, Section~~ PS 3250 – Types of pension plans

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RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

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

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

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

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

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

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

Additional guidance on identifying ~~Joint~~ joint ~~Defined~~ defined ~~Benefit~~ benefit ~~Plans~~ plans (JDBPs) is in Section PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP as follows:

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

It should be noted that the definition of a ~~Joint Defined Benefit Plan~~JDBP under Section PS 3250 is not the same as the definition of a JSPP under the PBA, although there are some overlapping concepts between the two. A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits

and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. The Province has concluded that OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. ~~The~~ OTPP is a contractual arrangement between the Province and OTF in which:

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

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 10(1)3 of the TPA for example).

The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a ~~joint defined benefit plan~~JDBP.

The classification of OTPP as a JDBP for accounting purposes [and a JSPP under the PBA] by the Office of the Provincial Controller has been consistent since 2001 and had been consistently accepted without question by the ~~Office of the Auditor General~~OAG, including throughout the 2015/16 Public Accounts.

5.2 Conclusion on classification

The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTPP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

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Commented [NP2]: Joint?

I would keep as shared , definition uses shared although name of category includes joint

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Question 2 – Recognition of a pension asset for a JDBP

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6.1 Standards in the PSA Handbook

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RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

> *.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]*
>
> *.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.*

Section PS 3250 paragraph .081 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a shared control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to shared control and not unilateral control Section PS 3250 paragraph .081 would have made this clear. This paper discusses the question of measurement separately in Question 3.

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250 paragraphs .016 to .017:

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> *.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]*
>
> *.017 The components of the retirement benefit liability are:*
>
> > *(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;*
> >
> > *(b) plan assets, if any; and*
> >
> > *(c) unamortized actuarial gains and losses.*

As ~~the~~ OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the net impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an "Accrued benefit asset" (ABA). An ABA is defined in Section PS 3250 as follows:

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

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan; the ABA is calculated by reference to accrued benefit obligation and plan assets, both determined based on the best estimate assumptions and the methodologies required by with Section PS 3250 for these items. As noted above an ABA is defined as the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan, this is the government's accumulated cash contributions less the government's share of the current and prior years' benefit expenses that are attributable to the government under the ~~joint defined benefit plan~~JDBP. The Province's portion of OTPP resulted in an ABA of $10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (and the interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Section PS 3250 paragraph .080 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph .050 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as the limit

could result in an ABA being measured at anything from $nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .050-.059 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (when the accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the Province does not share equitably in the risks and rewards of ~~the~~ OTPP because they bear only the risk of increased liabilities without being able to bear any rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a ~~joint defined benefit plan~~JDBP.

6.2 Concept of Shared Control and Asset Recognition

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Included in the definition of a JDBP is the concept of shared control. Points (b) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of shared control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under Section PS 1000 would suggest that the government must control the economic resource and access to the future economic benefits. Since shared control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under shared control and specifically for plan assets of ~~joint defined benefit plan~~JDBPs for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with ~~joint defined benefit plan~~JDBPs and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for ~~joint defined benefit plan~~JDBP assets, no further source of PSAS guidance need be considered.

- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, shared control is sufficient for asset recognition.

- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been

a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. With the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that the Public Sector Accounting Board (PSAB) did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix F to this paper, and further support Section PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (Section PS 3060 paragraph .20), yet the accounting model required by Section PS 3060 for non- GBPs[9] is that of proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership. ~~Joint defined benefit plan~~JDBPs (or pension plans in general) are not specifically excluded from the scope of Section PS 3060 (Section PS 3060 paragraph .05 lists a number of exclusions from its scope and pension plans are not noted), however some may interpret that they are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (Section PS 3060 paragraph .06 footnote 3). The Province of Ontario and OTF, which represents employees of the Province (Teachers), share control of OTPP. This interpretation ~~reason~~ indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to shared control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is shared control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a JDBP~~joint defined benefit plan~~. In other words, Section PS 3250 is a primary source of GAAP and provides sufficient and complete guidance on how to account for assets related to ~~joint defined benefit plan~~JDBPs.

Commented [NP3]: Insert reference/discussion on OTF?

I have added a sentence –not sure what more to add

[9] Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

6.3 Concept of Contingent Asset

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CONTINGENT ASSETS, Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset (Section PS 3320 paragraph .04). It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, being the impact of cumulative contributions and benefit expense. The fact that shared control exists with regards to access to the assets of the plan does not create additional uncertainty that would impact asset recognition under PSAS. The Province anticipates that in a broad sense, ~~s~~ any OTPP surplus would be shared in an "equitable manner" under the terms of the arrangement, and this is enabled through the ability to negotiate the utilization of the surplus including the ability to prevent the utilization of the surplus in a manner that does not benefit the Province. This expectation is further supported by past history of surplus utilization (see Appendix G). The method, extent and timing ~~of~~ during which the Province will obtain the expected future benefits (contributions reductions vs increase in benefits) is not certain. However Section PS 3320 also states "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof" (Section PS 3320 paragraph .07). Based on past history of surplus utilization for OTPP and based on the constating documents, expected future benefits for the Government are present. The uncertainty as with many types of assets relates to measurement uncertainty which will be discussed below.

6.4 Conclusion on recognition

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Therefore the Province has concluded that PSAS ~~permits~~ supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, ~~which is~~ discussed in Question ~~2~~ 3 of this position paper.

7.0 Question 3 – Measurement of a pension asset

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7.1 Standards in the PSA Handbook

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~~For an asset to be recognized it must be reliably measureable (Section PS 1000.55).~~ Section PS 3250 ~~paragraphs .050 to .059~~ addresses how to measure a pension asset. This is a two-step process for OTPP. Firstly the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement

benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset when it is a net asset (a Debit) amount. When the resulting amount is an asset, the standard requires a second step to test that the asset is not impaired. It should be noted that impairment testing in some form is required for all assets recognized under PSAS standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset. The amount that is tested is the "adjusted benefit asset". When there are net unamortized gains the ABA is equal to the adjusted benefit asset. When there are net unamortized losses the ABA is reduced by those net unamortized losses to calculate the adjusted benefit asset. A graphical illustration of the calculation of the Accrued Benefit Asset (AcBA) and the Adjusted Benefit Asset (AdBA) are shown in appendix C. Section PS 3250 paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA or adjusted benefit asset. Note that for OTPP the accrued benefit asset equals the adjusted benefit asset as there are net unamortized actuarial gains.

Section PS 3250 paragraphs .050-.059 are included here for completeness and ease of reference:

> ***Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)***
>
> *.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]*
>
> *.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.*
>
> *.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.*
>
> *.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).*

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in Section PS 3250 paragraph .050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and

its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Section 3250 paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an ABA and why a valuation allowance may be needed, rather than detailing the test to be applied. Part of this justification is to note that that an ABA may be impaired when "the government is not entitled to benefit from [the ABA] fully". Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

Section PS 3250 paragraph .059 gives additional guidance to apply when an entity contemplates realizing future benefits through a surplus withdrawal: "A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal". This introduces the concept of a legally enforceable right but only in the context of a government's withdrawal of surplus and not in the context of contribution holidays. If the standard setters had intended legal enforceability to be the test throughout the standard, they would not have raised it only in the context of a withdrawal of surplus, but as a more fundamental notion in the guidance on expected future benefit. [10]

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It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to shared control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Section 3250 paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays. When considering the ability to realize expected future benefits under Section PS 3250 paragraph .052, the Province's legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts. Pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the

[10] Per page 10 of the October 2, 2016 dated letter from Deloitte LLP addressed to Ms. Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat

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assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". Expected does not equate to certainty or the absence of uncertainty (Section PS 3250~~1000~~ paragraph .056).

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with (which includes the option of parking the surplus in the contingency reserve) so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Commented [KJ(4]: Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

ISPPD has provided benefit provisions for other BPS plans. No further analysis is possible.

Further, Section PS 3250 paragraph .055 indicates "The objective of the standard in Section PS 3250 ~~paragraph~~ .050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of principles and it is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate

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the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate[11]:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) ~~to~~ from exceeding the amount of contributions paid by or on behalf of active members in respect of credited service for the year[12] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the ~~Sponsors~~ sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the ~~Sponsors~~ sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.
3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[13])[14], and the requirement to negotiate and agree (or in the absence of agreement, mediate and/or arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

Commented [KJ(5]: Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

It is not material. To date, no credit has been accrued for OTF as there have been no benefit reductions to date during the freeze period. The freeze will end on December 30, 2017. As the plan has filed the 2016 actuarial valuation report, the next required filing will be in 2019 which is outside of the freeze period. It is unlikely any credit will be accrued before the expiration of the freeze period.

[11] Per pages 3 to 6 of the September 20, 2016 dated letter from Osler, Hoskin & Harcourt LLP addressed to Len Hatzis and Paul Kaufman, Treasury Board Secretariat Legal Services

[12] TPA, subsection 5(1.1)

[13] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[14] FMP, section 6.03

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. ~~As previously discussed!~~ ~~i~~n respect of conditional indexing, ~~a decrease in benefits by the employees~~reduced indexation for current retirees ~~were~~ was~~offset~~ matched by an increase in payments by the Province for the first 50% of the indexation reduction. ~~Similarly a~~As the sponsors agreed to utilize the funding surplus to partially restore indexation, this ~~increase in benefits~~restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the ~~Sponsors~~ sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' ~~-~~Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

   As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS -3250 paragraph .052.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

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Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the expected future benefit as the sum of:

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

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

Each of these is discussed separately.

7.3 ~~Through~~ Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

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In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

The TPA for OTPP does not specify a method for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

> 10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:
>
> 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

> Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that"...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution. The Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus.

7.4 Considerations re: ~~Through reducing~~ reduced future contributions (Section PS 3250 paragraph .056 (a))

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Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the

DRAFT

calculations are done on a 50% basis since the starting point, per Section PS 3250 paragraph.081 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

Section PS 3250 paragraph .055 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the pension asset value to be recorded in the accounts. For example, if the pension asset were $150, but the expected future benefit calculated as described above were $100, a valuation allowance of $50 would be recorded against the pension asset and the asset recorded in the government's financial statements would be reduced to $100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significant diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in this second part of the calculation. Note that consistent with the calculation of the expected future accruals for service, no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (Section PS 3250 paragraph .056(a)). There is no further guidance in Section PS 3250 as to how the calculation of minimum required contributions should be performed and what restrictions or parameters should be factored into this calculation. Typically for defined benefit plans minimum contributions include those that are required by the pension regulator to be made for funding. However, minimum contributions regardless of any surplus, may be required by plan text, legislation or other agreements with employees. For OTPP a key element of judgment is determining what contributions are required by the current plan arrangements "regardless of any surplus". The constating agreements for OTPP require that the parties negotiate every 3 years as a minimum, and when there is a funding surplus.

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the ~~Sponsors~~ sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the

plan agreements (there is no minimum contributions stipulated in the Plan text, legislation or Partners' Agreement) including the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.
- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation ~~unde`r~~under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

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Commented [KJ(6]: Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

Every valuation will review the funded status and if there is a new deficit, a new special contribution may be established to liquidate the new deficit. If the plan is well funded, the existing special contributions may end sooner than 2026.

DRAFT

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (Section PS 2130 paragraph .03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in Section PS 2130 paragraph .13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external consultants to conduct asset ceiling tests to assess the requirement for a valuation allowance against the $10.1 billion of net pension assets reported by the Province for OTPP . The results of those reports are summarized in Table 1 below.

DRAFT

Table 1: Summary of Asset Ceiling Models performed for OTPP

Commented [KJ(7]: Nadine - Are the models all available for the panel to review?

I presume yes

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

that is required ~~even~~ if a surplus is present.		
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $~~37~~31.7B at March 31, 2016.

Commented [KJ(8]: I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

Commented [KJ(9]: Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

DRAFT

employees and the Province.		

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

~~Under the Partners' Agreement, the parties are mandated to negotiate benefits and contributions every three years as a minimum and if agreement is not reached, it is reasonable to expect that a change in contributions might occur rather than the 'status quo' being retained.~~

For purposes of ~~the~~ OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

In addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between $19.9 Billion and $22.3 Billion); therefore indicating that no valuation allowance is required.

The determination of the minimum contribution levels required as input to the calculation of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions

will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty' or the absence of uncertainty.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (Section PS 3250 paragraph .042) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (Section PS 3250 paragraph .041). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. Section PS 3250 paragraph .057 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on ~~Plan~~ plan ~~Assets~~assets, which is one of the acceptable references suggested on Section PS 3250 paragraph .044.

The OAG and the ~~Government~~ Province differ in their interpretation regarding whether it needs to be "expected" that the ~~Government~~ Province will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in Section PS3250 paragraph .059. The ~~Government~~ Province considers that it needs to be expected that future economic benefits are to be obtained ~~obtained as reflected in the definition of an asset in Section PS 1000 and as~~ reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to ~~use~~ benefit from a plan surplus.

7.5 Other guidance in the PSA Handbook on measurement

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MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the ~~current year~~ financial statements. Section PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

> *.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by*

DRAFT

experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.

The estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the net pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is an acceptable alternative under PSAB and consistent with rates followed by other senior Canadian governments. Actual ~~. Hi~~ historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets reported in the Public Accounts. Appendix J includes a comparison of the OTPP funding rate assumptions, the Provincial discount rate for OTPP and the actual performance of OTPP from 2005 to 2016. Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP.

Commented [KJ(10]: Nadine – Do we have the history of annual returns for OTPP that we can reference?

NPP see appendix J

7.6 Impact of valuation allowance

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The current ~~AG's~~ Auditor General's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of Section PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no net pension ~~accounting surplus~~asset should be recognized in the Province's Public Accounts for JDBPs until the joint sponsors agree~~s~~ to a change in the plan text ~~for the Province~~ to provide for unilateral authority to the Province to access surplus or reduce future contributions ~~to~~ or the sponsors enter~~s~~ into an agreement by year-end enabling the government to take a contribution holiday. In the absence of meeting either the criteria set out by the ~~AG~~Auditor General, any ABA would therefore be fully provided for through a valuation allowance, impacting each year's statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in which increased funding is made and also higher when poor investment returns create

actuarial losses that have not yet been amortized into the statement of operations. These examples are illustrated in Appendix C.

For information purposes, refer to Appendix H for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS. Of particular note is the impact in 2008 when the deficit would have been lower by $3 billion in a year when pension asset values fell significantly because of the financial crisis.

7.7 Comparability of Ontario's accounting ~~for JDBPs to~~ ~~with~~ to other Provinces defined benefit plans

Not all of the jurisdictions noted in this comparative overview have joint defined benefit plans. Furthermore, the specific terms and conditions of any jurisdiction's plans will determine the appropriate accounting under PSAS. This information is provided for reference purposes only and has no direct impact on the Province's accounting treatment for OTPP or other defined benefit plans on the Province's financial reports.

The Province of British Columbia does have a jointly sponsored pension plan. ~~Included in~~ Appendix I provides details from ~~is~~ a legal opinion prepared by lawyers, Koskie Minsky which ~~,~~ ~~comparing~~ compared access to the pension surplus of OTPP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTPP.

The Province of Manitoba has a multi-employer defined benefit plan for their healthcare employees. The Province neither records the net pension liability or the net pension asset on their financial statements as the Province is not a direct sponsor of the plan. The Province of Manitoba appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

The Province of Nova Scotia's Public Service Superannuation Plan transitioned to a joint governance structure in April 1, 2013. Due to the wording of the legislation, the Province has determined it no longer has any residual liability for the plan, and therefore has no entitlements to its assets. The legislation and funding policy alleviated the Province from any responsibility to fund shortfalls or to benefit from fund surpluses. As a result, the Province no longer records a net pension asset or liability in their financial statements. The Province of Nova Scotia therefore appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

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Commented [NP11]: Conclusion on comparability with ON JDBP and appropriate PSAS reference to be inserted.

See sentence added

Commented [NP12]: As above.

Similar sentence added

Quebec has two joint sponsored plans: Government and Public Employees Retirement Plan, and Pension Plan Management Plan. These plans are structured such that employee and employer contributions are in separate funds. Currently both of these plans are in net pension liability positions.

In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the Province's access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. These plans are shared risk plans that are governed by a Board of Trustees to which the Province has appointed one-half of the members. The Plans are jointly funded by employees and the Province. These target benefit plans target retirement benefits as opposed to guaranteeing them. Two of the four target benefit plans are in a net asset position, where a full allowance is taken by the Province against the net pension asset. The Province of New Brunswick appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 (there is no specific guidance on target benefit plans in PSAS) as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

~~Therefore,~~As noted above, the constating documents for pension plans in other provinces are different than those of OTPP, therefore caution should be exercised when trying to compare accounting among the jurisdictions, or others. ~~which supports the different accounting by the Province of Ontario for OTPP.~~ ~~Quebec, Nova Scotia, Manitoba and New Brunswick also have pension plans that are in a net accrued benefit asset position before valuation allowance.~~

~~In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the Province's access to the plan assets. These target benefit plans targets retirement benefits as opposed to guaranteeing it. Two of the four target benefit plans are in net asset position, where a full allowance is taken against the net pension asset.~~

Commented [NP13]: Comment on comparability to ON situation, relevant PSAS.

Similar sentence added

7.8 Conclusion on measurement

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As discussed, there is significant professional judgement and estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the ~~joint defined benefit plan~~JDBP arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of ~~those~~ various actuarial assessments for the asset ceiling test ~~models to~~ date ~~no~~, no valuation

allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

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Appendix A – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

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Commented [LD14]: There are some typos in the table specifically "reflecing instead of "reflecting" in each of the subheadings

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Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	**(405)**	**29**	**221**	**241**	**250**	**305**
Expense increase (reduction) in valuation Allowance						
Pension Expense after valuation Allowance	**(405)**	**29**	**221**	**241**	**250**	**305**

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772
Adjustment for different year ends	529	650	687	764	774
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220
Pension liability (Asset) at March 31 Reported before any valuation	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	998	1,051	1,118	1,175	1,217
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(146)	38	34	30	(4)
Pension expense before valuation	**359**	**354**	**60**	**266**	**523**
Expense increase (reduction) in valuation Allowance					
Pension Expense after valuation Allowance	**359**	**354**	**60**	**266**	**523**

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Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**(10,147)**
Valuation Allowance	**-**	**-**	**-**	**-**	**10,147**
Pension Liability (Asset) after valuation Allowance	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**-**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	**519**	**892**	**875**	**569**	**118**
Expense increase (reduction) in valuation Allowance					**1,480**
Pension Expense after valuation Allowance	**519**	**892**	**875**	**569**	**1,598**

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Appendix B – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities

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Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Pension Act and to the Partners' Agreement and Funding Management Policy in order to determine how ongoing surplus is dealt with under the OTPP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the ~~Teachers' Act~~TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the ~~Sponsors~~ sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the ~~Sponsors~~sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners (sponsors) can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners (sponsors) in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the ~~Pension Benefits Act~~PBA, appointing the OTTP Board, and defining the role of the Board. Section 10 requires that the partners meet and negotiate changes to the plan every three years. Section 19 of the Partners Agreement sets out the responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the ~~Sponsors~~ sponsors to the OTPP have the authority to utilize ongoing surpluses. Section 19 also requires the Board to prepare a valuation at least every three years to comply with the PBA.

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Paragraph 57 requires a valuation prepared for filing with the Superintendent of Financial Services to be actuarially balanced so that the present value of benefits and costs to be paid out of the fund (plus any contingency reserve) be equal to the present value of sponsor contributions. An actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation. The partners shall establish a committee to deal with accounting matters relating to joint pension plan sponsorship and agree to contact the Public Sector Accounting Board to raise issues of concern to the partners.

Paragraphs 58 to 60 indicate the actions to be taken based on the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario. If the valuation indicates a need to increase the contribution rate, the partners need to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the valuation indicates the contribution rate can be decreased, the actuarial gain can be applied to reduce the payments required to liquidate any unamortized balance of a solvency deficiency.

The process governing the use of ongoing surpluses by the ~~Sponsors~~ sponsors is set out in the Partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every three years (section 73).

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

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

Section 77 of the Partners' Agreement anticipates that the ~~Sponsors~~ sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

If the ~~Sponsors~~ sponsors cannot agree on the changes required to the Plan, a mediator is appointed to assist the ~~Sponsors~~ sponsors in coming up with an agreement. The mediator is responsible for submitting a report to the ~~Sponsors~~ sponsors on his or her views on the positions of the partners and provide a recommendation to the ~~Sponsors~~sponsors. If the ~~Sponsors~~ sponsors do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The

board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented.

Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

The mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the ~~Sponsors~~ sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the ~~Sponsors~~ sponsors do not agree to file the valuation, then the ~~Sponsors~~ sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

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

Funding Management Policy (FMP)
The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP. The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses: i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)). ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05). iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both. The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are

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met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the ~~Sponsors~~ sponsors are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

The Plan is currently in the Restoration Zone. Contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both ~~Sponsors~~sponsors, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

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

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the ~~Sponsors~~ sponsors mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners; Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong

foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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Appendix C – ~~Impact~~ Overview of a Valuation Allowance on Pension Assets

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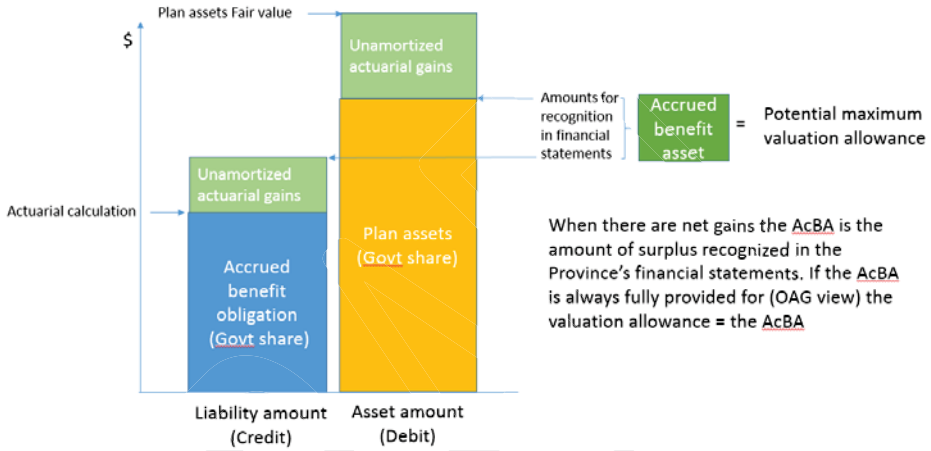
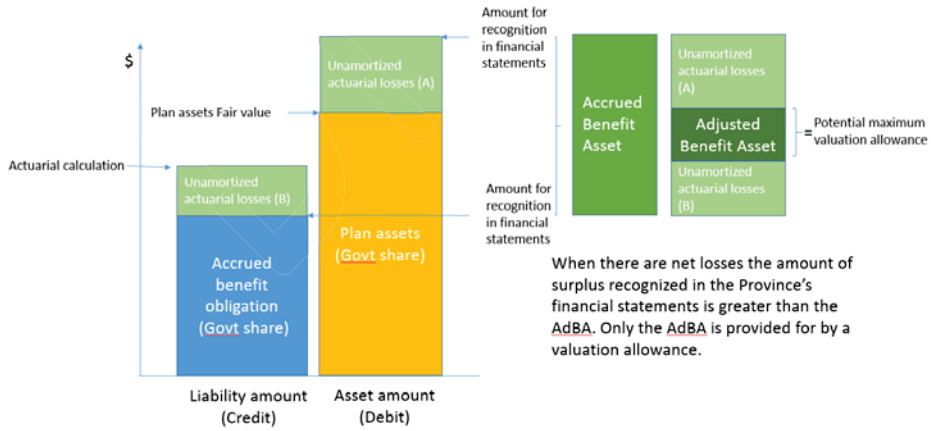
An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses

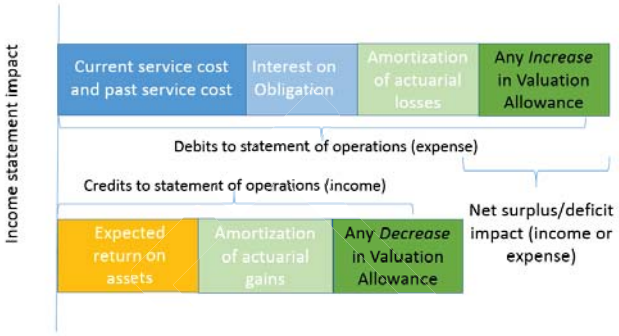


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the AdBA. Only the AdBA is provided for by a valuation allowance.

Components of Expense

The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]

Event or circumstance	Impact on AcBA/AdBA	Impact on VA	Impact on Fiscal Position
Investment returns worse than expected e.g. economic downturn	The AcBA does not decrease significantly. The Adjusted Benefit Asset does.	VA decreases – lower allowance than prior year required	Fiscal position improves in an economic downturn
Plan assets fair values significantly lower in one year. Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.	The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.	Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.	Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years. A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]

2015-2016 example:
Contributions of $1,812M exceeded other elements of pension expense by $1,514M

2015-2016 example:
Additional contributions increase plan assets. AcBA increases by $1,514M

2015-2016 example:
AcBA increase of $1,514M results in an increase to the VA of $1,514M

2015-2016 example:
Deficit increases by $1,514M.

The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

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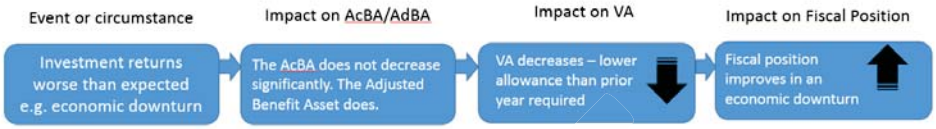
Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.

Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

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Appendix D – Summary of different valuation methodologies for pension valuations

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The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.
Actuarial cost method	*[To confirm – not clear from the valuation report]*	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation]	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market-related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. The Province uses adjusted market values for some classes of assets in certain plans.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate.	In measuring a pension obligation amount, the defined benefit obligation	Not specified. However two methods are specifically

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	For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation]	amount determined by the plan's sponsor may be (but is not required to be) used. Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high-quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[15] The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.
Underlying population data	All valuation methodologies should use consistent underlying data of the population covered by the plan		
Inflation rate	All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Demographic assumptions	All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Other economic assumptions	All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		

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Assumption/ methodology	Funding valuation	Accounting Part IV of the CPA Canada Handbook –	Accounting PSAS – (Province Financial

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[15] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

	(Going concern basis)	(OTPP Financial statements)	statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on the financial position of the plan as of the valuation date on a funding basis in accordance with the Pension Benefits Act, the Income Tax Act as well as generally accepted actuarial practice.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits, pension obligations and the financial position of the plan as of the valuation date in accordance with Part IV of the CPA Canada Handbook (Part I of the CPA Canada Handbook (i.e. IFRS) is referred to where Part IV is silent).	Measure and report the obligation for employee retirement benefits, attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on the financial position of the plan in accordance with PSAS.
Actuarial cost method	Modified aggregate method (level cost method)	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	PSAS allows choice regarding the valuing of plan assets at market-related value. Market -related values, are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. The Province has chosen to value OTPP's plan assets by adjusting to market value over a period of 5 years in accordance with PSAS.

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	assets with fixed redemption values For funding valuation, the plan uses the actuarial value of assets which are the market value of assets adjusted for investment gains / losses spread over a period of 3 years.		
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work For the purpose of the funding valuation, the plan uses a discount rate which is based on market related rates averaged over a period of 36 months. The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015	Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario. As illustrated in Appendix E, this is inconsistent with other Provincial pension plans in Canada which use as a discount rate, the long-term rate of return on plan	Not specified. However two methods are specifically acknowledged in PSAS – a) discount rates determined by refere to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. [16] The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term return on plan assets. The discount rate used by the Province to account for OTPP in their March 31, 2016 financial statements was 6.25%. This is the long-term rate of return on plan assets which is in accordance

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[16] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

	was 4.85%.	assets. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	with PSAS.
Independent verification		OTPP's financial statements are audited by Deloitte LLP.	The Province's financial statements are audited by the OAG.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.		
Demographic assumptions	Valuations use consistent demographic assumptions (best estimate by the OTPP Board).		Under PSAS, the Province is not required to prescribe demographic assumptions.
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.		The Province prescrib the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted.

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PSAS requires demographic assumptions. I'm not sure what is means that the Province is not required to "prescribe" them

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Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP ~~[Tables are to be updated]~~

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Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the *only* plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

1

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	ON 1	3.25%	Market rate of Provincial Bonds

2

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	ON 2	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	ON 3	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	ON 4	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	ON 5	5.95%	LT return on plan assets
Alberta					
Teachers' Post-1992 Pension Plan	6.80%	LT return on plan assets	AB 1	7.00%	LT return on plan assets
Universities Academic Pension Plan	6.00%	LT return on plan assets	AB 2	5.95%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)					
Local Authorities Pension Plan	5.60%	LT return on plan assets	AB 3	5.60%	LT return on plan assets
Public Service Pension Plan	6.00%	LT return on plan assets	AB 4	6.00%	LT return on plan assets
Management Employees Pension Plan	6.10%	LT return on plan assets	AB 5	6.10%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.40%	LT return on plan assets	AB 6	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.00%	LT return on plan assets	AB 7	6.00%	LT return on plan assets
Special Forces Pension Plan	5.90%	LT return on plan assets	AB 8	5.90%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan					
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.50%	LT return on plan assets	SK 1	6.50%	LT return on plan assets
British Columbia					
Public Service Pension Plan	6.50%	LT return on plan assets	BC 1	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	BC 2	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	BC 3	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	BC 4	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec					
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	QC 1	6.40%	LT return on plan assets less inflation
Newfoundland					
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	NF 1	5.80%	LT return on plan assets
Nova Scotia					
Nova Scotia Public Service Superannuation Plan (PSSP)	6.70%	LT return on plan assets	NS 1	6.15%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	NS 2	6.25%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets

7

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets
New Brunswick					
Provincial Court Act and Provincial Court Judges Pension Act (JUDGE)	6.15%	LT return on plan assets		No individual financial statements	
Pension Plan for Management Employees of New Brunswick School Districts (Sch-Mgt)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLTS)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for Full-Time CUPE 2745 Employees fo New Brunswick School Districts (CUPE 2745)	6.05%	LT return on plan assets		No individual financial statements	

7

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
New Brunswick					
NHMgt, NHG&S, NHN&P (i.e NH Nursing Home)	6.20%	LT return on plan assets		No individual financial statements	
CUPE Employees of New Brunswick Hospital (shared risk)	5.45%	LT return on plan assets		No individual financial statements	
Certain Bargaining Employees of New Brunswick (shared risk)	5.70%	LT return on plan assets		No individual financial statements	
Public Service Shared Risk Pension Plan	6.00%	LT return on plan assets		No individual financial statements	
New Brunswick Teachers' Pension Plan (shared risk)	6.15%	LT return on plan assets		No individual financial statements	

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Appendix F -– Comparison of dDefinitions of a Joint Defined Benefit Plan and Government Partnership

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The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, ~~paragraph~~ Section PS 3060 paragraph .06. ~~GOVERNMENT PARTNERSHIP,~~ Section PS 3060 was introduced into the Public Sector Accounting (PSA) Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. ~~RETIREMENT BENEFITS,~~ Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A **government partnership** is not a government organization but is a contractual arrangement [2] between the government and a party or parties outside of the government reporting entity [3] that has all of the following characteristics:	A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners co-operate toward achieving significant clearly defined common goals;	(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;	Consistent in concept with the definition of a GP focusing on investments in the partnership and the

			definition of a JDBP focusing on contributions into the plan.
Criteria 3	(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and	(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.	(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the	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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	government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

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In addition to consistent wording, the concepts in the definitions of a government partnership and a ~~joint defined pension pla~~JDBP~~n~~ are similar.

While similar in concept and wording, the definition of a ~~joint defined pension plan~~JDBP is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including ~~joint defined pension plan~~JDBPs.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates "*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]". This principle is consistent with the proportionate consolidation method included in Section PS 3060.

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Appendix G – History of Surplus Utilization for OTPP

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The history of OTPP surplus utilization from ~~the time the OTPP became a jointly sponsored pension plans~~1990 to the date that the FMP was established (in March 2003) demonstrates a past practice of the ~~Sponsors~~ sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Contributions by teachers increased by 1 percentage point (from 7.9% to 8.9%) effective January 1, 1990 per legislation.~~Increased contributions by 1% to 8.9%~~	Legislated an increase in matching contributions (from 7.9% to 8.9%) effective January 1, 1990 and responsibility to finance the initial unfunded liability through a series of special paymentsAgreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit	$4.6 billion to reduce the value of remaining	$0

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		improvements	special payments	
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

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See note 2 on page 24
Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the ~~Sponsors~~ sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

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Appendix H - Illustrative impact of 100% valuation allowance on OTPP on key indicators for prior 10 years~~Comparison of key measurements of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS.~~

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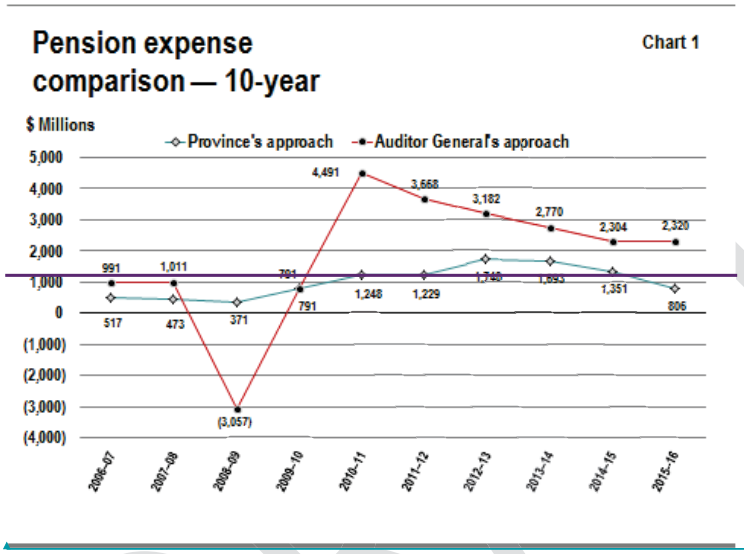
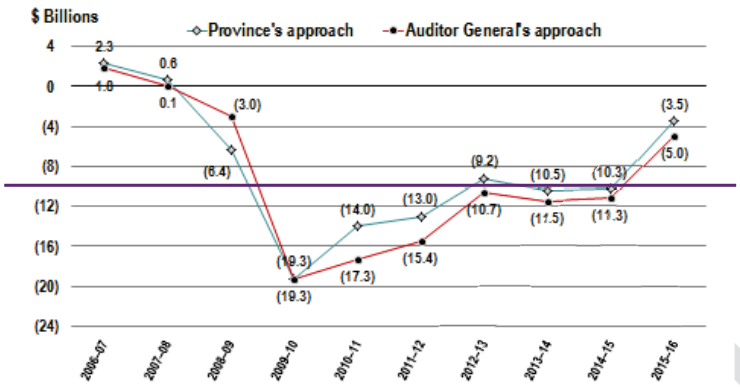
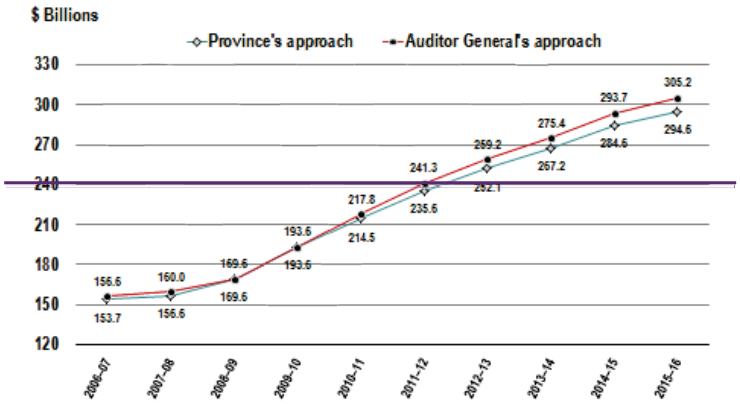


Surplus/(deficit) comparison — 10-year Chart 2



Net debt comparison — 10-year Chart 3



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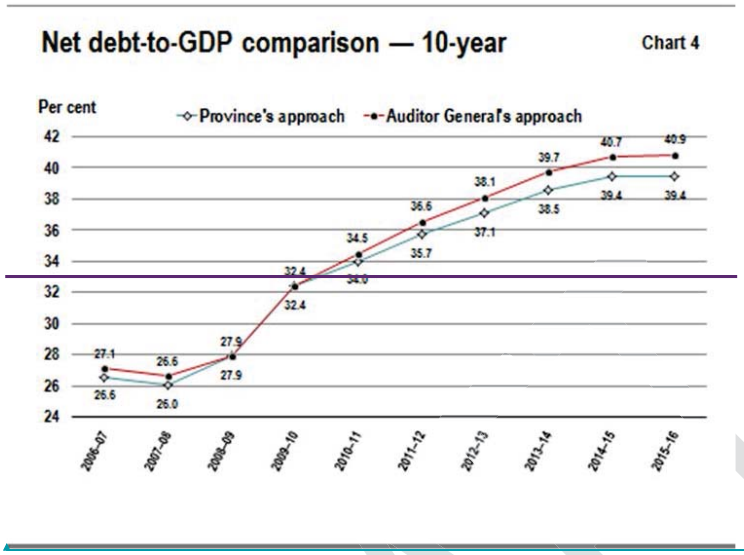

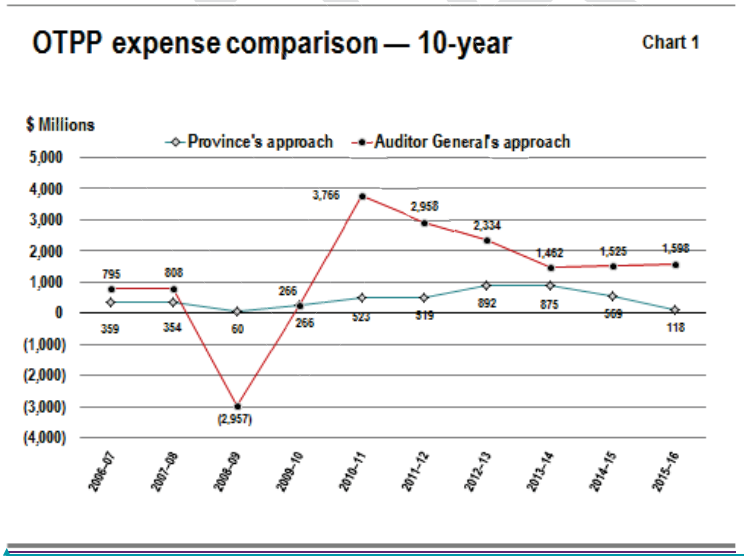

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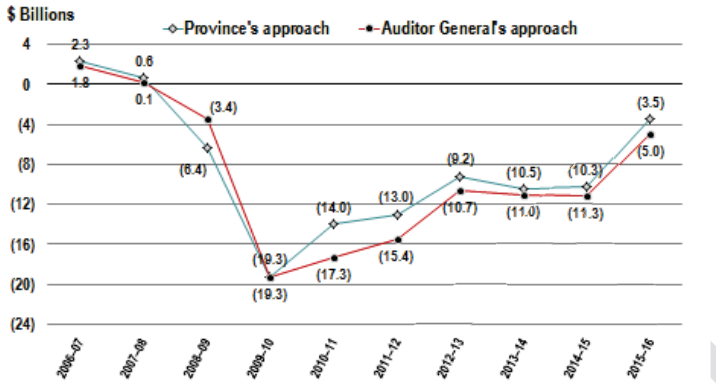
Surplus/(deficit) comparison — 10-year

Chart 2



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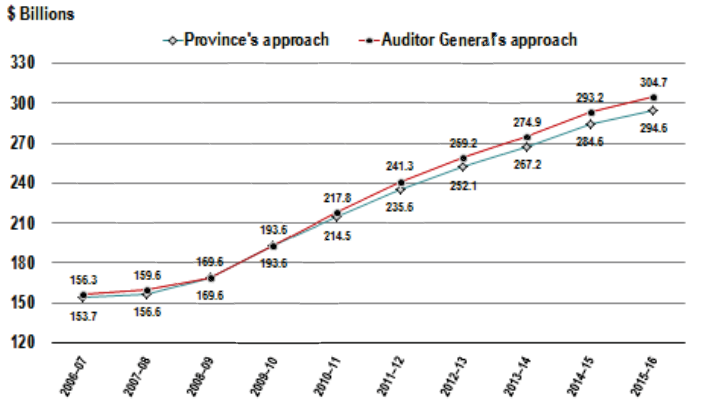
Net debt comparison — 10-year

Chart 3



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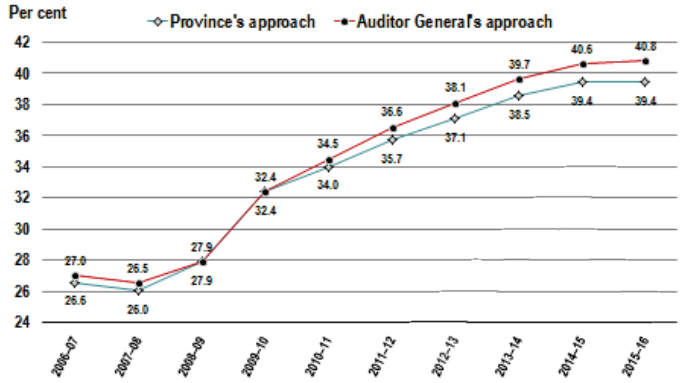
Net debt-to-GDP comparison — 10-year Chart 4



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Appendix I – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

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BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the

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event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan ("PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

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In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[17] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect

[17] It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

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to ongoing PSPP surpluses

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the

same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.
1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

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B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize 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.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

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Appendix J – Summary of OTPP Funding Rate Assumptions and Provincial Discount Rates vs. Actual Performance

Formatted Table

Ontario Teacher's Pension Plan
Rate Comparison

	OTPP Annual Performance	OTPP Filed Discount Rate *	Province Economic Assumption for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

* The plan does not file a valuation annually. Under the Pension Benefits Act, plans must file at least every three years

Ontario Teacher's Pension Plan
Plan Performance

2015	13.0%
2014	11.8%
4 - Year	12.2%
10- year	8.2%
Inception	10.3%

DRAFT

Re_ FW_ Review_ Valuation Allowance.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: FW: Review: Valuation Allowance
Date: Thursday, September 22, 2016 16:30:40

Thanks for sending that through Cindy. I will take a look at it.

I forgot to ask on the call whether you and Nadine had given any consideration to the impact of scheduling out anticipated (funding) surplus growth assuming that current service cost remains the same in perpetuity and minimum funding requirements are greater than current service cost under the current Schedule 1 contributions. It might take a long time, but eventually there would be a significant build up of surplus such that the cap on contributions in Schedule 1 section 19 (2a) would kick in (i.e. when the income tax act would not cap contributions). As soon as the minimum contributions under the Schedule 1 drops below the current service cost then you can start to recognize a benefit under paragraph 056 (a) calculations. The only question is, depending on the expectations of surplus growth and when the ITA caps kick in, is when does this occur, and how big is the effect. You have until perpetuity to reach the caps, but obviously the further away the cap is reached, then the lower the benefit when discounted back.

I have reached out to find the right contact in the Netherlands. Given the time difference, I am not sure I will know by tomorrow morning, but I will keep you posted on that avenue.

Regards,
Lucy

Lucy Durocher
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 09/22/2016 03:48 PM
Subject: FW: Review: Valuation Allowance

See line 41 of the first tab -- Cindy

From: Fong, Pauline (TBS)
Sent: September-21-16 4:37 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

Thank you.

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

I did look into your file and seems reasonable vs the previous illustrations that we have exchanged, just one adjustment
You will see in liability sheet I have a line 29 adjustment for other unamortized (this is the transitional asset amortization that goes back to the initial application which is to be included in the test of unamortized losses) this likely affects your 2002 / 2003 valuation allowance.

Also to note is the flaw of the PS3250 that I have highlighted in previous communication :
- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance
- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services
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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Objet : Review: Valuation Allowance

Hi Martin,

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

Regards,

Pauline Fong, CPA, CA
Senior Analyst, External Reporting
Office of the Provincial Controller Division | Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7
Phone: (416) 212-4007
Pauline.fong@ontario.ca

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Re_ Heads up.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Heads up
Date: Friday, September 23, 2016 13:12:53

Hi Nadine,

Yes, that is fine. Thanks for the heads up.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/23/2016 12:59 PM
Subject: Heads up

Hi Lucy. In briefings now and firming up timing on key actions to try to get to signoff on the Public Accts for early nest week, if possible.
Cindy and I will be working on a position paper and will need your help, likely over the weekend as there will likely be a desire to review it on Sat pm or Sunday so it can be shared with the AG on late Sun/Monday. Hoping that's OK with you?
N

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Re_ Internal Doc for your review_consideration.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Internal Doc for your review/consideration
Date: Monday, September 19, 2016 11:00:32
Attachment 1: PWC SOW Pensions Accounting Opinion 20160915 Compare v2 .docx

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Thank you. I think this is a critical part of the analysis.

In respect of the SOW, I discussed the issue with our internal groups. Under Section 7600 of Canadian GAAS, any accounting opinion must contain "restriction of use" language in the opinion, which does restrict the use of the report and the reliance that third parties can place on it. However the standard notes that notwithstanding this restriction, the report can be shared with the incumbent auditor, so sharing with the OAG is definitely permissible, but publication of the report to third parties will be of limited use because they cannot rely or use the report. I understand that in similar situations we permit references to the report, but generally not the reproduction of the report publicly because of the restriction of use.

Based on this, I have suggested amended language in the SOW (in tracked changes from the last version you sent me), that also captured the concerns about what the OAG would do with the report once it has been shared. Please let me know if this is acceptable to you and your legal department, and then we can finalize. All the other edits suggested by you in the last version were accepted.

Lucy

Lucy Durocher
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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/19/2016 10:38 AM
Subject: Internal Doc for your review/consideration

Hi Lucy.
One of our staff have prepared the following analysis of PSAB's guidance on the government partnership standard and sec. 3250's reference to joint defined benefit plans.
I think you'll find it of interest.
Nadine[attachment "Govt Partnerships and JDPP to DT.docx" deleted by Lucy

Durocher/CA/ABAS/PwC]

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PWC SOW Pensions Accounting Opinion 20160915 Compare v2 .pdf

Statement of Work for Management Consulting Services

This Statement of Work no. **OPCD-PWC-01** is made in duplicate and effective September 16, 2016.

PricewaterhouseCoopers LLP (the "Vendor" or "PwC") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client" or the "Province") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of March 22, 2016 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$100,000.00, excluding HST.

4. *Project Start Date:* September 16, 2016.

5. *Project End Date:* December 31, 2016.

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

   The Vendor shall provide accounting advice (the "accounting advisory services") regarding the acceptability of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards. The accounting advice may include:

   - Review of background information, position papers developed by the Client or third parties that have been engaged by the Client to draft accounting positions on accounting for the recognition and measurement of pension assets for jointly-sponsored pension plans, and other supporting information.
   - Provide written or oral comments on draft position papers as provided by the Client with respect to the application of Canadian Public Sector Accounting Standards.
   - Participation in discussions with internal and external stakeholders and other parties as directed by the Client.

   During the course of this project, the Client will provide to PwC a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of any relevant disagreements with the Client's auditor. If an accounting opinion is to be provided, the Client's auditor will confirm to us in writing that the information the Client

has provided to PwC is complete and consistent with their knowledge of the facts and circumstances of the specific transaction.

If requested to by the Client during the course of the project, the Vendor shall provide an accounting opinion (the "accounting opinion"), prepared in accordance with Section 7600, *Reports on the application of accounting principles* of the CPA Canada Handbook – Assurance ("Section 7600"), regarding the appropriateness of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards.

Vendor may be required to participate in meetings with the Client and other stakeholders, and to support the Client with respect to the Vendor's accounting advice or accounting opinion (if applicable), including discussions with the Office of the Auditor General.

The Client agrees that any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC will not be made available to any other persons or entities. An accounting opinion prepared in accordance with Section 7600 will, in compliance with Canadian GAAS, include restriction of use language identifying the parties to whom use is restricted and a statement that the report is not intended to be and should not b eused by anyone other than the specified parties or for any other purposes. However the Client may provide access to PwC's observations and an accounting opinion prepared under Section 7600 (if applicable) to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain the Vendor's written consent before including our accounting opinion (if applicable) or referring to the Vendor in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent. The Client agrees that prior to providing their independent auditors with any written work product of PwC, including an accounting opinion prepared under Section 7600, the Client will obtain agreement from the independent auditors that the Vendor's report shall not be referred to or included in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public, unless the independent auditors has first sought and obtained the Vendor's written consent.

~~The Client agrees that any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC, other than an accounting opinion prepared in accordance with Section 7600, will not be made available to any other persons or entities. However the Client may provide access to PwC's observations to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent. The Vendor acknowledges that the Auditor General at its discretion may include the accounting opinion or refer to PwC LLP in documents disclosed to third parties, or may require the Province to do so, and the vendor agrees that the client is not in breach of this statement of work should this occur.~~

Acknowledgements and agreements

The Client acknowledges and agrees to the following:

a. The performance of the accounting advisory services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada ("CPA Canada") and, therefore, PwC will not express an opinion or any other form of assurance with respect to the accounting advisory services.
b. The accounting advisory services and accounting opinion (if applicable) to be provided do not include the delivery of any verbal or written advice on the application of accounting principles to a hypothetical transaction.
c. This engagement cannot be relied on to disclose internal control deficiencies, errors or fraud, should they exist.
d. PwC has no responsibility for updating the accounting advisory services or accounting opinion or for performing any additional services, except as agreed to in writing with the Client.
e. The Client's purpose for engaging PwC to perform the accounting advisory services is to supplement management's own technical accounting resources in performing accounting analysis and to assist management in making its determination as to the application of accounting principles and not to obtain an opinion from PwC as to such application, unless an accounting opinion is requested by the Client.
f. The Client shall be solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) designating one or more individuals who possess suitable skill, knowledge and/or experience, preferably within senior management to oversee the accounting advisory services (c) evaluating the adequacy and results of the accounting advisory services; (d) accepting responsibility for the results of the accounting advisory services; and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.
g. All management decisions and final conclusions reached in connection with the accounting advisory services will be the responsibility of the Client. PwC will not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of the Client.
h. PwC has no responsibility related to the Client's accounting or disclosure conclusions, whether or not such conclusions of the Client are related to the accounting advisory services and PwC has no responsibility for any disagreements between the Client and its independent auditor related to the Client's accounting.
i. The Client will be solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the accounting advisory services do not include the recording of any amounts in the Client's books or records. All amounts derived from the performance of the accounting advisory services will be reviewed and approved by, and will be the responsibility of, the Client's management.
j. The nature, scope and design of the accounting advisory services and the accounting opinion are solely the responsibility of the Client. PwC will rely, without independent verification, on the facts, information and assumptions provided by the Client. PwC will make no representation nor provide any assurance with respect to the adequacy of the services for the Client's purposes. Furthermore, PwC has no responsibility to advise the Client of other procedures that might be performed.
k. The Client will be solely responsible for providing accurate and complete information requested by PwC. PwC has no responsibility for the accuracy or completeness of the information provided by or on behalf of the client.

l. PwC's accounting and technical assistance will be based on the existing public sector generally accepted accounting principles. Should those generally accepted accounting principles be amended, superseded or revised in any manner, PwC's advice might change. PwC has no responsibility to inform the Client of any changes in generally accepted accounting principles that may occur after the completion of the engagement or any other oral or written work product prepared hereunder that would impact PwC's advice on the appropriate application of generally accepted accounting principles or to update its recommendations or any other oral or written work produce to take any such changes into account.

m. This engagement does not create a relationship between PwC and any person or party other than the Client. This engagement is not intended for the express of implied benefit of any third party.

n. The Client will identify an appropriate individual to serve as the project manager, including overseeing the accounting advisory services.

7. *Ownership and Licences* - **Attachment D** of the Master Agreement forms a part of this Statement of Work.

8. *Communications and Reporting* - The structure of Vendor's working relationship with OPCD is vital to the success of their engagement. Vendor's main point of contact will be Lucy Durocher who is the engagement leader.

9. *Work Location* - All meetings will be within the Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive. If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. *Charges On Per Diem Rate Basis*– The Vendor and the Client agree that Work performed under this Statement of Work will be charged on a Per Diem Rate basis. The Per Diem Rate will vary, based on the nature of the final deliverable, as follows:

Nature of final deliverable	Per Diem Rate	Service Category	Estimated hours	Per Diem Rate
Accounting Advisory	General Consultant, Level 2	Service Category 2	20-25	$390/hour
Accounting Opinion	General Consultant, Level 2	Service Category 2	30-35	$990/hour

13. *Billing and Payment Process* – The Vendor shall invoice the Client in accordance with the requirements of the Master Agreement. Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Individual's Legal Name	Individual's Role and Experience Level	Service Category	Per Diem Rate
Lucy Durocher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"
Martin Boucher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"

Sean Cable (or alternative as agreed to by the Client)	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"
Michael Walke	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"

14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

Client:	Treasury Board Secretariat, Office of the Provincial Controller Division
Branch:	Accounting Policy and Financial Reporting
Representative:	Nadine Petsche
Title:	Director, Accounting Policy and Financial Reporting
Phone number:	416-325-8027
Email:	Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Clients designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all Confidential information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416-325-8027**
E-mail:	**Nadine.petsche@ontario.ca**

18. *Vendor Representative and Receipt of Notices*

Vendor's address for receipt of notices:	**PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2**
Vendor Representative:	**Lucy Durocher**
Telephone number:	**416-869-2311**
E-mail:	**Lucy.durocher@ca.pwc.com**
Backup Vendor Representative:	**Martin Boucher**
Telephone number:	**514-205-5415**
E-mail:	**Martin.boucher@ca.pwc.com**

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by The President of the Treasury Board

Per:

Signature:

Name: _____

Title: _____

Pursuant to delegated authority.

PRICEWATERHOUSECOOPERS LLP

Per:

Signature:

Name: _____

Title: _____

I have the authority to bind the Vendor.

Re_ fyi.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: fyi
Date: Monday, September 19, 2016 13:43:01

Hi Nadine,

I have a couple of specific additional questions that I did not think needed to be asked to the broader group as they relate to specific parts of the information that you have sent me. I think these relate to Deloitte calculations. I thought I would start with you so you were in the loop as to my questions, but you may need to ask Deloitte to follow up on these - I think they are actuarial questions, rather than accounting questions, so I did not ask Matt Colley when I spoke to him earlier.

- In the binder, section 4, there was a document called "Deloitte responses to OAG follow up questions, which included a calculation supporting the OTTP expected future benefit calculations. It looks like it was originally prepared in Excel. For clarity this is the calculation that shows the adjusted benefit asset as $10.1, the perpetuity of employer service cost - accounting as $44.6 and the minimum employer funding requirement as $15.3

- For the minimum employer funding requirements, the table shows that it is 10 years of the estimated contributions under the plan that are discounted to support the $15.3M as minimum funding contributions. Why is 10 years used?
- The reference indicates that the amounts of estimated contributions are based on the funding valuation of "scheduled contributions" (Pages 15 and 16), My read of the agreement is that these scheduled contributions are based on the estimate of pensionable earnings x the appropriate rate (11.5%/13.1%) which is consistent with Schedule 1 of the plan, and are not based on minimum funding contributions that are required by the pension regulator to fund a deficit. Can this be confirmed.
- The contribution levels under Schedule 1 cannot exceed those that would be permitted under the Income Tax Act, which limited deductions for contributions that are made when a plan has a certain level of funding surplus. Have the Income tax limits been considered in projecting forward the estimated minimum funding contributions that are required under Schedule 1?

In essence I am assessing whether the minimum contributions make sense - there could be an argument that, under schedule 1, the employer contributions at the base level of 10.4%/12% would continue in perpetuity until schedule 1 is changed by the partners. This would obviously change the outcome of the expected future benefit calculation, and, in a worse case, could eliminate all the expected future benefit.

- I did have talk to Deloitte earlier to touch base with them. They have indicated that they have circulated a statement of facts to you and your group for comment. It would be helpful if I could see this, when you are ready to share it, to ensure that all facts that I think will be pertinent to our analysis are included so we are all working off the same fact pattern.
-

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services

T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Paul, Joshua (EDU)" <Joshua.Paul@ontario.ca>, "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca>
Date: 09/19/2016 12:38 PM
Subject: fyi

Lucy,
In relation to some of your Q's on the call.

Contribution rates between the employee and employers are always equal, with one exception of 2008, when the OTF made a portion of the employee contribution. See table:

https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf

Note: the 1.1% was phased in over 3 years

Year	Up to CPP limit	Above CPP limit	Increase*
2011	10.4%	12.0%	N/A
2012	10.8%	12.4%	0.4%
2013	11.15%	12.75%	0.35%
2014	11.5%	13.1%	0.35%
	Total increase		1.1%

* As a percentage of salary

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RE_ MOF Economic Assumptions for Pensions.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: MOF Economic Assumptions for Pensions
Date: Wednesday, February 22, 2017 15:13:56
Attachment 1: image001.png

Hi Shayan.

Thanks for getting back to me. Can you call me at 4:30 please.

Talk soon,

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: February 22, 2017 2:12 PM
To: Petsche, Nadine (TBS)
Subject: RE: MOF Economic Assumptions for Pensions

Hi Nadine,

I will send through some comments/questions later today.

I am available this afternoon (except for a meeting from 3-4) and would be happy to discuss timing and next steps.

Christina and I can be back at Queens Park tomorrow. If you are at the office tomorrow, we could meet in person then.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Wednesday, February 22, 2017 1:40 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: MOF Economic Assumptions for Pensions

Shayan,

Just wondering when you think that the work might be done? We'd also like for you to do some work on asset ceiling tests for the pensions. We can discuss timing when you are available.

Thanks.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: February 21, 2017 3:55 PM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF); Fong, Pauline (TBS); Christina Chan
Subject: RE: MOF Economic Assumptions for Pensions

Thanks Nadine.

We will review this document and connect with Rob to discuss.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, February 21, 2017 3:52 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: MOF Economic Assumptions for Pensions

Hi Shayan.

Please find attached the analysis prepared by the Ministry of Finance's Income Security and Pension Policy Division. The report provides the rationale for the Province's economic assumptions for each of the plans. Please let us know if you have any

questions

Please feel free to connect with Rob Pomykacz in ISPPD to discuss the document or to follow up on any questions.

Regards,

Nadine

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image001.pdf

RE_ MOF Economic Assumptions for Pensions.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: MOF Economic Assumptions for Pensions
Date: Wednesday, February 22, 2017 14:39:50
Attachment 1: image001.png

Shayan,

Just wondering when you think that the work might be done? We'd also like for you to do some work on asset ceiling tests for the pensions. We can discuss timing when you are available.

Thanks.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: February 21, 2017 3:55 PM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF); Fong, Pauline (TBS); Christina Chan
Subject: RE: MOF Economic Assumptions for Pensions

Thanks Nadine.

We will review this document and connect with Rob to discuss.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, February 21, 2017 3:52 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: MOF Economic Assumptions for Pensions

Hi Shayan.

Please find attached the analysis prepared by the Ministry of Finance's Income Security and Pension Policy Division. The report provides the rationale for the Province's economic assumptions for each of the plans. Please let us know if you have any questions

Please feel free to connect with Rob Pomykacz in ISPPD to discuss the document or to follow up on any questions.

Regards,

Nadine

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image001.pdf

RE_ Meeting on employee future benefits.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]; Blake Langill [blake.w.langill@ca.ey.com]; Suzie Gignac [suzie.r.gignac@ca.ey.com]
Subject: RE: Meeting on employee future benefits
Date: Friday, June 09, 2017 14:25:33
Attachment 1: image001.png

Hi Alicia,

I will send you some times that work for our team. I have a few questions for you:

Are there other items that we'll discuss aside from the valuation for LTD's? If not, then the discussion will probably be more actuarial in nature and it may make more sense for myself or Uros to be more involved from the EY side.

Did the school boards reach out to their actuaries/consultants to get input from them? Was EDU in agreement with the view we shared?

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Friday, June 09, 2017 12:40 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: FW: Meeting on employee future benefits

Hi Shayan/Christina,

Ministry of Education (School Boards, ELHT related) would like to schedule a call with the school board auditors (Deloitte and KPMG in this case) to have a further discussion on the liability for employees on LTD.

EDU would like your counterpart from the accounting side to join the call and lead the discussion with the school boards auditors.

Please let me know whether you can reach out to your colleagues and let me know a time that will work for them.

Thanks,

Alicia

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RE_ Monday.rtf

From: Petsche, Nadine (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Monday
Date: Sunday, April 02, 2017 15:20:17
Attachment 1: image001.gif

Hi Uros.

Sorry for the delayed response. As Shayan has conveyed, there are currently heightened security restrictions at the Frost building. I will get back to you regarding a meeting/call with Cindy Veinot in the near future.

Best regards,

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: March-30-17 10:56 AM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani; Christina Chan
Subject: Monday

Hi Nadine,

Following up on our earlier discussion, would it be convenient/useful if I were to come up with Shayan and Christina to your office on Monday? Please let me know what works for you/Cindy.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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RE_ Monday.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Monday
Date: Thursday, March 30, 2017 11:12:23
Attachment 1: image002.png
Attachment 2: image003.gif

Hi Uros,

The Frost Complex at Queens Park is currently under a lockdown until the release of the Spring budget. We have been asked to work from the EY office until after the release of the Spring budget.

Christina and I are back at the EY office. We will continue to assist OPCD from here and communicate with the OPCD team via phone/e-mail for now.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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From: Uros Karadzic
Sent: Thursday, March 30, 2017 10:56 AM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: Monday

Hi Nadine,

Following up on our earlier discussion, would it be convenient/useful if I were to come up with Shayan and Christina to your office on Monday? Please let me know what works for you/Cindy.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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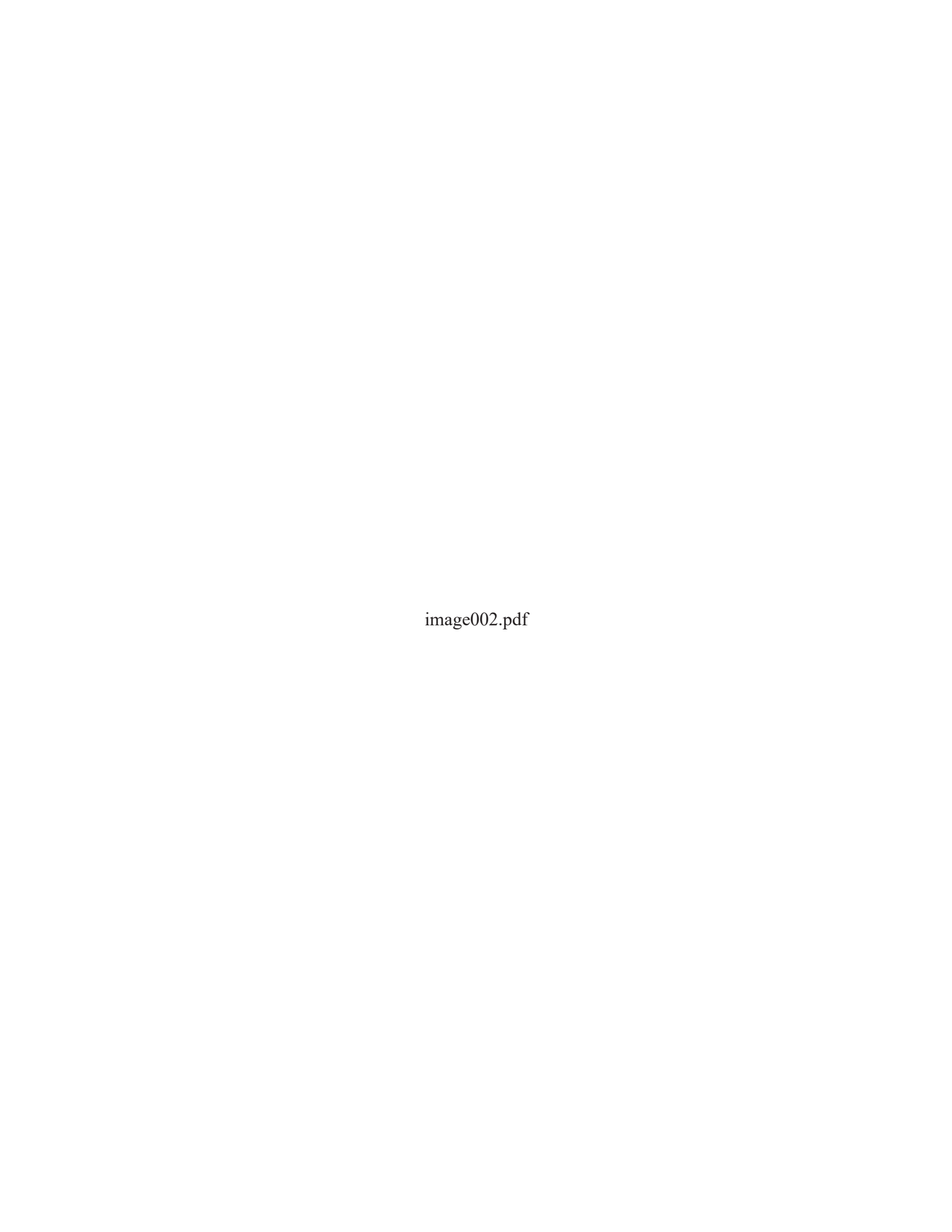
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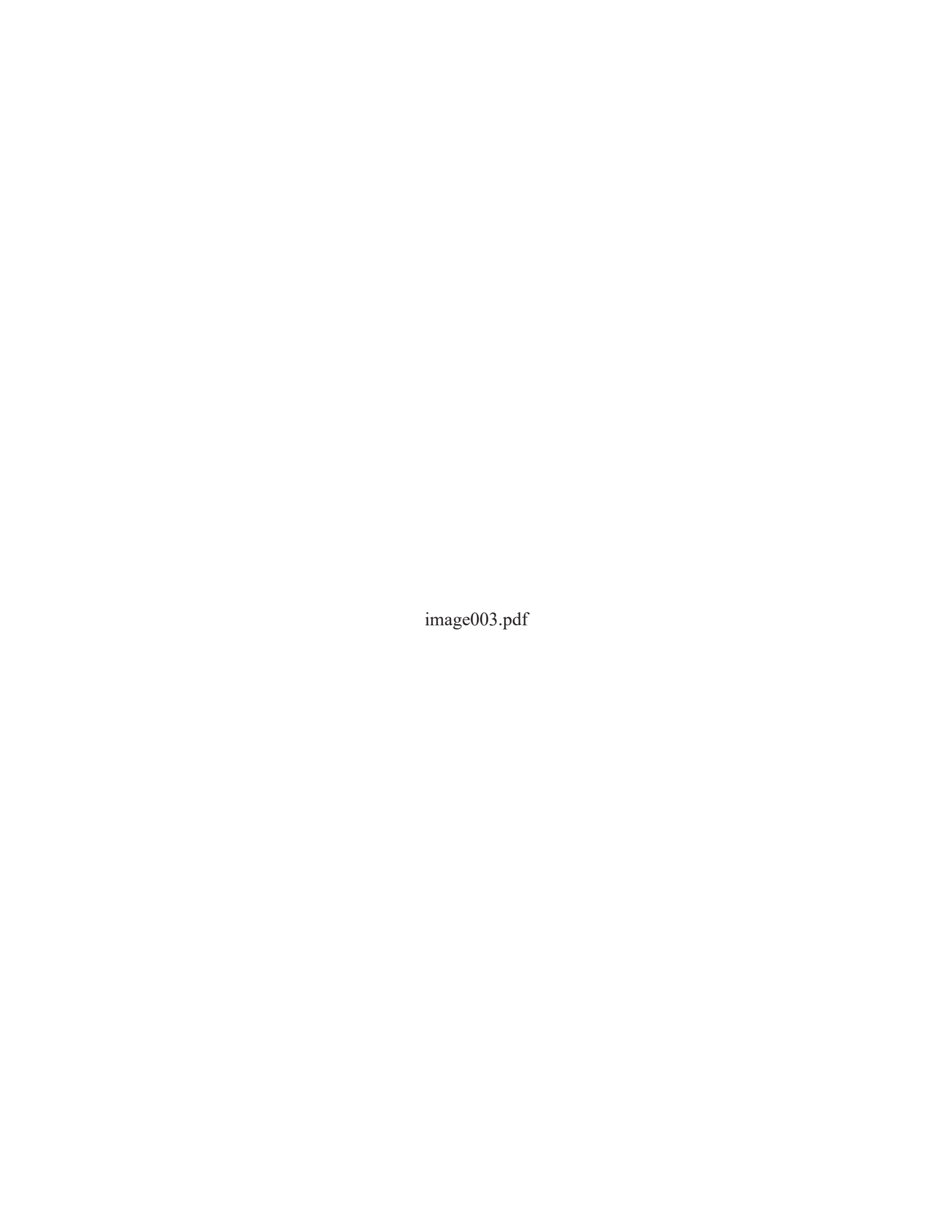
image003.pdf

RE_ NPP comments on draft position paper.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: NPP comments on draft position paper
Date: Saturday, October 22, 2016 21:31:33
Attachment 1: Draft Pension Asset Position Paper Oct 22 np to ld with responses np2.docx
Attachment 2: TPP rates of return (performance vs discount rates).xlsx

---

Thanks Lucy. My responses are enclosed. Looks really good from my perspective. I've also remembered to attach the rate experience doc this timeJ

Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-22-16 4:58 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Re: NPP comments on draft position paper

Hi Nadine,

Here are my responses to your comments.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: 10/22/2016 03:49 PM

Subject: NPP comments on draft position paper

Hi Lucy.
Thanks again for your efforts to create the draft paper for review this weekend. You'll find my suggested edits and comments attached. I also shared your original draft with Cindy, but I'm not sure of the status of her review. As we await her comments, I thought it would be best to share my feedback with you directly, and to cc her on my note so that she might add any additional comments to this version if she has not already started her review.
You will see that there is one section in particular, related to the minimum contribution period that I think would benefit from some review and edit. As this is the Province's position paper, I think we can convey a stronger message that downplays any suggestion that there are mandatory minimum payments required into perpetuity.
Thanks again.
Nadine
p.s. the second attachment reflects my edits in your original track changes version, and the first attachment reflects them against your clean version. [attachment "Draft Pension Asset Position Paper Oct 22 np to ld.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Outline of position paper to JK PF tab2 v5 - PwC edits Version 3np.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Draft Pension Asset Position Paper Oct 22 np to ld with responses np2.pdf

Position paper for Ontario Teachers' Pension Plan

Preamble

This document addresses the accounting for pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, HOOPP and CAAT.

Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP.

As described in PSAS, a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the asset balance (or plan surplus for accounting purposes) in OTPP and OPSEUPP are an asset to the province and it is suitable to reflect them in the financial results.

The OAG disagrees with this position. The OAG has indicated that because the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and in the absence of that right, because the Province does not have an agreement in place with the Ontario Teachers' Federation (OTF) with respect to how the surplus would be utilized such that it would provide a benefit to the Province, a pension asset in the Public Accounts is not appropriate.

Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals. There has been no change to the relevant PSAS (i.e. RETIREMENT BENEFIT, Section PS 3250) over the past 14 years.

A regulation was made to allow the public service to sign-off on the impact of the OAG's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province filed a time-limited regulation, which legislates the accounting for pension assets of its two jointly-sponsored

pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's accounting, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to write off the pension assets. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

What is being asked of the Expert Advisory Panel

The Expert Advisory Panel is being asked to review and deliver advice and recommendations to the government as to the application of PSAS to Ontario's pension assets. The future accounting by the Government of its pension assets will be guided by the report of the Expert Advisory Panel.

The Expert Advisory Panel 's advice and recommendations to the government will address:

- The requirement regarding control (or shared control) with respect to recognizing a pension asset for a defined benefit plan, as it relates to the pension plans reported by the Province of Ontario, including OTPP, OPSEUPP, HOOPP, and CAAT.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employment Benefits Task Force of the Public Sector Accounting Board (PSAB) regarding issues that should be considered in their review of the retirement and post-employment benefits standards.

Background

Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1.

[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
1. It provides defined benefits.
2. The defined benefits are contributory benefits.

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Position paper for Ontario Teachers' Pension Plan

The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the Ontario Teachers' Federation represented by its Executive (the ”OTF") (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. The OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for the OTPP ;
d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners Agreement (FMP);
f) The Ontario Teachers' Pension Plan; and
g) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

3. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
4. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under the OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

Despite this general principle, under the TPA the Province is required to make additional contributions to the OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. [5] The Province is also permitted to make additional contributions in respect of a solvency deficiency[6] (although, as noted above, solvency funding is not required under the OTPP). Notwithstanding that subsection 5(1.1) of the OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under the OTPP since the OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Currently, the Sponsors are also required to mutually agree upon how any plan deficits are to be addressed. [8] While not binding upon the Sponsors, the FMP indicates that deficits may be addressed through increases to the contribution rates, lowering the amount of indexation and/or other decreases in benefits.

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the FMP requires the Sponsors to negotiate and agree upon decisions relating to surplus utilization. Accordingly, the Sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

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[5] TPA, subsection 5(3).
[6] TPA, subsection 5(7).
[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/101791209401-l5e47lc2b-23f1-44e6-b5cld22e3e50dbc3lHow+ Contribution+Rates*HaverEvolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20lo versus l0.4yo/l2Vo, respectively). It ~~is~~is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.
[8] See, for example, Section 3.09 and 3.11 of the FMP.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the Sponsors are included in appendix E. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. We note that the Sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the Sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the Sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the Sponsors to agree upon the manner in which surplus is to be utilized, neither Sponsor has a legally enforceable right to unilaterally utilize surplus in the OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What

the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. When negotiations occur as laid out in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding valuation shows a funding surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is resolved prior to filing the funding valuation.

Commented [NP1]: Last part not entirely clear

LD response – suggested changes. Npp - thx

Commented [NP2]: Should the relevant context be discussed…no mandatory minimum contributions (in perpetuity)

LD response – This is background information so I had kept it relatively facts based, rather than interpretive to the standard, which is included later in the paper. More of the interpretation could be brought forward if management feel that it helps the paper. Npp – ok.

Accounting for OTPP by the Province

Since fiscal year 2001-2002, the Province has recorded a pension asset for OTPP on the Statement of Financial Position. A pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus the actual investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

With regards to any comparisons between asset amounts reported in the Province's financial statements verses the OTPP's financial statements or funding reports, it is important to acknowledge the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

> *.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.*
>
> *.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. …*
>
> *.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit*

Commented [NP3]: Note: An implicit assumption exists that at the time that the new pension standard was implemented, the Controller's office and the OAG would have reviewed the appropriateness of reflecting an asset based on the constating agreements which have not substantially changed over time. Similarly, the requirement to perform an asset ceiling test would have presumably been considered as part of the initial discussions when implementing the standard. At no time prior to the 2015/16 Public Accounts audit did the OAG raise any concerns regarding the appropriateness of the interpretation of PSAB standards in relation to the jointly sponsored plans, nor the lack of asset ceiling tests. That said, OPCD does acknowledge that an asset ceiling test to validate if the assets are impaired, is prudent and in accordance with PSAB. The results of the test conducted as part of the 2015/16 Public Accounts concluded that no impairment existed and therefore no valuation adjustment was required.

In addition to raising issues with regards to the interpretation and application of PSAB standards to the joint benefit plans, the AG has referenced comparative surplus/deficit results reported by OTPP both for financial reporting and funding purposes.

LD response – Noted – I see the additional paragraph added in this section to reflect the above points.

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expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Paragraph PS 3250.051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons…"

OTPP's most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website. The Province's relative portion of this surplus would be $6.6 billion. The OTPP's public financial statements showed a deficit for accounting purposes of $1.8 billion in its financial statements as at December 31, 2015, for which the Province's portion would be a deficit of $900 million. The following background helps to clarify the reasons for these different results. OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes. Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a "funding valuation" on a going concern basis may also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP's accounting valuation and the Province's accounting valuation is shown in Appendix H.

Specifically, the discount rate has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money makes the promises made today that will be paid out in the future cheaper. Both the PSAS accepted discount rate based on the expected asset return and the IFRS required discount rate of corporate/government bonds are "best estimate" rates. They must both be based on management's best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more "right" or "wrong" relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds. Typically the funding discount rate falls between

Commented [NP4]: In fact, experience on OTPP demonstrates that returns have on average continued to exceed management's long term estimates reflected in the discount rate.

Wonder if it would be worthwhile to include the historical results for background. (attached summary of performance to response email)

LD response – Continued experience of returns exceeding the discount rate would indicate that the expected asset returns (and therefore the discount rate) are not actually high enough. These increased returns would come through as actuarial gains, eventually amortized to the income statement. Perhaps I am missing what the point would be of including the historical results? How does it help the arguments?

Npp – comment is with reference to the AG's suggestion that the discount rate used by the Province should actually be lower (match OTPP's used for f/s purposes)…the discount rate used by the province as management's best estimate of return might be argued to be conservative when compared to actual return experience. Not sure if there might be a relevant place to include this observation or not.

the bond discount rate and the expected asset return, but it differs in that it does not purport to be the "best estimate" of the discount rate, but is designed to indicate the contributions that are required to fund the promised benefits, with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta 7 plans prepare their financial statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix [**G**]. The analysis demonstrates that a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability.

The above analysis discusses the impact of different discount rates on the net surplus/deficit reported on OTPP's financial statements, OTPP funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under PSAB standards is of no consequence or relevance to this analysis.

To further clarify, that that that there is a deficit reported in the OTPP financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, if the OTPP would have accepted a rate more consistent with its counterparts in other jurisdictions (see Appendix G) that would also be acceptable under the Part IV framework as an accounting policy choice (e.g. a discount rate based on an asset return which would be closer to that used by the Province), it would eliminate much of the existing differences between the reported net surplus/deficit amounts between the OTPP statements and the Province's share of OTPP reported for accounting purposes in the Public Accounts.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. Unqualified audit reports have been received for each of the years from the OAG on the Public Accounts.

RETIREMENT BENEFIT, Section PS 3250 of the PSA Handbook addresses the accounting of obligations for employee retirement benefits in government financial statements. The Province has followed this standard over the prior 14 years. Over this period of time, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years is reflected in Appendix F.

Although OPCD has not been able to substantiate decisions made at the time that the Province implemented PS 3250 in 2001, it is assumed that the Controller's Office and the Office of the Auditor General would have engaged in more specific and detailed discussions related to the interpretation and application of the standard with regards to the joint sponsored pension plan at the time. The presumed outcome of those discussions would have supported the Province's share of the surplus being reported on the Province's books based on the shared control over the plan as evidence by the constating documents. It is uncertain whether the need to perform asset ceiling tests on a regular, on-going basis was discussed at the time and there is no evidence of any having been performed previously. The pension accounting adopted by the Province for OTPP since 2001 had been implicitly accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

History regarding the PSA standards

As mentioned, the financial statements for the Province have been prepared over the prior 14 years in accordance with the PSA Handbook, reflecting decisions made by the Provincial Controller at the time that PS 3250 was implemented and which were accepted by the Office of the Auditor since that time.

Completeness of PS 3250 in assessing appropriate accounting for pension assets

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied. Primary sources of GAAP are Sections PS 1200-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed, does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000. Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, Section PS 3250 which was based on Accounting Statement No. 5).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to joint control, as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception of ASSETS, PS 3210 which is more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

Accounting Analysis

Question 1 – Recognition of a pension asset

The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSA standards under PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

Standards in the PSA Handbook

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFIT, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

RETIREMENT BENEFIT, Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

> *.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.*

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250, paragraph .003 as follows:

> *.003 Obligations for **retirement benefits** result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.*

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

RETIREMENT BENEFIT, Section PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

> *A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*
>
> *(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;*
>
> *(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;*
>
> *(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and*
>
> *(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.*
>
> *The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.*

Additional guidance on identifying Joint Defined Benefit Plans (JDBPs) is in PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP:

> *.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.*

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> *.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.*

A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. The OTPP is a contractual arrangement between the Province and OTF in which:

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees (addressed in paragraph 8 of the Partners' Agreement for example);

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example).

There is no uncertainty regarding the joint control of OTPP shared by the Province of Ontario and the Ontario Teachers Federation. The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan based on the definition of a joint defined benefit plan.

As noted above, the classification of OTPP as a JDBP by the Office of the Provincial Controller has been consistent since 2001 and had been consistently and without question accepted by the Office of the Auditor General prior to the 2015/16 Public Accounts.

RETIREMENT BENEFIT, Section PS 3250 – Accounting for a JDBP

RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

> *.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]*
>
> *.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.*

Section PS 3250.81 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a joint control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to joint control and not unilateral control paragraph .081 would have made this clear. This paper discusses the two elements of recognition and measurement separately.

Commented [NP5]: Should we point out that the standard does not require unilateral control?

LD response – have added in a sentence to reflect this. Npp - thx

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250.016 to .017:

> *.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]*
>
> *.017 The components of the retirement benefit liability are:*
>
> > *(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;*
> >
> > *(b) plan assets, if any; and*
> >
> > *(c) unamortized actuarial gains and losses.*

As the OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an "Accrued benefit asset" (ABA). An ABA is defined in Section PS 3250 as follows:

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

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan, based on the best estimate assumptions used in measuring the accrued benefit obligation and plan assets, measured in accordance with Section PS 3250 guidance for these items. As noted above an ABA is defined as the government's sum of the accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan this is the government's accumulated cash contributions less the sum of the government's share of the current and prior years' benefit expenses that are attributable to the government under the joint defined benefit plan. The Province's portion of OTPP resulted in an ABA of $10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (including interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Paragraph 3250.80 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph 3250.50 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as an ABA could be measured at anything from $nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .50-.59 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the ~~government~~ Province does not share equitably in the risks and rewards of the ~~plan~~ OTPP because they bear only the risk of increased liabilities without being able to bear any ~~the~~ rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a joint defined benefit plan.

Commented [NP6]: Might be a good place to make reference to relevance of specific terms and conditions of the OTPP arrangement, and lack of comparability with plans in other jurisdictions which may have different terms & conditions.

LD response – I wasn't sure where to put the comparison to other province's section. I am open to it being here or where it is (at the end). If you think it flows better here, then it would be a good place. Npp - some suggested wording edits.

Concept of Shared Control and Asset Recognition

Included in the definition of a JDBP is the concept of shared control. Points (c) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of Shared Control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under PS 1000 would suggest that the government must control the economic resource and access to the future economic benefits. Since joint control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under joint control and specifically for plan assets of joint defined benefit plans for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with joint defined benefit plans and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for joint defined benefit plan assets, no further source of PSAS guidance need be considered.

- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, joint control is sufficient for asset recognition.

- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. On the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that PSAB did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

Commented [NP7]: Necessary? Perhaps move up to earlier discussion of PS 1000?

LD response – I see your point. I had seen this as being more of a "conclusion" on the share control point as to why it was not inconsistent with the framework, but I think it also works as a bullet point here to emphasize that reference to 3210 and 1000 is difficult to a shared control concept.

Npp – ok.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix B to this paper, and further support PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (PS 3060.20), yet the accounting model required by Section PS 3060 for non- GBPs[9] is that of proportionate consolidation which is the picking up of a pro rata share of assets, liabilities, revenues and expenses of the partnership. Joint defined benefit plans are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (3060.06 footnote 3). This reason indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to joint control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is joint control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a joint defined benefit plan.

Conclusion on recognition

Therefore the Province has concluded that PSAS permits the conceptual recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, which is discussed in Question 2 of this position paper.

[9] Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

Question 2 – Measurement of a pension asset

For an asset to be recognized it must be reliably measureable. Section PS paragraphs 3250.050 to .059 address how to measure a pension asset. "When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit." Paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA. Section PS 3250.50-.59 are included here for completeness and ease of reference:

> ***Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)***
>
> *.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]*
>
> *.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.*
>
> *.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.*
>
> *.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).*
>
> *.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.*
>
> *.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated*

DRAFT

amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Note that for purposes of Section PS 3250.053 the Province has determined that no pension valuation adjustment is necessary and as such that the accrued benefit asset equals the adjustment benefit asset (due to unamortized actuarial gains exceeding unamortized actuarial losses).

DRAFT

Paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. It is an explanatory paragraph on how a government may benefit from an accrued benefit asset and why a valuation allowance may be needed, rather than detailing the test to be applied. Part of this justification is to note that that an ABA may be impaired when "the government is not entitled to benefit from [the ABA] fully". Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

The Province's expected future benefits to the surplus is intended to be through reduced future contributions, and not through withdrawal of pension surplus. As such, PS 3250.059 is not considered relevant to the analysis when performing the asset ceiling test. When considering the ability to realize expected future benefits, the Province's legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts.

It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to joint control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays or withdraw surplus. Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. Therefore, the Province is entitled to negotiate their share of the JDBP and take contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of

the accounting surplus. ~~, and the measurement of the pension asset reported on the Province's books would not be impacted.~~

Further, paragraph PS 3250.055 indicates "The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of principles and is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. ~~nor does it require legal enforceability to be in place at year end.~~ The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the Sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.
3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right), and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and

Commented [NP8]: Lucy – please check

LD response – I'm not sure what you mean. Contribution holidays under the plan are predicated on there being funding surpluses – without a funding surplus it seems unlikely that the Province would be able to negotiate a reduction in contributions. Therefore I could not say whether the measurement of the pension asset reported on the Province's books would not be impacted because it really depends on how you are calculating your minimum contributions and what assumptions you are using. Npp - removed

Commented [NP9]: Lucy – check please

LD response – I've always thought of legal enforceability as relating more to the control or past transaction elements of the definition of an asset rather than the "expected future benefits" part, so while I can't say the additional comment is wrong it seems a bit incongruous to me as the two concepts just don't seem to belong together in my view. Npp - removed

Commented [NP10]: Also supported by positive working history of negotiations on use of surplus in the past, and the 'zones' which also refer to future benefits of reduced contributions on a temporary or permanent basis

LD response – added that both documents and past history support the position.
Npp – ok.

DRAFT

therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed in respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. Similarly as the sponsors agreed to restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98 for the 2015 change, and $1.68 for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the Sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, the matter can be submitted to an arbitration board of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

   As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Commented [NP11]: Thought that mediation was the first step, then arbitration?

LD response – this was Jim's wording, so he may be better to ask regarding what he intended to convey.

Npp – Jim is not at all familiar with the agreements. Do you think it would be useful to insert reference to the mediation aspects as an interim measure before arbitration? We could get legal to review wording and edit.

Further to the discussion in Section PS 3250.052 regarding entitlement to benefits, PS 3250.059 provides further guidance where such benefits are expected to be realized through an entitlement to withdraw surplus. "A key factor in determining a government's expected future benefit from a defined

DRAFT

benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal." PS 3250.59 is clear that expected future benefit available from surplus withdrawal can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. Section PS 3250.59 introduces the concept of a legally enforceable right, however it does so solely in the context of a government's future withdrawal of a Plan surplus, and not in the context of a government's reduction of future contributions. Had PSAB intended legal enforceability to be the test, they would have included that notion throughout the guidance (for example in paragraph .052), instead of only raising it in the context of a withdrawal of surplus.

The Province would not envision realizing any expected benefits through a withdrawal of surplus, but rather through contribution reductions or holidays. As such, from the Province's perspective, PS 3250.059 which deals with the situation of surplus withdrawals is not considered pertinent to the pension asset recognition or measurement analysis.

Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS 3250.52.

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

PS 3250.53 to .58 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as that expected future benefit is defined in paragraph .56.

Therefore in accordance with PS 3250.56 the Province calculated the expected future benefit as the sum of:

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

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

DRAFT

Each of these is discussed separately.

Through withdrawal of the surplus (Section PS 3250.056 (b)

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, paragraph 3250.059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

The TPA for OTPP does not provide for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

> 10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:
>
> 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

> Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that"...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution, the Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

DRAFT

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus as government does not have any intention to realize future benefits through surplus withdrawals..

Through reducing future contributions (Section PS 3250.056 (a))

PS 3250.56(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

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

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significant diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. Note that consistent with the calculation of the expected future accruals for service no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

Commented [NP12]: Include any reference to above statement that only the gov's ½ of the obligation and contributions factor into the calc?

LD response – Stated in the first paragraph of this section, but have added a sentence again to reinforce.

Npp-thx.

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks

and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limited could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.
- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because there funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations ~~regarding possible~~regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

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Commented [NP13]: I don't think we agree with this. There is a requirement that they negotiate every 3 years…not likely that status quo would remain.

LD response – We could remove this, but I added it in because reference was made to the calculations of the Income Tax caps that kick in when you use this basis, so it seemed relevant to support why those calculations were being referred to. I thought the point of those calculations was to show that even if this view was taken there would still be recognition of a benefit. I think if you are going to refer to these calculations you need to acknowledge this possible interpretation, even while noting that this is not a realistic scenario.
Strategically it's a matter of whether acknowledging this view and then noting why an asset can still be supported is more effective than putting one strong argument for the position over minimum contributions. I think both are valid strategies – Management should decide which way they want to go.

Npp – thx. Agree that it should be included, but was just sensitive to the wording. Will await CV comments.

Commented [NP14]: Where there is a surplus, the parties are also mandated to negotiate. To avoid confusion for the Panel, suggest that this section should be restated.
If some element of this very conservative view is to be included, perhaps as the last item but then dismissed.

Commented [NP15]: When we say that the status quo would not remain, I think that the key point is that there would not be a mandated minimum amount that must be paid. The wording in this section will be very important and would benefit from rephrasing/repositioning. Key here is that we want to make a case for 'no perpetual' stream of minimum contributions.

LD response – good point, have added an extra sentence on this.
Npp – thx.

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DRAFT

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98 for the 2015 change, and $1.68 for the 2014 change).

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

Commented [NP16]: Consideration in gauging reasonability that the Province would ever expect to benefit from reduced contributions.

LD response – I am not sure what this comment means?

Npp – please ignore.

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external experts to conduct asset ceiling tests to assess the requirement for a valuation allowance. The results of those reports are summarized here:

Plan	Asset recorded by Province (in billions)	Asset ceiling computed (in billions) and assumption re: years of contributions	Number of years contributions could be made without resulting in a valuation allowance
OTPP	$ 10.1	$29.3 (based on 11 years of contributions noted in the funding report as the period additional contributions are required)	33

The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (3250.56(a)). There is no guidance on the meaning of minimum contributions for purposes of this calculation in PS 3250.

Commented [NP17]: Moved this comment after the next section.

Under the Partners' Agreement, the parties are mandated to negotiate benefits and contributions every three years as a minimum and if agreement is not reached, it is reasonable to expect that a change in contributions might occur rather than the 'status quo' being retained.

For purposes of the OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

in addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between $19.9 Billion and $22.3 Billion); therefore indicating that no valuation allowance is required.

Commented [LD18]: This is the bit where it is assumed that contributions are unchanged and therefore minimum contributions are maintained to perpetuity.
This bit would have to be re-worked if the perpetual minimum contributions section was re-worked.

The determination of the ~~the~~ minimum contribution levels required as input to ~~the calculation~~the calculation ~~of the~~of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and ~~assumptions should~~assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does ~~not imply~~not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "~~expected future~~expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty'.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that

used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44.

The OAG and the Government differ regarding whether it needs to be "expected" that the Government will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in paragraph .059. The Government considers that it needs to be expected that future economic benefits are to be obtained as reflected in the definition of an asset in Section PS 1000 and as reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to use a plan surplus.

Other guidance in the PSA Handbook on measurement

Furthermore MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the current year financial statements. PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

> *.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.*
>
> *.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.*

We acknowledge that the estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans

Commented [NP19]: Insert reference to past history where actual returns have exceeded this rate?

LD response – see earlier comment.
Npp – if not helpful to insert, no need.

Commented [NP20]: Delete? Already addressed earlier in the paper

LD response – could do. I thought this was acting as a bit of a summary of the positions, but I agree it is repetitive and could be removed.

Npp – if summaries (as above) are to be included, then consistency is impt and ok with leaving.

Commented [NP21]: Addressed anywhere?

LD response – not sure what the concern is?
Npp – please ignore

involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is permissible under PSAB and consistent with rates followed by other senior Canadian governments. Historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets on the Province's books.

Commented [NP22]: Suggest moving some of this discussion earlier in the document – reference to Appendix G above identifies OTPP discount rate as an outlier.

LD response – do the results corroborate the discount rates or exceed the discount rates?

Sorry- forgot to include the attachment. Will include it with the next response for your review and consideration of relevance as a reference in the doc.

Impact of valuation allowance

The current AG's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no pension accounting surplus could ever be recognized in the Province's Public Accounts for JDBPs until the joint sponsor agrees to a change in the plan text for the Province to provide for unilateral authority to access surplus or reduce future contributions to enters into an agreement by year-end enabling the government to take a contribution holiday. Any ABA would therefore be fully provided for through a valuation allowance, impacting each ~~year's statement~~year's statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in ~~which funding~~which funding requirements are higher and assets are therefore increasing or when greater investments returns are recorded. In contrast, under the AG's view, the Province's annual surplus/deficit would ~~reflect a~~reflect a gain (income) in years when there are less than expected investment returns. **NTD – statements to be supplement by the visual aid requested by the Minister]**

Commented [NP23]: Consider referencing the appendix here and specific mention of the 2008 result which would have lowered the deficit by $3B.

LD response – Appendix D is referenced in the following paragraph. Have added a sentence here to highlight 2008.

For information purposes, refer to Appendix D for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS. Of particular note is the impact in 2008 when the deficit would have be lower by $3 billion in a year when pension asset values fell significantly because of the financial crisis.

Comparability of Ontario accounting for JDBPs to other Provinces

For your information, included in Appendix C is the legal opinion prepared by lawyers, Koskie Minsky, comparing access to the pension surplus of OTPP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the

DRAFT

independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTPP.

Insert New Brunswick?

Any info on SK or QC? (seem to recall mention of these at some point as well)

Conclusion on measurement

As discussed, there is significant professional judgement and ~~estimation in~~estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access to its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

Commented [NP24]: Can this be clarified? This likely refers to the 33 years noted in the above table. Can we tie it in to clarify.

LD response – This is a summary of the above arguments. I'm not sure what estimates management actually applied in coming up with the support for the valuation allowance (33 years vs 11 years and all the underlying projections), so I'm not sure how best to tie this in.

Npp Management's decision should be documented in this position paper. CV to advise.

DRAFT

Appendix A – Guidance in the PSA Handbook - FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210

Guidance in FINANCIAL STATEMENT CONCEPTS, Section PS 1000
.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. .36 Assets have three essential characteristics: (a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows; (b) the public sector entity can control the economic resource and access to the future economic benefits; and (c) the transaction or event giving rise to the public sector entity's control has already occurred. [Former paragraph PS 1000.36 retained in Archived Pronouncements.] .37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit; (b) future economic benefit, but the government cannot obtain it; or (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. (paragraph PS 1000.38 deleted) [Former paragraph PS 1000.38 retained in Archived Pronouncements.] .39 **Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. .40 A financial asset is any asset that is: (a) cash; (b) a realizable asset that is convertible to cash; (c) a contractual right to receive cash or another financial asset from another party; (d) a contractual right to exchange financial instruments with another party under conditions that are potentially favourable to the government; (e) an equity instrument of another entity; (f) an investment in a government business enterprise or government business partnership; (g) a financial claim on an outside organization or individual; or (h) an inventory or item for sale that meets the criteria in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.055. [Former paragraph PS 1000.40 retained in Archived Pronouncements.] .41 Non-financial assets include tangible capital assets, and other assets such as prepaid expenses and

DRAFT

inventories of supplies.

.42 **Non-financial assets** are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;

(b) may be consumed in the normal course of operations; and

(c) are not for sale in the normal course of operations.

RECOGNITION

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

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

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

.55 The recognition criteria are as follows:

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

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

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

.57 Purchased natural resources and Crown lands are recognized in government financial statements. However, when natural resources and Crown lands have been inherited by the government in right of the Crown and have not been purchased, they are not given accounting recognition as assets in

DRAFT

government financial statements. These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Similarly, art and historic treasures are also not recognized as assets.

.58 In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements. The intangible often called "human capital" that embodies the talent or intellectual capital of government employees is not recognized as an asset under existing accounting principles.

.59 Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied. Accrual accounting recognizes an asset until the future economic benefit underlying the asset is partly or wholly used or lost.

MEASUREMENT

.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.

(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

.61 Present value is the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. Present value is not a basis of measurement, but a valuation technique that may be used within historical cost-based or current-value models. This technique is used in the government reporting model, for example, to estimate the cost of retirement benefits, when determining the estimated total expenditure for closure and post-closure care of a solid waste landfill site, and when determining the "grant portion" of concessionary loans and portfolio investments.

.62 Government financial statements are prepared on the basis that recognized economic resources used up are measured in financial terms with no adjustments made for the effect of a change in the general purchasing power of the currency during the period. Although a government's performance in the management of its service potential 2 is generally a focus more appropriate to the nature and objectives of government, it cannot entirely be measured in financial terms.

2. Service potential embodies both the quality of service provided and the efficiency with which it is provided.

DRAFT

.63 Financial statements are prepared on the assumption that the government is a going concern, meaning it will continue in operation, and will be able to realize assets and discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future.

Guidance in ASSETS, Section PS 3210

Economic resources

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

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

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

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

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

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

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

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

.09 Economic resources can be:

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

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

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

Future economic benefits

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

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

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

public sector resources generate cash inflows because they have user fees associated with them.

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

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

Control

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

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

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

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

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

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

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

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

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

.22 Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. For example, a public sector entity may control the economic resource and access to the future economic benefits through a capital lease arrangement yet not own the economic resource.

.23 A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset. A public sector entity may establish the regulatory environment in an

industry or sector within which organizations operate and impose conditions or sanctions on their operations. For example, a pollution control authority may have the ability to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority's interest extends only to the regulatory use of the economic resources and does not include the ability to control access to the future economic benefits.

.24 A public sector entity may act as trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the public sector entity merely administers the assets, following the terms and conditions set out in the agreement. It does not control the asset because it does not have access to the future economic benefits. Those benefits flow to the beneficiaries.

DRAFT

Appendix B - Definitions of a Joint Defined Benefit Plan and Government Partnership

The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, paragraph PS 3060.06. GOVERNMENT PARTNERSHIP, Section PS 3060 was introduced into the PSA Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. RETIREMENT BENEFITS, Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A **government partnership** is not a government organization but is a contractual arrangement [2] between the government and a party or parties outside of the government reporting entity [3] that has all of the following characteristics:	A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners co-operate toward achieving significant clearly defined common goals;	(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the	Consistent in concept with the definition of a GP focusing on investments in the partnership and the

		non-government sponsor;	definition of a JDBP focusing on contributions into the plan.
Criteria 3	(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and	(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.	(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the	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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	government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

In addition to consistent wording, the concepts in the definitions of a government partnership and a joint defined pension plan are similar.

While similar in concept and wording, the definition of a joint defined pension plan is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including joint defined pension plans.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates "*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]". This principle is consistent with the proportionate consolidation method included in Section PS 3060.

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Appendix C – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners'

Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan (''PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

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In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[10] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect

[10] It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

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to ongoing PSPP surpluses

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the

same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.
1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize 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.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

We trust that these comments have been of assistance to you. Should you have any questions in regard to them, please do not hesitate to contact the undersigned.

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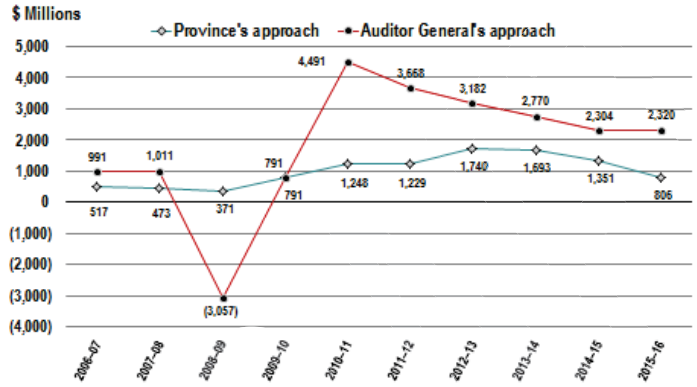
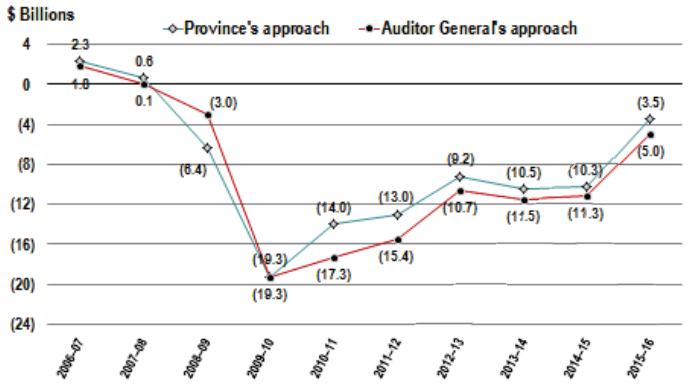
Appendix D - Comparison of key measurements of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS.

Pension expense comparison — 10-year Chart 1



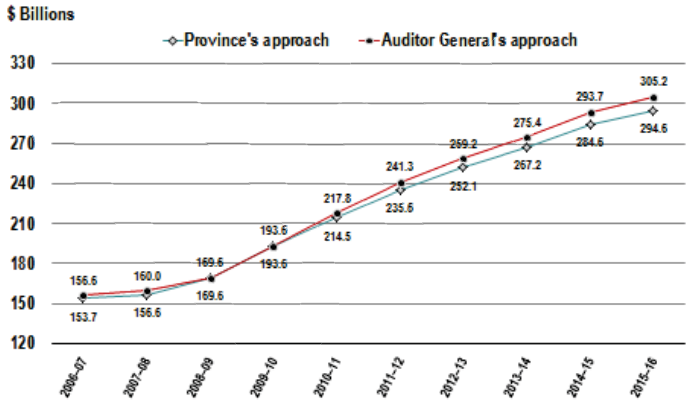
Surplus/(deficit) comparison — 10-year

Chart 2

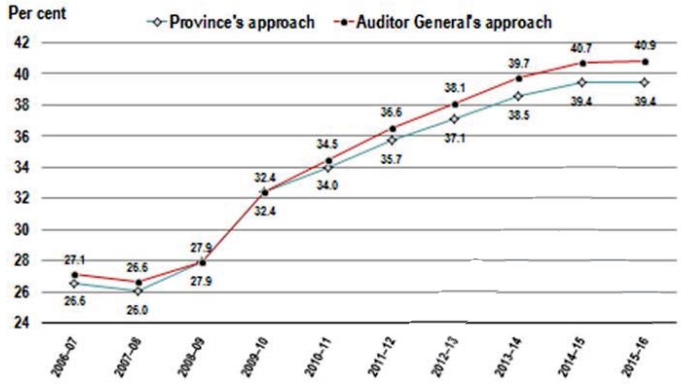


Net debt comparison — 10-year

Chart 3



Net debt-to-GDP comparison — 10-year Chart 4



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Appendix E – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities

Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Act and to the Partners' Agreement and FMP in order to determine how ongoing surplus is dealt with under the OTPP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the Teachers' Act provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the Pension Benefits Act, appointing the OTTP Board, and defining the role of the Board. By contrast, section 19 of the Partners Agreement sets out the ~~responsibilities of~~responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ~~ongoing surpluses~~ongoing ~~either~~surpluses either to ~~improve benefits~~improve benefits or ~~reduce contributions~~reduce contributions. Only the Sponsors to the OTPP have the authority to utilize ongoing surpluses. The process governing the use of ongoing surpluses by the Sponsors is set out in the Partners'

Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every three years (section 73).

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

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

Section 77 of the Partners' Agreement anticipates that the Sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

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

We note that the mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the Sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the Sponsors do not agree to file the valuation, then the Sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

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

Funding Management Policy (FMP)

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The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP.
The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:
i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

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

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

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

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the Sponsors mutually agree to the contrary, they shall follow the procedures

described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners; Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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Appendix F – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	**(405)**	**29**	**221**	**241**	**250**	**305**
Expense increase (reduction) in valuation Allowance						
Pension Expense after valuation Allowance	**(405)**	**29**	**221**	**241**	**250**	**305**

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772
Adjustment for different year ends	529	650	687	764	774
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220
Pension liability (Asset) at March 31 Reported before any valuation	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	998	1,051	1,118	1,175	1,217
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(146)	38	34	30	(4)
Pension expense before valuation	**359**	**354**	**60**	**266**	**523**
Expense increase (reduction) in valuation Allowance					
Pension Expense after valuation Allowance	**359**	**354**	**60**	**266**	**523**

DRAFT

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**(10,147)**
Valuation Allowance	**-**	**-**	**-**	**-**	**10,147**
Pension Liability (Asset) after valuation Allowance	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**-**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	**519**	**892**	**875**	**569**	**118**
Expense increase (reduction) in valuation Allowance					**1,480**
Pension Expense after valuation Allowance	**519**	**892**	**875**	**569**	**1,598**

DRAFT

Appendix G - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP [Tables are to be updated]

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

1

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	3.25%	Market rate of Provincial Bonds

2

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	5.95%	LT return on plan assets
Alberta				
Teachers' Post-1992 Pension Plan	7.00%	LT return on plan assets	7.25%	LT return on plan assets
Universities Academic Pension Plan	6.10%	LT return on plan assets	6.25%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)				
Local Authorities Pension Plan	5.80%	LT return on plan assets	5.80%	LT return on plan assets
Public Service Pension Plan	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Management Employees Pension Plan	6.40%	LT return on plan assets	6.40%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.75%	LT return on plan assets	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Special Forces Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan				
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.80%	LT return on plan assets	6.80%	LT return on plan assets
British Columbia				
Public Service Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec				
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	6.40%	LT return on plan assets less inflation
Newfoundland				
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets
Nova Scotia				
Nova Scotia Public Service Superannuation Plan (PSSP)	6.75%	LT return on plan assets	6.35%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	6.40%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba				
Civil Service Superannuation Plan	6.00%	LT return on plan assets	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.50%	LT return on plan assets	6.25%	LT return on plan assets

7

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Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining	$0

DRAFT

			special payments	
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion		

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the Sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

DRAFT

Appendix H – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.
Actuarial cost method	*[To confirm – not clear from the valuation report]*	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation]	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. The Province uses adjusted market values for some classes of assets in certain plans.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate.	In measuring a pension obligation amount, the defined benefit obligation amount determined by the	Not specified. However two methods are specifically acknowledged – a)

	For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation]	plan's sponsor may be (but is not required to be) used. Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[11] The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.
Underlying population data	All valuation methodologies should use consistent underlying data of the population covered by the plan		
Inflation rate	All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Demographic assumptions	All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Other economic assumptions	All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		

[11] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

TPP rates of return (performance vs discount rates).pdf

Ontario Teacher's Pension Plan
Rate Comparison

	OTPP Annual Performance	OTPP Filed Discount Rate *	Province Economic Assumpition for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

* The plan does not file a valuation annually. Under the Pension Benefits Act, plans must file at least every three years

Ontario Teacher's Pension Plan
Plan Perfomrance

Historic Returns	
2015	13.0%
2014	11.8%
4 - Year	12.2%
10- year	8.2%
Inception	10.3%

OTPP Board Projected Annual Real Return for period 2016-2046	4.50%

RE_ Need the updated statement of facts. Please send this am. n.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Need the updated statement of facts. Please send this am. n
Date: Friday, September 16, 2016 11:47:52

Perhaps, but we would like the current version please. n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 16, 2016 11:19 AM
To: Petsche, Nadine (TBS)
Subject: RE: Need the updated statement of facts. Please send this am. n

The legal opinion might have some more relevant facts for us to consider.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, September 16, 2016 11:09 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Subject: Need the updated statement of facts. Please send this am. n
Importance: High

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RE_ New Brunswick Accounting for Pension Plans.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: New Brunswick Accounting for Pension Plans
Date: Tuesday, March 21, 2017 10:39:10
Attachment 1: image001.png

Hi Shayan.

Thanks for your note. This afternoon might work for a short chat. Shyrose will find us some time.

Talk soon,

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: March 21, 2017 10:20 AM
To: Petsche, Nadine (TBS)
Subject: RE: New Brunswick Accounting for Pension Plans

Hi Nadine,

I am back at Queens Park today (John Psinas' old office).

If you are available, I'd be happy to have a quick chat to provide you with an update on our work.

Christina and I are both planning to be here tomorrow and Thursday this week.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, March 14, 2017 4:04 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>
Subject: New Brunswick Accounting for Pension Plans

Hi Shayan.

Attached is a copy of a deck presented in late February by New Brunswick's Auditor General to the Accounting Standards Oversight Council. I am sharing this deck as background in reference to potential issues related to the a new Employee Life and Health Trust (ELHT) being established by the Ministry of Education. Slides 17 and 25 are most relevant to the accounting discussion, but the other slides may be of interest as background.

As an observer at AcSOC, I also took notes during the discussion and key aspects impacting the accounting decision for the NB pension plans included:

- *Continued exposure to the province of financing risk, investment risk, benefits driven by formula (not a defined contribution plan)*

- *Fixed target contribution levels that shouldn't be changed, even if surpluses existed (Province had no legal claim to the assets so had to take a full valuation allowance)*

- *In the case of NB's shared risk plans, there was a whole series of events that would have to occur, including a decision by joint trustee board as to what to do with the surplus before the government could do anything with it. As such, the PS 1000 criteria for an asset were not considered to have been met because the past event that would have been need to give value to the asset had not occurred by March 31 year-end.*

If she hasn't already done so, Alicia may approach you about possible assistance to help confirm the appropriate accounting for the ELHT on the province's books. Given reference by our AG to the accounting by NB for its pension plans in the past, I thought that the attached presentation and notes might be helpful background.

Talk soon,

Nadine

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image001.pdf

RE_ New Model Output.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: RE: New Model Output
Date: Monday, September 26, 2016 15:17:38
Attachment 1: @

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https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81
View the original item

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.

Attachments:
image001.png (5 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=1image001.png

OTPP_going_concern_projection_ITA_surplus.docx (20 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=2OTPP_going_concern_projection_ITA_surplus.docx

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calculation_EFB_estimate_Sept_26_2016.xlsx (44 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=4calculation_EFB_estimate_Sept_26_2016.xlsx

RE_ New Model Output.rtf

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 09:01:46
Attachment 1: image001.png

---

done

From: Veinot, Cindy (TBS)
Sent: September-24-16 9:01 AM
To: Petsche, Nadine (TBS)
Subject: RE: New Model Output

I would send to Martin as well

From: Petsche, Nadine (TBS)
Sent: September-24-16 9:00 AM
To: Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca); Danyluk, Kerry (CA - Toronto)
Cc: Veinot, Cindy (TBS)
Subject: FW: New Model Output

Matt/Kerry,

Please see answers to the Q's below. Sorry for the delay. There was confusion as to who was going to respond. N

From: Killoch, Alex (MOF)
Sent: September-24-16 8:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

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

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

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

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

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Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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RE_ New Model Output.rtf

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 09:01:38
Attachment 1: image001.png

That is Lucy's interpretation

From: Veinot, Cindy (TBS)
Sent: September-24-16 9:01 AM
To: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com
Subject: RE: New Model Output

Thanks everyone for looking at this so quickly.

One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?

From: Killoch, Alex (MOF)
Sent: September-24-16 8:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

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

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

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Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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RE_ New Model Output.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: RE: New Model Output
Date: Monday, September 26, 2016 15:17:38
Attachment 1: @

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81
View the original item

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.

Attachments:
image001.png (5 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=1image001.png

OTPP_going_concern_projection_ITA_surplus.docx (20 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=2OTPP_going_concern_projection_ITA_surplus.docx

Valuation_allowance_projection_scen1_and_scen2.xlsx (105 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=3Valuation_allowance_projection_scen1_and_scen2.xlsx

calculation_EFB_estimate_Sept_26_2016.xlsx (44 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682161~201609261917490000~Z~D1077FE7AD05EC16FD7206FEB6AE7B81&AttachmentId=4calculation_EFB_estimate_Sept_26_2016.xlsx

RE_ New Model Output.rtf

From: Veinot, Cindy (TBS) []
To: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: RE: New Model Output
Date: Sunday, September 25, 2016 09:50:11

Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.

As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided

We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.

I'm not sure how this scenario is modeled, but I think the question would then be how many years of contributions would be made before the asset ceiling would be reached.

I'm testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?

Thanks all for your assistance,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-25-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Cindy

Will work today but will need review by Matt on the wording

For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%

If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...

Envoyé de mon iPhone

Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:
>
> 1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.

2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?

Thanks again,

Cindy

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:30 AM
To: Veinot, Cindy (TBS)
Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Partner – Audit – Actuarial services

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

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Thanks.

Nadine

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<Valuation_allowance_projection.xlsx>

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RE_ Next Steps for HOOPP_CAATPP Review.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Next Steps for HOOPP/CAATPP Review
Date: Monday, July 10, 2017 12:46:40

Hi Nadine,

We are working through the update to the asset ceiling reports as discussed, and should have those to you early this week.

Thanks!
Christina
Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

-----Original Message-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, July 10, 2017 12:17 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Re: Next Steps for HOOPP/CAATPP Review

Thanks Christina.
I understand that the paperwork for the increase in contract price is in progress wrt signatures, so work may continue.
It would be helpful if you could confirm when we might expect to receive the revised asset ceiling reports as well, although I realize it wasn't the focus of your discussion. N
From: Christina Chan
Sent: Monday, July 10, 2017 12:08 PM
To: Sun, Alicia (TBS); Shayan Jafrani
Cc: Ma, Patricia (TBS); Petsche, Nadine (TBS)
Subject: RE: Next Steps for HOOPP/CAATPP Review

Hi Alicia, Patricia,

It was nice connected with your team again. Below is a summary of our call and tentative next steps:

- Shayan will get in touch with Nadine related on budget and approval as we are now over our initial budget.

Model: July

- OTB will confirm the ability in receiving information in format/details which may not have been provided in the past for HOOPP and CAATPP (e.g. contribution breakdown and identifying consolidated/non-consolidated participating employers)

- EY will work on finalizing the model for PSPP, HOOPP, OPPSEUPP, reflecting any potential feedbacks from AG, as well as further enhancing the projection capability

- Discussion related to the ROM merger and treatment

Model: late-July to early-August

- Based on the information which can be received, OTB will decide on the approach in determining the % allocation for the Province (EY can assist as needed)

- EY will work on improvement on the model for both HOOPP and CAATPP (e.g. consistent with changes we have made for the other plans) and reflect year-end adjustment changes as at 1 March 2017

- EY will require approximately a week to finalize the model upon receiving OTB's decision on the % allocation approach

Training:

- OTB will discuss internally and provide EY with guidelines on training focus and topics (e.g. PSAB, pension accounting, use of model etc.)

- please allow for one-two weeks for EY to prepare training material preparation

- target for July/early August, otherwise, early September

Let us know if our understanding is different form yours for any of the above. We will stay in touch and don't hesitate to contact us.

Regards,
Christina
Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Office: +1 416 943 3121 | Christina.Chan@ca.ey.com<mailto:Christina.Chan@ca.ey.com>

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 04, 2017 12:57 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Next Steps for HOOPP/CAATPP Review

Hi Shayan/Christina,

As you know that due to timing and resource considerations, we didn't revise the HOOPP and CAATPP models for the Public Accounts purpose. As we're wrapping up the consolidated results, I would like to discuss the next steps for HOOPP and CAATPP review.

Here is a summary of high-level points that we want to address:

1. Revising models to be consistent with other pension plans in principle

2. How to determine the provincial portion of the plan assets/liabilities (% based on member count vs. contributions)

3. Considering to include consolidated health agencies in the HOOPP model (currently being accounted as DC outside of the model)

4. How to treat the employer vs. employee contribution differences

5. Impact of ROM pension merger

6. General re-vamp of the current worksheets to improve usability

I understand that you are currently working on the asset ceiling test for teacher's plan and OPSEU plan. I would like to know when would be a good time to start the review process.

Also I have new staff on my team and I would like them to get involved in the pension work in the upcoming budget process. I would like to know whether and when you can provide some training to staff, including myself. I have a lot to catch up.

Thanks,
Alicia

Alicia Sun, MBA, CPA, CGA
Manager, Broader Public Sector Reporting Office of the Provincial Controller Division |Treasury Board Secretariat
7 Queen’s Park Crescent, Frost South, 2nd Floor Toronto, ON, M7A 1Z5
Email: Alicia.sun@ontario.ca<mailto:Alicia.sun@ontario.ca>
Tele: (416) 325-8155

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From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Next Steps for HOOPP/CAATPP Review
Date: Monday, July 10, 2017 11:47:31
Attachment 1: image001.jpg

Hi Alicia, Patricia,

It was nice connected with your team again. Below is a summary of our call and tentative next steps:

- Shayan will get in touch with Nadine related on budget and approval as we are now over our initial budget.

Model: July

- OTB will confirm the ability in receiving information in format/details which may not have been provided in the past for HOOPP and CAATPP (e.g. contribution breakdown and identifying consolidated/non-consolidated participating employers)

- EY will work on finalizing the model for PSPP, HOOPP, OPPSEUPP, reflecting any potential feedbacks from AG, as well as further enhancing the projection capability

- Discussion related to the ROM merger and treatment

Model: late-July to early-August

- Based on the information which can be received, OTB will decide on the approach in determining the % allocation for the Province (EY can assist as needed)

- EY will work on improvement on the model for both HOOPP and CAATPP (e.g. consistent with changes we have made for the other plans) and reflect year-end adjustment changes as at 1 March 2017

- EY will require approximately a week to finalize the model upon receiving OTB's decision on the % allocation approach

Training:

- OTB will discuss internally and provide EY with guidelines on training focus and topics (e.g. PSAB, pension accounting, use of model etc.)

- please allow for one-two weeks for EY to prepare training material preparation

- target for July/early August, otherwise, early September

Let us know if our understanding is different form yours for any of the above. We will stay in touch and don't hesitate to contact us.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 04, 2017 12:57 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Next Steps for HOOPP/CAATPP Review

Hi Shayan/Christina,

As you know that due to timing and resource considerations, we didn't revise the HOOPP and CAATPP models for the Public Accounts purpose. As we're wrapping up the consolidated results, I would like to discuss the next steps for HOOPP and CAATPP

review.

Here is a summary of high-level points that we want to address:

1. Revising models to be consistent with other pension plans in principle

2. How to determine the provincial portion of the plan assets/liabilities (% based on member count vs. contributions)

3. Considering to include consolidated health agencies in the HOOPP model (currently being accounted as DC outside of the model)

4. How to treat the employer vs. employee contribution differences

5. Impact of ROM pension merger

6. General re-vamp of the current worksheets to improve usability

I understand that you are currently working on the asset ceiling test for teacher's plan and OPSEU plan. I would like to know when would be a good time to start the review process.

Also I have new staff on my team and I would like them to get involved in the pension work in the upcoming budget process. I would like to know whether and when you can provide some training to staff, including myself. I have a lot to catch up.

Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

Office of the Provincial Controller Division |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor

Toronto, ON, M7A 1Z5

Email: Alicia.sun@ontario.ca

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image001.pdf

TBS

RE_ Next Steps for HOOPP_CAATPP Review.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Next Steps for HOOPP/CAATPP Review
Date: Wednesday, July 05, 2017 14:33:38
Attachment 1: image001.jpg

Hi Alicia,

Hope you had a great long weekend!

We have started updating the model for HOOPP and making similar improvements as we have done for the other plans, but certainly will need to address the items you noted below for us to finalize (similarly, for CAATPP). We are happy to assist with training for you and your staff as well.

Nadine – as discussed, we have put the asset ceiling test documents on hold until all numbers are final and signed off by AG.

We think it would be best for us to have a quick call on how to proceed (e.g. timing, prioritizing, training material/area of focus etc.) I would schedule it for an hour to be safe. Let us know when would work best for you:

- Today: any time after 3:30 pm
- Thursday (tomorrow): 10:30 to 11:30, any time after 2:00 pm
- Friday: 10:00 -11:00 am

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 04, 2017 12:57 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Next Steps for HOOPP/CAATPP Review

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Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

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image001.pdf

TBS

RE_ OPSEU - Accounting for Plan surpluses_V4 (PPU_REDLINE).doc.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: RE: OPSEU - Accounting for Plan surpluses_V4 (PPU_REDLINE).doc
Date: Tuesday, November 29, 2016 19:35:14

Hi Matt. Which comment is it? Perhaps it is the SMEs that you need to speak with. n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: November-29-16 5:00 PM
To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
Subject: RE: OPSEU - Accounting for Plan surpluses_V4 (PPU_REDLINE).doc

Thanks Nadine,

I have been through the comments and I am good with most of them. There is one that I want to discuss further with you. Could you let me know what time you are available to chat?

Thanks

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, November 29, 2016 3:03 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: OPSEU - Accounting for Plan surpluses_V4 (PPU_REDLINE).doc

Matt/Pina,

Please find attached comments and edits from our internal SMEs. Please let me know

if you have any questions regarding their feedback.

We look forward to receiving a revised draft.

Thanks. Nadine

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RE_ OPSEU - Accounting for Plan surpluses_V4.doc.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: OPSEU - Accounting for Plan surpluses_V4.doc
Date: Sunday, November 27, 2016 10:07:52

Thanks Matt.

I'll read it now. N

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: November-27-16 9:04 AM
To: Petsche, Nadine (TBS)
Subject: OPSEU - Accounting for Plan surpluses_V4.doc

Hi Nadine,

Please find attached the OPSEU Pension Memo. I am having Pina do a final read of this memo today as well, but thought I would get this over to you in the interest of time.

Thanks

Matt

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RE_ OPSEUPP - RSF balance.rtf

From: Fong, Pauline (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: RE: OPSEUPP - RSF balance
Date: Thursday, April 06, 2017 15:34:10
Attachment 1: image001.jpg
Attachment 2: OPSEU Historical Overview.pdf
Attachment 3: OPSEU Actuarial Gain or Loss Allocation History.xlsx

---

Hi Christina,

Attach is what we have on file.

Pauline

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-06-17 3:05 PM
To: Li, Wendy (TBS); Fong, Pauline (TBS)
Cc: Shayan Jafrani
Subject: OPSEUPP - RSF balance

Hi Wendy, Pauline,

In order for us to complete our asset ceiling test and the recognition of the accrued asset for OPSEUPP, we will require the following information. Is this something you have already, or may request for?

We would like to know the Rate Stabilization Fund allocation between Ontario and OPSEU, and the amount of the Fund that has been used by each of the sponsor respectively. This is to determine the proportion of the plan's accrued asset that the Province may account for.

Thank you for your assistance.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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image001.pdf

OPSEU Historical Overview.pdf

Appendix "A" - Historical Overview

The Ontario Public Service Employees Union Pension Plan (the "Plan") was established effective January 1, 1993 as the result of an agreement (the "Sponsorship Agreement") between the Crown in right of Ontario and OPSEU. Pursuant to the Sponsorship Agreement, assets and liabilities in respect of members of the Public Service Pension Plan ("PSPP") who became members of this Plan were transferred from the PSPP to the Plan effective January 1, 1993.

The Transferred Initial Unfunded Liability for the Plan, established at January 1, 1993 in a valuation report prepared by William M. Mercer Limited, was $663 million. The transferable assets disclosed in that same report were established as 32.2% of the total assets of the PSPP.

A. Sponsorship Agreement Regarding Payment of Unfunded Liability and Sharing of Gains

The Sponsorship Agreement lays out the terms for the payment of the Transferred Initial Unfunded Liability determined as at January 1, 1993, the date of the inception of the Plan. It also lays out the manner in which emerging actuarial gains are to be shared between the two sponsors.

The following is a summary of events since the inception of the Plan that relate to the terms of the Sponsorship Agreement:

Initial Valuation as of January 1, 1993

Effective January 1, 1993 a schedule of special payments was established to be paid by the Employer to liquidate the Transferred Initial Unfunded Liability of $663 million over a period of up to 40 years. Over the period April 1, 1994 to March 31, 1997, however, the Sponsorship Agreement specified the following suspensions to Employer required contributions related to the payment of this unfunded liability:

- Employers were not required to make special payments with respect to any actuarial loss or unfunded liability for the period April 1, 1994 to March 31, 1997.
- Over the period April 1, 1994 to March 31, 1995 the Employer contributed reduced amounts in respect of its matching contributions required under the Plan.
- Employer contributions were further reduced in an amount equal to the special payments required to fund Factor 80 benefits by March 31, 1997; this cost was to be borne by the Plan.
- In addition, from April 1, 1994 to March 31, 1997, member contributions were reduced by 1% of salary.

December 31, 1995 Triennial Valuation

A valuation was performed as of December 31, 1995, which was filed with the regulatory authorities. That valuation revealed net actuarial gains totaling $72 million. These were applied directly to reduce the balance of the Transferred Initial Unfunded Liability, which had grown to $782 million from $663 million.

December 31, 1996 Interim Valuation

An interim valuation was performed as of December 31, 1996. That valuation revealed net actuarial gains of $36 million, which were shared equally between the members and the Employer. The Employer's share was used to reduce the amortization period for the payment of the Transferred Initial Unfunded Liability. The members' share was kept in the fund as a reserve.

December 31, 1998 Triennial Valuation

The next valuation was performed as of December 31, 1998, which was filed with the regulatory authorities. That valuation revealed gains over the period 1996 to 1998 inclusive of $1,334 million. These gains were shared equally between the members and the Employer. The members' share was used for benefit improvements, contribution reductions, and a Rate Stabilization Fund of $31 million was left in the fund as a buffer against any future losses that may arise. The Employer share of the gains was used to reduce the balance of the initial unfunded liability to $153 million as of December 31, 1998 and the amortization period to July 2003.

December 31, 1992 Restated Valuation

In accordance with Amendment No. 2 to the Sponsorship Agreement, Buck Consultants prepared the restated 1992 valuation in order to determine the gain or loss attributable to using accurate Plan member data. (The gain or loss is the difference between the net actuarial liabilities in respect of OPSEU Pension Plan members calculated as at December 31, 1992 in a valuation performed by William M. Mercer dated May 28, 1997, and the liabilities from the restated 1992 valuation to be performed by Buck Consultants with purified member data.)

The restated 1992 valuation was completed in March 2002. That valuation revealed a loss in the amount of $98.8 million, including interest to March 31, 2002. (In other words, the net actuarial liabilities determined at December 31, 1992 using purified data were higher than those determined by William M. Mercer.) That loss was paid in full by the Province in April 2002.

December 31, 2001 Triennial Valuation

The December 31, 2001 triennial valuation revealed actuarial gains totaling $867.1 million. In accordance with the Sponsorship Agreement those gains were shared as follows:

1. In accordance with Paragraph 56(a) of the Sponsorship Agreement, gains between the members and the Employer were shared equally until the Transferred Initial Unfunded Liability ("TIUL") was paid off by the Employer's use of its 50% share.

2. Following the application of Paragraph 56(a), 100% of the amount utilized under paragraph 54 was used exclusively for the benefit of the members, in accordance with paragraph 56(b). The amount utilized under paragraph 54 by the Employer to pay down the TIUL was the net actuarial gains for the years 1993 to 1995 (as disclosed in the December 31, 1995 valuation report) plus interest to March 31, 1997 ($72 million + $6 million = $78 million).

3. In accordance with Paragraph 56(c), all remaining gains after application of paragraphs 56(a) and 56(b) were shared equally between the members and the Employer.

The actuarial gains of $867.1 million were thus shared as follows:

	$ 000's		
Sponsorship Agreement Paragraph	Employer Share	Member Share	Total
SA 56(a)	$ 63,415	$ 63,415	$ 126,830
SA 56(b)	0	78,485	78,485
SA 56(c)	330,869	330,869	661,738
Total	$ 394,284	$ 472,769	$ 867,053

In accordance with the Sponsorship Agreement, other agreements between the sponsors and the decisions made by OPSEU at their executive meetings held on September 11-12, 2002 and on January 23, 2003, the gains shown above were allocated as follows:

	$ 000's		
	Employer Share	Member Share	Total
Balance of TIUL	$ 63,415	$ 0	$ 63,415
2002 CBA[(1)]	29,750	5,296	35,046
PDPP Settlement[(1)]	3,499	758	4,257
Benefit Improvements[(1)]	0	243,359	243,359
Contribution Reductions[(1)]	0	77,066	77,066
Rate Stabilization Fund	297,620	146,290	443,910
Total	$ 394,284	$ 472,769	$ 867,053

(1) Described in Sections B.3(c) and (d) below.

December 31, 2003 Valuation

The December 31, 2003 valuation showed an actuarial loss of $255 million. In accordance with Paragraph 56(c) of the Sponsorship Agreement, these losses were shared equally between the members and the Employer. The member and Employer Rate Stabilization Funds were utilized to fund each sponsor's respective share of these losses.

December 31, 2004 Valuation

The December 31, 2004 valuation showed an actuarial loss of $183 million. In accordance with Paragraph 56(c) of the Sponsorship Agreement, these losses were shared equally between the members and the Employer. The member and Employer Rate Stabilization Funds were utilized to fund each sponsor's respective share of these losses.

December 31, 2007 Valuation

The December 31, 2007 valuation showed a surplus of $470 million. In accordance with the Paragraph 56(c) of the Sponsorship Agreement, each sponsor directed that their share of the surplus be allocated to the Rate Stabilization Fund (RSF). Accordingly, the balance of each Sponsor's RSF was increased by $235 million.

B. Benefit Improvements/Plan Amendments

1. Negotiated Improvements

The following benefit improvements were negotiated in collective bargaining agreements between OPSEU and the Government of Ontario in 1996, 1999, 2002 and 2005.

(a) 1996 Collective Bargaining Agreement

(1) Factor 80 Re-Opener. Members laid off between March 28, 1996 and March 27, 1999 who achieved eligibility for Factor 80 benefits before April 1, 1996 could elect to retire under the Factor 80 program with unreduced benefits, even though they had more than 80 points.

(2) Bridge to Unreduced Retirement. Members laid off between March 28, 1996 and March 27, 1999 could continue to accrue pension credits to a maximum of 30 months and such service counted towards early retirement benefit eligibility provided the member made the required contributions to the Plan for the period and could qualify for unreduced retirement within the 30-month period.

(b) 1999 Collective Bargaining Agreement

(1) New Factor 80 and Factor 80 Re-Opener. Any person who is laid off after March 27, 1999 and before April 1, 2002 and who has 80 or more points at the time of lay-off may retire with an unreduced pension.

(2) New Bridge to Unreduced Retirement. Members laid off between March 27, 1999 and December 31, 2001 would continue to accrue pension credits to the date upon which they would have obtained 80 points, provided they continued to contribute during this period. To qualify for this benefit, a laid-off member must meet this 80-point criterion before April 1, 2002.

(c) 2002 Collective Bargaining Agreement

Factor 80 Re-Opener and the Bridge to Unreduced Retirement. These benefits were extended to December 31, 2004. The estimated increase in the net actuarial liability as a result of these extensions was $24.5 million for the Factor 80 Re-Opener and $10.5 million for the Bridge to Unreduced Retirement. The Factor 80 Re-Opener was funded entirely by the Employers and the funding for the Bridge to Unreduced Retirement was shared between the sponsors.

(d) 2005 Collective Bargaining Agreement

Factor 80 Re-Opener. This benefit was extended to December 31, 2008. The estimated increase in the net actuarial liability as a result of this extension was $71.8 million, and was funded entirely by the employers.

2. Utilization of Rate Stabilization Funds

(a) Member RSFs

The Factor 80 retirement benefit was extended from March 31, 2002 to October 31, 2002. The estimated increase in the net actuarial liability as a result of this extension was $36 million as of December 31, 2001. This benefit was funded from the member Rate Stabilization Fund established at the December 31, 1998 triennial valuation.

(b) Employer RSFs

Pursuant to the 2005 Collective Bargaining Agreement, the Factor 80 Re-Opener was extended to December 31, 2008. The estimated increase in the Net Actuarial Liability as a result of this extension was $71.8 million. This benefit was funded from the Employer Rate Stabilization Fund.

3. Utilization and Allocation of Actuarial Gains/Losses

The following is a summary of the utilization of actuarial gains and losses in each of the December 31, 2004, December 31, 2003, December 31, 2001 and December 31, 1998 valuations.

(a) Member Utilization of Actuarial Gains as of December 31, 1998

At OPSEU's Executive Board meeting on August 26, 1999, a motion was passed to utilize the members' share of the actuarial gains accumulated from December 31, 1995 to December 31, 1998 to provide the following benefit improvements and contribution reductions effective December 1, 1999. These benefit improvements utilized $636 million of the members' share of the actuarial gains. The remaining member share of the actuarial gains ($31 million) was left as a Rate Stabilization Fund to offset any future losses that may arise.

(1) The Factor 80 retirement benefit was extended from April 1, 2000 to March 31, 2002. This benefit provides that a member whose age plus service total 80 years prior to April 1, 2002 may elect within 92 days of attaining 80 points to retire and receive an unreduced pension.

(2) The post-retirement survivor benefit under the Plan was increased from 50% to 60% of the member's lifetime pension.

(3) The CPP offset is calculated using the average YMPE over five years instead of the current three years, and is based on 0.675% of the average YMPE instead of 0.7%.

(4) For early reduced retirements occurring during the five-year period beginning December 1, 1999, the 5% per year early retirement reduction from age 65 will be applied from the earliest age at which the member is eligible for an unreduced pension under the permanent retirement provisions of the Plan.

(5) The application of the CPP offset prior to age 65 for members in receipt of a disability pension was eliminated.

(6) Member contributions were reduced by 4% of earnings for 36 months beginning with the pay period that includes December 1, 1999.

With the exception of items (1) and (4), the benefit improvements applied to all active, divested (special deferred) and deferred vested members. Item (1) applied to active and divested members only; item (4) applied to active, divested and deferred members only. In addition, items (2), (3) and (5) also applied to current retirees on a prospective payment basis from December 1, 1999.

(b) Employer Utilization of Actuarial Gains as of December 31, 1998

The Employer applied its share of the actuarial gains to pay down the Transferred Initial Unfunded Liability in accordance with the Sponsorship Agreement.

(c) Member Utilization of Actuarial Gains as of December 31, 2001

The members' share of the actuarial gains accumulated since December 31, 1998 totals $472,769,000. As of December 31, 2001 the following allocations were made:

(1) Pursuant to the 2002 Collective Bargaining Agreement, the Factor 80 Re-Opener and the Bridge to Factor 80 was extended to December 31, 2004. This resulted in a $35 million increase in the net actuarial liability. The portion of the members' share of the actuarial gains used to pay for this increase amounts to $5,296,000.

(2) An amount of $758,000 was allocated towards the Pension Data Purification Project Grievance Settlement between OPSEU and the Province.

(3) At OPSEU's Executive Board meeting on September 11 and 12, 2002, a motion was passed to utilize the members' share of the actuarial gains accumulated since December 31, 1998 to provide the following benefit improvements and contribution reductions. The increase in the net actuarial liability in respect of these amendments has been included in this valuation.

(i) The current Factor 80 retirement benefit has been extended from November 1, 2002 to March 31, 2005. This benefit provides that a member whose age plus service total 80 years prior to April 1, 2005 may elect within 92 days of attaining 80 points to retire and receive an unreduced pension.

(ii) The current "Points-Off" program has been extended from December 1, 2004 to December 31, 2005. Under this program, for reduced early retirements occurring prior to January 1, 2006, the 5% per year early retirement reduction normally applied from age 65 will be applied from the earliest age at which the member is eligible for an unreduced pension under the permanent retirement provisions of the Plan.

(iii) Effective December 1, 2002 the CPP benefit offset is to be based on 0.655% of the average YMPE instead of 0.675%.

(iv) Effective December 1, 2002, where a retired member dies prior to age 65 and leaves a surviving spouse, in addition to receiving 60% of the deceased member's lifetime pension, that spouse will also receive 60% of the member's bridge pension until the month in which the deceased member would have attained age 65, or the death of the spouse if earlier.

(v) For the 36 months beginning with the pay period that includes December 1, 2002, member contributions as a percentage of earnings will be reduced as follows:

- 3% reduction for the first 12-month period;
- 2% reduction for the second 12-month period; and
- 1% reduction for the third 12-month period.

At OPSEU's Executive Board Meeting on January 23, 2003 a motion was passed to extend the benefit improvements (i) to (iv) to divested members.

The temporary benefit improvements (i) and (ii) above apply to active and divested members only. The permanent benefit improvements (iii) and (iv) apply prospectively to all members and pensioners and the contribution reductions in (v) apply to all active members.

The benefit improvements and contribution reductions described in (1) to (3) above utilized $326,479,000 of the members' share of the actuarial gains as of December 31, 2001, leaving remaining gains of $146,290,000. These remaining funds were added to the existing member Rate Stabilization Fund of $2,600,000.

(d) Employer Utilization of Actuarial Gains as of December 31, 2001

The Employer share of the actuarial gains accumulated since December 31, 1998 amounts to $394,284,000. As of December 31, 2001 the following allocations were made:

(1) The amount of $63.4 million was used to pay the balance of the Transferred Initial Unfunded Liability.

(2) The portion of the Employer's share of the actuarial gains used to pay for the extension of the Factor 80 Re-Opener and the Bridge to Factor 80 amounts to $29,750,000, pursuant to the 2002 Collective Bargaining Agreement.

(3) An amount of $3,499,000 was allocated towards the Pension Data Purification Project Grievance Settlement between OPSEU and the Province.

The above allocations of the Employer's share of the gains total $96,664,000 leaving $297,620,000 of gains. In January 2003 the Government advised that the total amount of these remaining gains are to be allocated to a contribution Rate Stabilization Fund.

(e) Allocation of Actuarial Gains/Losses as of December 31, 2003

At OPSEU's Executive Board meeting on January 22, 2004 a motion was passed to reverse the 1% member contribution reduction scheduled for the 12-month period beginning December 1, 2004. This reversal is to become effective January 1, 2005. The resulting gain of $13 million has been allocated to the member Rate Stabilization Fund at December 31, 2003.

The December 31, 2003 valuation showed a loss of $255 million, which represented the deficit under the Plan as of December 31, 2003. The deficit was amortized through total annual payments of $28 million over a period of not more than 15 years. The member and Employer Rate Stabilization Funds were utilized to fund each sponsor's respective share ($14 million) of this deficit.

(f) Allocation of Actuarial Gains/Losses as of December 31, 2004

The December 31, 2004 valuation showed a loss of $183 million, which increased the deficit under the Plan to $428 million. The deficit was amortized through total annual payments of $20 million over a period of not more than 15 years. The member and Employer Rate Stabilization Funds were utilized to fund each sponsor's respective share ($10 million) of this deficit.

(g) Allocation of Actuarial Gains/Losses as of December 31, 2007

The December 31, 2007 valuation showed a net actuarial gain of $841 million , resulting in a surplus of $470 million as of that date. In accordance with the decisions made by the member and Employer sponsors, this surplus was allocated to the member and Employer RSFs. Annual payments from the RSFs to amortize deficits from prior valuations were eliminated and the member and Employer RSFs were each increased $235 million.

OPSEU Actuarial Gain or Loss Allocation History.pdf

A pension plan has actuarial gains or losses each year because the actual events during the year (“experience”) do not exactly match the long-term assumptions previously made. Gains or losses on plan assets occur because the actual investment returns were higher or lower than anticipated. Gains or losses on actuarial liabilities can occur because long-term assumptions (e.g., mortality, salary increases, termination, retirement, economic) were not met. These gains or losses can generally be funded by amortizing over five years and in some cases 15 years. Changes in the Unfunded Actuarial Liability may also be amortized if they are due to changes in actuarial assumptions or methods.

Under the Sponsorship Agreement, no agreement or amendment to the Plan shall provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund.

In its history, the OPSEU Pension Plan has not reported excess surplus as per section 147.2(2) of the Income Tax Act.

The Employer and Member Stabilization Funds are the remaining employer’s and members' share of the net actuarial gain. These funds are to be used as a buffer against any future actuarial losses that may arise.

RE_ OPSEUPP paper.rtf

From: Petsche, Nadine (TBS) []
To: Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: OPSEUPP paper
Date: Friday, December 02, 2016 12:30:25

Hi Pina.

Can we please get the revised OPSEUPP paper referencing the results of the ceiling test (not details, just reference). We would like to send the final paper to the Panel in advance of their discussion Monday.

With regards to the CAATTPP and HOOPP papers, we think that additional discussion needs to happen on the 'provincial' benefit so those papers will not be shared at this time. Note that for the HOOPP paper, we think that the following reference related to contribution reductions should likely be included for completeness purposes.

14.5 Surplus on an Ongoing Basis

(1) If the actuary determines on an on-going basis that there is a surplus in the trust fund at a triennial valuation date equal to or less than ten percent of actuarial liabilities, the administrator, in consultation with the actuary, shall determine the portion, if any, of the surplus to be used for the purpose of improving benefits or reducing the total annual cost.

If a portion of the surplus is to be used to reduce the total annual cost, the amount of surplus so allocated shall be amortized over a period of 10 years from the date of determination, or over such other period as the administrator shall decide in consultation with the actuary and subject to any requirements of the Pension Benefits Act and the Income Tax Act.

(2) If the actuary determines on an ongoing basis that there is a surplus in the trust fund at a triennial valuation date in excess of ten percent of actuarial liabilities, the administrator shall firstly consider using such surplus for plan improvements. If such excess surplus is not used for plan improvements, the administrator may choose, in consultation with the actuary, to use all or a portion of the excess surplus to reduce the total annual cost. The amount of surplus so allocated shall be amortized over a period of 10 years from the date of determination or over such other period as the administrator may decide in consultation with the actuary subject to any requirements of the Pension Benefits Act and the Income Tax Act.

Thanks.

Nadine

From: Colavecchia, Pina (CA - Toronto) [mailto:pcolavecchia@deloitte.ca]
Sent: December-01-16 1:37 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Subject: RE: OPSEUPP paper
Importance: High

Hi Nadine,

Please find attached the updated paper to incorporate the history of surpluses. We can discuss the ceiling test work and what makes sense to have in this memo on our call this afternoon.

Thank you,

Pina

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, December 1, 2016 12:28 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: OPSEUPP paper

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work that Martin performed should be included.

Thanks. Talk to you soon.

n

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RE_ OPSEUPP paper.rtf

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To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
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RE_ OTF Financial Statements.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: OTF Financial Statements
Date: Friday, September 16, 2016 12:52:11
Attachment 1: image001.jpg

Hi Matt.

I inquired about the OTF f/s and was advised that they would not have audited financial statements relating to the OTPP. The OTF is merely an umbrella organization whose mandate it is to represent all teachers in pension discussions/negotiations.

N

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 16, 2016 9:57 AM
To: Petsche, Nadine (TBS)
Subject: OTF Financial Statements

Does the Province have financial statements that are audited for OTF? Would Doreen Lamarche have these?

I am not sure this will lead anywhere, but I just would like to read if there are copies available. I haven't found any online.

Thanks

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

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image001.pdf

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NATIONAL
PARTNER

RE_ OTPP Recognition of accrued benefit asset .rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: OTPP Recognition of accrued benefit asset
Date: Tuesday, April 04, 2017 17:37:31
Attachment 1: OTPP Recognition of accrued benefit asset (EY 4 April 2017) - Final.pdf
Attachment 2: OTPP Recognition of accrued benefit asset (EY 4 April 2017) - v2_TC.pdf

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Hi Nadine,

Attached is a updated version of the asset ceiling test document for OTPP, addressing your comments. I've also attached a tracked changes version (subsequent to your changes) for your reference.

Further to the request you have shared with us, we believe that the analysis contained in the attached document appropriately responds to it. In particular, the asset ceiling test has been performed in accordance with PSAS for each significant plan. The analysis considers the perpetuity of future service costs and perpetuity of any contributions that are required to be made regardless of any surplus. The asset ceiling test confirms that the asset can be recognized without impairment at 31 March 2017.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, April 03, 2017 12:01 PM
To: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>

Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: OTPP Recognition of accrued benefit asset

Hi Christina and Shayan.

Thanks for sharing the draft analysis on OTPP. I was hoping you might be available for a 15 minute call later today or tomorrow to discuss my comments (attached) and next steps.

Shyrose can help to set up a time to chat.

Thanks.

Nadine

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OTPP Recognition of accrued benefit asset (EY 4 April 2017) - Final.pdf

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Building a better working world

Nadine Petsche
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
7 Queen's Park Crescent, 2nd Floor
Toronto ON M7A 1Y7

4 April 2017

Ontario Teacher's Pension Plan
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $26.9B (obligation of $123.8, market related-value of asset of $169.8B, unamortized actuarial gain of $19.1B)
- The Province's portion (50%) of the accrued benefit asset is $12.3B[1]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $12.3B for its respective portion of the Plan.

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.

[1] Reflects specific downward net adjustment of $1.2B by OPCD to the Province's portion of the Plan for the Province's financial statements

- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors under the Teacher's Pension Act ("Act").
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province has an equal share (50%) in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs*".

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$175.6B
Market-related value of assets ("MVRA")	$(169.8)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$175.6B
Obligation	$(123.8)B
Plan surplus	$51.8B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$51.8B

The adjusted benefit asset for the Plan is $51.8B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

Mercer's accounting results letter determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer's calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan's expected future accruals to be approximately $95B, based on the current number of active employees and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$51.8B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $51.8B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$26.9B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B
Province's portion of the accrued benefit asset (50%) [PS3250.050 x 50%]	13.5B
Other Province specific adjustment made by OPCD	(1.2)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$12.3B

Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $12.3B (without any asset impairment) could be recognized for the Province's financial reporting under PSAB.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Actuarial valuation report for OTPP as at 1 January 2016 prepared by Mercer for funding purposes
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re; Ontario Teachers' Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- Teachers' Pension Act
- OTPP Funding Management Policy
- Letter Re: Accounting results as at 31 March 2017 prepared by Mercer
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

OTPP Recognition of accrued benefit asset (EY 4 April 2017) - v2_TC.pdf

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~~30 March~~4 April 2017

Ontario Teacher's Pension Plan ~~- DRAFT~~
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following~~s~~:

- Plan's accrued benefit asset is $26.9B (obligation of $123.8, market related-value of asset of $169.8B, unamortized actuarial gain of $19.1B)
- The Province's portion (50%) of the accrued benefit asset is $12.3B[1]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $12.3B for its respective portion of the Plan.

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.

[1] Reflects specific downward net adjustment of $1.2B by OPCD to the Province's portion of the Plan for the Province's financial statements

- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors under the Teacher's Pension Act ("Act").
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039~~)~~). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province has an equal share (50%) in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs*".

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$175.6B
Market-related value of assets ("MVRA")	$(169.8)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$175.6B
Obligation	$(123.8)B
Plan surplus	$51.8B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$51.8B

The adjusted benefit asset for the Plan is $51.8B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

Mercer's accounting results letter determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer's calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan's expected future accruals to be approximately $95B, based on the current number of active employees and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no ~~contributions~~minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. ~~Further~~In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$51.8B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $51.8B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$26.9B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B
Province's portion of the accrued benefit asset (50%) [PS3250.050 x 50%]	13.5B
Other Province specific adjustment made by OPCD	(1.2)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$12.3B

~~The~~**Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $12.3B (without any asset impairment ~~should~~) could be recognized for the Province's financial reporting under PSAB.**

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
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Our analysis is based on the following information we received:

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.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

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.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

RE_ OTPP Recognition of accrued benefit asset .rtf

From: Petsche, Nadine (TBS) []
To: 'Christina Chan' [Christina.Chan@ca.ey.com]
CC: 'Uros Karadzic' [uros.karadzic@ca.ey.com]; 'Shayan Jafrani' [Shayan.Jafrani@ca.ey.com]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: OTPP Recognition of accrued benefit asset
Date: Thursday, May 04, 2017 16:08:32

Christina,

I do recall reviewing the document now, but I guess we didn't have a chance to regroup. Perhaps we can set up a meeting for next week. ½ hour should suffice. Thanks. N

From: Petsche, Nadine (TBS)
Sent: April 4, 2017 7:31 PM
To: Christina Chan
Cc: Uros Karadzic; Shayan Jafrani
Subject: RE: OTPP Recognition of accrued benefit asset

Thanks Christina. I have reviewed the document and will likely want to discuss a couple of points (minor). I'll see if Cindy has any additional feedback and I'll get back to you.

Regards,

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-04-17 5:38 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: RE: OTPP Recognition of accrued benefit asset

Hi Nadine,

Attached is a updated version of the asset ceiling test document for OTPP, addressing your comments. I've also attached a tracked changes version (subsequent to your changes) for your reference.

Further to the request you have shared with us, we believe that the analysis contained in the attached document appropriately responds to it. In particular, the asset ceiling test has been performed in accordance with PSAS for each significant plan. The analysis considers the perpetuity of future service costs and perpetuity of any contributions that are required to be made regardless of any surplus. The asset ceiling test confirms that the asset can be recognized without impairment at 31 March 2017.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, April 03, 2017 12:01 PM
To: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: OTPP Recognition of accrued benefit asset

Hi Christina and Shayan.

Thanks for sharing the draft analysis on OTPP. I was hoping you might be available for a 15 minute call later today or tomorrow to discuss my comments (attached) and next steps.

Shyrose can help to set up a time to chat.

Thanks.

Nadine

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RE_ OTPP Recognition of accrued benefit asset .rtf

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To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: OTPP Recognition of accrued benefit asset
Date: Tuesday, April 04, 2017 19:31:10

Thanks Christina. I have reviewed the document and will likely want to discuss a couple of points (minor). I'll see if Cindy has any additional feedback and I'll get back to you.

Regards,

Nadine

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Sent: April-04-17 5:38 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: RE: OTPP Recognition of accrued benefit asset

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Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

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RE_ Ontario Pension Plans - Accounting treatment .rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: uros.karadzic@ca.ey.com [uros.karadzic@ca.ey.com]; Christina Chan (Christina.Chan@ca.ey.com) [Christina.Chan@ca.ey.com]
Subject: RE: Ontario Pension Plans - Accounting treatment
Date: Wednesday, May 10, 2017 21:48:38
Attachment 1: image001.png

Thanks Shayan. Sorry that the meeting went longer today than planned. We appreciated your patience, and as always, we appreciate your sound advice.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-10-17 9:47 PM
To: Petsche, Nadine (TBS); Fong, Pauline (TBS); Sun, Alicia (TBS); Patel, Bharat (TBS); Li, Wendy (TBS); Ma, Patricia (TBS)
Cc: Christina Chan; Uros Karadzic
Subject: Ontario Pension Plans - Accounting treatment

Further to our meeting this afternoon, the attached document describes key characteristics, current and proposed accounting treatment, and some additional considerations for the plans discussed.

We will look into the year-end adjustment for HOOPP and get back to you with our observations. In addition, we will prepare adjusted figures based on the proposed accounting treatment in the attached document for the remaining plans.

Please let us know if you have any questions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
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image001.pdf

RE_ Opinion.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 16:40:06

For example, the AG office continues to believe that the following should be entered into the facts:

"However, we recognize that the significant difference between the discount rate used by OTTP and the discount rate used by the Province has contributed to the issue of a Pension Asset on the Government's financial statements that we are recommending be corrected. Our cross Canada review indicated that this situation is a significant anomaly in Canada"

We had tried to point out that that is not a fact but their viewpoint. There are more of that nature.

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 10:31 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: RE: Opinion

Can you share what the differences are?

-----Original Message-----
From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September-28-16 4:30 PM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Opinion

I received comments on the facts. Significant differences are still being raised. I think these need to be resolved through discussion at this point. I can attempt to do that on Friday.

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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Sent: Wednesday, September 28, 2016 7:47 PM
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Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Re: Opinion

Could you please follow up with the AG. Thanks.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)
Sent: Wednesday, September 28, 2016 09:02
To: Danyluk, Kerry (CA - Toronto)
Subject: RE: Opinion

Ok - thanks,

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September-28-16 9:01 AM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Opinion

No, I did not receive anything.

Kerry

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca> | deloitte.ca<http://www.deloitte.ca/>
--
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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 2:57 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>
Subject: Opinion

Good morning (or afternoon),

Did you hear back from the AG yesterday? We met with her yesterday and understood she had more changes to the statement of facts that she was going to send you.

Thanks,

Cindy

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RE_ Opinion.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 16:30:02

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--
Kerry Danyluk
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kdanyluk@deloitte.ca | deloitte.ca
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RE_ Opinion.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 16:30:02

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682248~20160928203005000~Z~D10BAA6C48CE46A9CD2CC77B14322E41
View the original item

I received comments on the facts. Significant differences are still being raised. I think these need to be resolved through discussion at this point. I can attempt to do that on Friday.

--
Kerry Dan

RE_ Opinion.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 09:01:28

No, I did not receive anything.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 2:57 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Opinion

Good morning (or afternoon),

Did you hear back from the AG yesterday? We met with her yesterday and understood she had more changes to the statement of facts that she was going to send you.

Thanks,

Cindy

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RE_ Opinion.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 09:01:28

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682229~20160928130200000~Z~D10BA75D3E8CD3E74014F76E13EB2331
View the original item

No, I did not receive anything.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca <http://www.delo

RE_ Opinion.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Opinion
Date: Wednesday, September 28, 2016 17:17:23

Hi Cindy,

I am going to ask the AG to send OPCD their suggested edits directly.

Matt

-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 4:31 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: RE: Opinion

Can you share what the differences are?

-----Original Message-----
From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September-28-16 4:30 PM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Opinion

I received comments on the facts. Significant differences are still being raised. I think these need to be resolved through discussion at this point. I can attempt to do that on Friday.

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 7:47 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Re: Opinion

Could you please follow up with the AG. Thanks.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)

Sent: Wednesday, September 28, 2016 09:02
To: Danyluk, Kerry (CA - Toronto)
Subject: RE: Opinion

Ok - thanks,

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September-28-16 9:01 AM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Opinion

No, I did not receive anything.

Kerry

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca> | deloitte.ca<http://www.deloitte.ca/>
--
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Please consider the environment before printing.

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 28, 2016 2:57 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>
Subject: Opinion

Good morning (or afternoon),

Did you hear back from the AG yesterday? We met with her yesterday and understood she had more changes to the statement of facts that she was going to send you.

Thanks,

Cindy

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Re_ Meeting on employee future benefits.rtf

From: Sun, Alicia (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]; Blake Langill [blake.w.langill@ca.ey.com]; Suzie Gignac [suzie.r.gignac@ca.ey.com]
Subject: Re: Meeting on employee future benefits
Date: Friday, June 09, 2017 16:50:22
Attachment 1: image001.png

Hi Shayan,

Please see responses from EDU to your questions.

1) Did the school boards reach out to their actuaries/consultants to get input from them?

Yes, boards sought input from their actuaries. Both parties had questions on the implementation, and therefore reached out to the ministry for clarification.

2) Was EDU in agreement with the view we shared?

EDU's opinion was that due to the nature of the funding, there would be no employee future benefit obligation. This was the opinion we articulated at the beginning of the discussions.

Thanks,

Alicia

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Sun, Alicia (TBS)
Sent: Friday, June 9, 2017 2:30 PM
To: Shayan Jafrani
Cc: Petsche, Nadine (TBS); Christina Chan; Uros Karadzic; Blake Langill; Suzie Gignac
Subject: RE: Meeting on employee future benefits

Hi Shayan,

I believe the discussion will be just about the LTD liability.

I will contact EDU to get answers to your other questions.

Thanks,

Alicia

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: June 9, 2017 2:26 PM
To: Sun, Alicia (TBS)
Cc: Petsche, Nadine (TBS); Christina Chan; Uros Karadzic; Blake Langill; Suzie Gignac
Subject: RE: Meeting on employee future benefits

Hi Alicia,

I will send you some times that work for our team. I have a few questions for you:

Are there other items that we'll discuss aside from the valuation for LTD's? If not, then the discussion will probably be more actuarial in nature and it may make more sense for myself or Uros to be more involved from the EY side.

Did the school boards reach out to their actuaries/consultants to get input from them? Was EDU in agreement with the view we shared?

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Friday, June 09, 2017 12:40 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: FW: Meeting on employee future benefits

Hi Shayan/Christina,

Ministry of Education (School Boards, ELHT related) would like to schedule a call with the school board auditors (Deloitte and KPMG in this case) to have a further discussion on the liability for employees on LTD.

EDU would like your counterpart from the accounting side to join the call and lead the discussion with the school boards auditors.

Please let me know whether you can reach out to your colleagues and let me know a time that will work for them.

Thanks,

Alicia

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image001.pdf

Re_ Memo.rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Re: Memo
Date: Saturday, November 26, 2016 10:13:18

Ok. Thx. N

Original Message
From: Colley, Matthew (CA - Toronto)
Sent: Saturday, November 26, 2016 7:24 AM
To: Petsche, Nadine (TBS)
Subject: Memo

Will be sending you later today/ tonight. Apologies for the delay.

Sent from my iPhone
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Re_ New Model Output.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: New Model Output
Date: Sunday, September 25, 2016 09:27:52
Attachment 1: @

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Cindy

Will work today but will need review by Matt on the wording

For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share

Attachments:
image001.png (5 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682111~20160925132813000~Z~D103383CF7F1B44950BD78CB623AB691&AttachmentId=1image001.png

Re_ OTTP question.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Re: OTTP question
Date: Monday, September 12, 2016 11:43:41

Will call you when the break occurs
Let me the number to reach you

Envoyé de mon iPhone

> Le 12 sept. 2016 à 09:29, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :
>
> OK. Can I call you then? What number?
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Raymond, Martin (CA - Montreal)
> Sent: Monday, September 12, 2016 10:06
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
> Subject: Re: OTTP question
>
>
> Will have a break at 9:55 here of want to talk - 11:55 yours
>
>
> Envoyé de mon iPhone
>
> Le 12 sept. 2016 à 07:53, Veinot, Cindy (TBS)
<Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
>
> Understood – except in 2014 and 2015 part of the surplus is being to for inflation protection – wouldn't that have an impact on the contributions required by the government – e.g. the government will not have to make the payments it otherwise would have had to make if the surplus was not used to increase the inflation protection?
>
> If it would be easier to talk this through live, let me know – I can call you.
>
> Thanks,
>
>
> 2014
> $5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
>
> 2015
>
> $6.8 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection for pension credit earned after

2009 to 70% from 60% of the increase in the cost of living.
> Both changes go into effect in January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in
> pension costs.
>
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-12-16 9:48 AM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
> Subject: Re: OTTP question
>
> The plan itself "aims"at 100% but it is not automatic, it is conditional
> But the 100% notion remains through the surplus that may come up
> Also the 50/50 concept remains for the situation when not 100% is provided
>
> So if in a year we provide less than 100% - ex it represents 1B of missing indexation- the government contributes 1B. This is the share of employee missing a benefit and employer contributing
>
> When surplus generates, it is first used to restore benefit
>
> So if benefits are restored and 100% is provided in the year, the government does not contribute for that part of contributon
>
> However recently it has been situation of retirees not getting full 100% and employer contributing the "foregone inflation"
>
>
> Envoyé de mon iPhone
>
> Le 12 sept. 2016 à 07:26, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
> The text below is an excerpt from the employee announcement (attached – see bottom of left column on page 1) when the conditional indexation was commenced in 2011 (I think).
>
> “The Ontario government and other employers that participate in the Teachers’ plan will make extra contributions to the pension plan equal to the total annual cost of inflation increases that retirees forgo.”
>
>
> From: Veinot, Cindy (TBS)
> Sent: September-12-16 9:24 AM
> To: 'Raymond, Martin (CA - Montreal)'
> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
> Subject: RE: OTTP question
>
> Thanks,
>
> My understanding if that the Province makes a “share the pain” payment if full indexation is not provided (e.g. to keep things equal when the employees give up some inflation indexation, the Province makes a payment in an equal amount). So wouldn’t restoring indexation stop the need of the Province to make this payment?
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-12-16 9:21 AM
> To: Veinot, Cindy (TBS)

> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
> Subject: Re: OTTP question
>
> Was just writing you the answer at the same time ...
> The use of surplus within the agreement goes first to "restore indexation" on the post 2009 service to 100% and to maintain this % to increase the assumption for future indexation on that post 2009 service
> So part of the amount you have in your document ended up increasing the pension benefits for the piece of indexing that was not provided yet to 100% for retirees post 2009 on their post 2009 service and part of the amount was attached to increasing conditional indexing to 70% which is an assumption of how we would index in the future the pension for post 2009 service - that piece is more a "reserved amount" because it is still conditional indexing for the future.
> So no share goes to the government for contribution reduction since the 1st use is restoration
>
> This is why we mentioned that in the accounting valuation, you do have an assumption that benefits are already 100% indexed for that post 2009 service, hence the rest is not going 1st to restoration since the assumption already takes it to full restoration
>
> Let me know if you need more info on this or if this is clear enough.
>
> Regards
>
>
> Envoyé de mon iPhone
>
> Le 12 sept. 2016 à 07:09, Veinot, Cindy (TBS)
<Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
> Hi Martin – just following up on this – I know its early in Banff! Can you let me know if you have additional insight on this from the funding valuation?
>
> Thanks,
>
> From: Veinot, Cindy (TBS)
> Sent: September-11-16 10:33 PM
> To: Raymond, Martin (CA - Montreal); Petsche, Nadine (TBS)
> Subject: OTTP question
>
> Hi Martin,
>
> In the document I circulated yesterday morning regarding the history of the use of surpluses in the plan, it spoke to using parts of the surplus in 2014 and 2015 for inflation protection. Is it possible to tell from the last valuation report filed how much of the 2014 surplus was used for that purpose and how that impacted the province re reduced contributions?
>
> Thanks for your assistance.
>
> Cindy
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
>
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CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Re: OTTP question
Date: Monday, September 12, 2016 10:04:16

Will have a break at 9:55 here of want to talk - 11:55 yours

Envoyé de mon iPhone

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Subject: Re: OTTP question
Date: Monday, September 12, 2016 10:03:14

This is the indirect effect I agree
But this is less seen as a "saving" but rather a cost not incurred
But you are right that without the surplus being used to restore indexation and increase the % for future years this would end up in more employer contributions - along with less employee benefits being paid

Envoyé de mon iPhone

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This is why we mentioned that in the accounting valuation, you do have an assumption that benefits are already 100% indexed for that post 2009 service, hence the rest is not going 1st to restoration since the assumption already takes it to full restoration

Let me know if you need more info on this or if this is clear enough.

Regards

Envoyé de mon iPhone

Le 12 sept. 2016 à 07:09, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> Hi Martin – just following up on this – I know its early in Banff! Can you let me know if you have additional insight on this from the funding valuation?
>
> Thanks,
>
> **From:** Veinot, Cindy (TBS)
> **Sent:** September-11-16 10:33 PM
> **To:** Raymond, Martin (CA - Montreal); Petsche, Nadine (TBS)
> **Subject:** OTTP question
>
> Hi Martin,
>
> In the document I circulated yesterday morning regarding the history of the use of surpluses in the plan, it spoke to using parts of the surplus in 2014 and 2015 for inflation protection. Is it possible to tell from the last valuation report filed how much of the 2014 surplus was used for that purpose and how that impacted the province re reduced contributions?
>
> Thanks for your assistance.

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Re_ OTTP question.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Re: OTTP question
Date: Monday, September 12, 2016 09:48:00

The plan itself "aims"at 100% but it is not automatic, it is conditional
But the 100% notion remains through the surplus that may come up
Also the 50/50 concept remains for the situation when not 100% is provided

So if in a year we provide less than 100% - ex it represents 1B of missing indexation- the government contributes 1B. This is the share of employee missing a benefit and employer contributing

When surplus generates, it is first used to restore benefit

So if benefits are restored and 100% is provided in the year, the government does not contribute for that part of contributon

However recently it has been situation of retirees not getting full 100% and employer contributing the "foregone inflation"

Envoyé de mon iPhone

Le 12 sept. 2016 à 07:26, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> The text below is an excerpt from the employee announcement (attached – see bottom of left column on page 1) when the conditional indexation was commenced in 2011 (I think).
>
> “The Ontario government and other employers that participate in the Teachers’ plan will make extra contributions to the pension plan equal to the total annual cost of inflation increases that retirees forgo.”
>
> **From:** Veinot, Cindy (TBS)
> **Sent:** September-12-16 9:24 AM
> **To:** 'Raymond, Martin (CA - Montreal)'

Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Subject: RE: OTTP question

Thanks,

My understanding if that the Province makes a “share the pain” payment if full indexation is not provided (e.g. to keep things equal when the employees give up some inflation indexation, the Province makes a payment in an equal amount). So wouldn’t restoring indexation stop the need of the Province to make this payment?

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-12-16 9:21 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Subject: Re: OTTP question

Was just writing you the answer at the same time ...

The use of surplus within the agreement goes first to "restore indexation" on the post 2009 service to 100% and to maintain this % to increase the assumption for future indexation on that post 2009 service

So part of the amount you have in your document ended up increasing the pension benefits for the piece of indexing that was not provided yet to 100% for retirees post 2009 on their post 2009 service and part of the amount was attached to increasing conditional indexing to 70% which is an assumption of how we would index in the future the pension for post 2009 service - that piece is more a "reserved amount" because it is still conditional indexing for the future.

So no share goes to the government for contribution reduction since the 1st use is restoration

This is why we mentioned that in the accounting valuation, you do have an assumption that benefits are already 100% indexed for that post 2009 service, hence the rest is not going 1st to restoration since the assumption already takes it to full restoration

Let me know if you need more info on this or if this is clear enough.

Regards

Envoyé de mon iPhone

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> **From:** Veinot, Cindy (TBS)
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>
> Thanks for your assistance.

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Re_ OTTP question.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Re: OTTP question
Date: Monday, September 12, 2016 09:21:06

Was just writing you the answer at the same time ...
The use of surplus within the agreement goes first to "restore indexation" on the post 2009 service to 100% and to maintain this % to increase the assumption for future indexation on that post 2009 service
So part of the amount you have in your document ended up increasing the pension benefits for the piece of indexing that was not provided yet to 100% for retirees post 2009 on their post 2009 service and part of the amount was attached to increasing conditional indexing to 70% which is an assumption of how we would index in the future the pension for post 2009 service - that piece is more a "reserved amount" because it is still conditional indexing for the future.
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Regards

Envoyé de mon iPhone

Le 12 sept. 2016 à 07:09, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

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>
> Thanks,
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> **From:** Veinot, Cindy (TBS)
> **Sent:** September-11-16 10:33 PM
> **To:** Raymond, Martin (CA - Montreal); Petsche, Nadine (TBS)

Subject: OTTP question

Hi Martin,

In the document I circulated yesterday morning regarding the history of the use of surpluses in the plan, it spoke to using parts of the surplus in 2014 and 2015 for inflation protection. Is it possible to tell from the last valuation report filed how much of the 2014 surplus was used for that purpose and how that impacted the province re reduced contributions?

Thanks for your assistance.

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Re_ OTTP question.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: OTTP question
Date: Monday, September 12, 2016 12:47:50

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514 409-9436

Envoyé de mon iPhone

> Le 12 sept. 2016 à 10:34, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :
>
> Actually I can step out now. What number?
>
> Sent from my BlackBe

Re_ Ontario vs. BC Plans.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Ontario vs. BC Plans
Date: Thursday, September 22, 2016 22:06:46

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View the original item

Thanks Nadine.

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 1422

Re_ Ontario vs. BC Plans.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Ontario vs. BC Plans
Date: Thursday, September 22, 2016 22:06:46

Thanks Nadine.

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To:
Cc: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: 09/22/2016 10:06 PM
Subject: Ontario vs. BC Plans

I was awaiting a final version of the attached doc, but it hasn't been revised over the last day, so I'm sending it as a good summary comparing ON's plans to those in BC.
Nadine[attachment "Letter to Veinot re Surplus Rights in regards to Ontario and BC Plans - September 19 2016 (3).docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ minister request.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Re: minister request
Date: Friday, October 21, 2016 18:56:36

Thanks Lucy. I know you're really busy and I'm sorry about this last minute request. It only came up 10 mins before I sent my note. I like your suggestions and in light of the audience for this item, I am good with waiting till Sunday if you can draft something up for then. I will watch my inbox in case you need to reach me and my cell is 416 562 8509. Thanks again. N

From: lucy.durocher@ca.pwc.com
Sent: Friday, October 21, 2016 6:26 PM
To: Petsche, Nadine (TBS)
Subject: Re: minister request

I'm not aware of any resources that are ready made for this.

I would think that a visual presentation using " building blocks" might work well. Similar to how appendix a of 3250 shows the components of the accrued benefit asset, valuation allowance and amortized gains visually.
However I would think you could do something comparing the ABO to the plan assets to show the difference as a surplus (being the ABA) and then show that in year 1 the ABA would be fully provided for = hit to statement of operations.
Then I would suggest showing what happens in different circumstances. For example if contributions are greater than increase liability then this increases plan assets, increases ABA and also increases the valuation allowance required. Therefore excess cash funding = expense.
Then you could show that if plan assets decrease because of poor investment returns this reduces plan assets, decreases ABA and therefore decreases the valuation allowance = a gain.
You might also show how if benefits increase this decreases ABA, decreases valuation allowance and results In a gain, all else being equal.

It would be a simplification to assume no umamortized actuarial gains/losses. There would change the extent of the swings (smoothing effect) in any one period but over several years would have the same effect.
I don't know if that makes sense to you.
I could try to draft up what I am picturing in my head but not until Sunday and that might be late, but I'm happy to look over anything your team can make a start on.

Sent from my iPhone

On Oct 21, 2016, at 5:00 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

Lucy,

The minister has asked for a flow chart to help explain to the public in easy to follow presentation (flowchart?) how the AG's approach to determining pension expense impacts the fiscal plan. Specifically, he would like to be able to explain how a pension surplus becomes a pension expense because of the AG's different interpretation.

Apparently this is an urgent request that we have to complete by end of weekend. Wondering if you have any ideas or can help? Maybe you have something off the shelf? Not great odds I guess.

Thanks.

Nadine

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Re_ miscellanous (Pension Asset Ceiling).rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: miscellanous (Pension Asset Ceiling)
Date: Friday, September 16, 2016 21:51:48

Thanks Nadine for sending all the documents through.

It's a lot to go through, but I am sure it will be helpful in forming a view.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/16/2016 09:47 PM
Subject: miscellanous (Pension Asset Ceiling)

Hi Lucy.
Just sending along additional items related to the pension file.

1) Notes below regarding Province's perspective (see below), including an overview attachment
2) Copy of the AG's issues note reflecting her position
3) Copy of government partnership guidance (PS 3060)which may have applicability to JSPPs like the situation involving OTF

I think that will be all for now w.r.t. materials. Thanks. Nadine

From the Province's perspective…

The Province continues to believe that the assets are appropriately stated in accordance with PSAB for the following reasons:

- The assets result from the excess of the contributions and asset returns over the projected benefit obligations. Given there have been no issues raised with respect to either the contributions or the asset returns, our analysis focuses on the impact of the projected benefit obligation.
- The project benefit obligation has been estimated using a discount rate based on the expected return on assets as permitted by PSAB (see paragraph .44 below). That method has been consistently applied by the Province since at least 2000.

- OTPP also used a discount rate based on the expected return on assets until 1999, at which point it changed its policy to use a rate based on high yield corporate bonds. We have attached the OTPP's year 2000 financial statements for ease of reference.

PS3250

.042 *Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts.* [SEPT. 2001]

.043 One commonly used approach that meets this standard is the use of streamed rate assumptions. Under the streamed rate approach, the short-term forecast of fund asset earnings, for example, would reflect the rates of return that assets currently held in the fund will earn until their maturity. As those assets mature, assumptions about their expected earnings on reinvestment would move to the expected long-term rate. Similarly, there would be streamed rate assumptions for salary increases.

.020 The retirement benefits interest expense is the net of:

(a) the interest cost on the accrued benefit obligation determined by applying the discount rate determined at the beginning of the period in accordance with paragraph PS 3250.044 to the average value of the accrued benefit obligation for the period; and

(b) the expected return on plan assets for a defined benefit plan, determined by applying the assumed rate of return on plan assets to the average market-related value of assets for the period.

.044 The actuarial assumptions underlying the valuation of the retirement benefit liability and expense would be internally consistent. For example, **when a government determines its discount rates by reference to its plan asset earnings, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the short-term forecast of rates of return on assets currently held in the fund**. When a government determines its discount rates by reference to its cost of borrowing, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the specific rates of interest and the periods committed to by the government on the amounts borrowed.

- Though 3250.044 indicates one option is to use discount rates by reference to the cost of borrowing, based on our jurisdictional scan of the other provinces' financial statements, we have not found any jurisdictions that use the government borrowing rate to value their pension obligations for plans that are funded by plan assets.
- We have included our analysis for your reference.

OTTP

OTTP prepares its financial statements in accordance with Part IV of the CPA Handbook. Section 4600 in part IV provides guidance on accounting for investments and pension obligations. For all other items, a pension plan chooses to follow IFRS or ASPE. OTTP has chosen to follow IFRS.

For the recording of the pension obligation, the guidance in Section 4600 is as follows:

22 *A pension plan shall measure the pension obligation required by paragraph 4600.12(g) in accordance with paragraph 4600.05(v). For this purpose,* ***a pension plan may measure the pension obligation at the defined benefit obligation amount determined by the plan's sponsor.***
.23 Guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 *Employee Benefits* in Part I of the Handbook.

4600.12(g) is the requirement to distinguish the pension obligation in the statement of financial position and 4600.05(v) is the definition of a pension obligation of a defined benefit pension plan, which states the following, "A

pension obligation of a defined benefit pension plan is the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services."

As noted, pension plans have a considerable amount of choice in determining how to account for their pension obligations – the amount as determined by the plan sponsor, using the guidance in ASPE, or using the guidance in IFRS.

OTTP has chosen to use the guidance in IFRS (IAS 19) and includes the following in its financial statements (December 2015 year end):

"The discount rate is based on market rates, as at the valuation date, of bonds issued by the Province of Ontario, which have characteristics similar to the Plan's liabilities. The discount rate was determined by applying a weighted average discount rate that reflects the estimated timing and amount of benefit payments. The inflation rate is the geometric difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages".

We have included the guidance in from IAS 19 below for comparison:

IAS 19

83 The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. For currencies for which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

86 In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.

- OTTP is an outlier in using a discount rate based on the guidance in IAS 19 based on our review of the stand-alone financial statements of the provincially sponsored plans. We have attached our preliminary analysis (see above).

- With regards to any perception that the reported asset might be "fictitious", we point out that the funding valuations completed by OTTP and submitted to FSCO have also demonstrate that the plan is overfunded. Based on the guidance provided to the members of the plan on the OTTP's website, the surplus in the plan at March 31, 2016 (at 100%) is $13.1 billion. The difference between the $10 billion asset and the 50% of the $13.1 billion, or $6.5 billion is primarily based on the discount rate used. The preparation of the funding valuation is based on prescribed requirement and is not an accounting valuation. Nonetheless, it speaks to the fact that the plan, on a funding basis, has a surplus.

In summary, we don't believe that an adjustment is warranted to the reported pension asset on the CFS on the basis that:

- The discount rates used to value the projected benefit obligation are consistent with the requirements of PSAB.

- The AG has reviewed the discount rate each year and based on the understanding of those involved in the

current year and historically, has never raised a concern with the rates used.

- The asset recorded on the pension's books is not fictitious and is supported by the OTPP's own calculations and public disclosures.[attachment "image001.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "image002.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Financial Statements 2000.pdf" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Pension Discount Rate Analysis for AG.xlsx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Summary (overview) to pwc sept 16.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Scanned from a Xerox multifunction device.pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ PSAB Accounting Discussion Group and Pension-related matters.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Jesty, Paula (CA - Toronto) [pjesty@deloitte.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: PSAB Accounting Discussion Group and Pension-related matters
Date: Thursday, October 20, 2016 08:25:13

Thanks Nadine- I will coordinate with Shyrose.

Kind regards,

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, October 20, 2016 8:17 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Jesty, Paula (CA - Toronto) <pjesty@deloitte.ca>; Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: PSAB Accounting Discussion Group and Pension-related matters

Hi Matt.

It would be good if we could touch base on the upcoming PSAB ADG agenda as well as the pension related SOW.

With respect to the ADG, I understand that there will be a couple of items on the agenda for the November 18th meeting which may relate to/impact Ontario's financial reporting. Specifically, the ADG is expected to address whether an investment holdco could be accounted for as a GBE, as well as the determination of shared control.

I was told that both of these items arose from discussions among the large firms. I was hoping that you might be able to confirm your understanding that these items will be addressed at the November 18th ADG, and also that you might be able to share a copy of the ADG submissions for each of these items at your earliest convenience.

On pension-related matters, would like to touch base on next steps. As you know, the original SOW contemplated additional work by Deloitte beyond the initial assessments done by Martin. In light of the current Panel initiative, we would like to start some of the incremental work now.

Unfortunately, my schedule is pretty hectic, but Shyrose can help to find some time for us to chat on these two items. Talk to you soon.

Nadine

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RE_ Pension Asset - additional advice.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Pension Asset - additional advice
Date: Thursday, May 17, 2018 16:59:56

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https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201806199373016~201805172100040000~Z~10430AB885A04B23B827FBE6ACD0E091View the original item

Hi Mark,

The spring as indeed arrived, and I hope you are getting some time to enjoy it.

Thank you for checking on the letters and the request to share it with the AG’s office. While I

RE_ Pension Asset - additional advice.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Pension Asset - additional advice
Date: Thursday, May 17, 2018 16:59:56

Hi Mark,

The spring as indeed arrived, and I hope you are getting some time to enjoy it.

Thank you for checking on the letters and the request to share it with the AG's office. While I do not anticipate that sharing of the letters with the AG's office will be an issue, would it be ok if I provided the final confirmation after all the letters are issued to you?

In terms of outstanding items, we are waiting for OPSEUPP's final position to complete our analysis.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Donaldson, Mark (TBS) [mailto:Mark.Donaldson@ontario.ca]
Sent: Monday, May 14, 2018 3:55 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Gregory Winston <gregory.winston@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>;

Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: Pension Asset - additional advice

Hi Uros – hope all is well. Spring has finally arrived!

In reviewing our 2017-18 Audit Plan with the AG, the following request has been made:

· Request the asset ceiling test to be performed for each significant pension plan with an accrued benefit asset using the perpetuity assumption for both service costs and contributions.

Cindy has asked me to reach out to you and ask for the "additional advice" letter that was provided last year (see attached) w.r.t. the asset ceiling calculation. We would then appreciate your confirmation that we may share this letter with the Auditor General's office as it pertains to our 2017-18 audit.

If you require something more formal for this request, please let me know.

Happy to discuss,

Thanks.

Mark Donaldson, CPA, CMA

Director, Financial Reporting and Fiscal Support

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RE_ Pension Asset Expert Panel.rtf

From: Veinot, Cindy (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Pension Asset Expert Panel
Date: Thursday, October 06, 2016 15:13:48

Thanks Lucy

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October-06-16 3:13 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: Pension Asset Expert Panel

Hi Cindy,

I did see this. I will ask.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
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PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 10/06/2016 03:12 PM
Subject: Pension Asset Expert Panel

Hi Lucy,

As you may have seen, the Province is setting up an expert panel to review the pension asset issue. We would like to include an actuary on the panel, from outside the accounting firms (so as not to conflict another firm as the panel may well engage someone). Would you be able to ask your internal actuarial contacts if they have any recommendations for someone from one of the actuarial firms who has a high level of expertise in JSPPs. It could be someone who has recently retired.

Thanks,

Cindy

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RE_ Pension Checklist.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Pension Checklist
Date: Friday, April 21, 2017 18:35:40
Attachment 1: image001.png
Attachment 2: Checklist of procedures (DRAFT).xlsx

Hi Nadine,

Here is a draft checklist with the procedures to be performed to prepare the figures to be reported in respect of the plans.

This documents the steps to be taken and suggested checks to be conducted. We note that this checklist is general and depending on the specific circumstances or situations, additional items may need to be added. However, I hope it is still helpful for the documentation of your processes/controls.

A potential project where we can add value would be to update the spreadsheets used to better facilitate these steps and reduce the risk of errors. This is included in our project list as one of the “Next week and after” projects.

Let me know if you have any questions or wish to discuss.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, April 21, 2017 2:54 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Pension Checklist

Hi Shayan.

I just wanted to make sure that my original 'checklist' request was understood. What I was referring to is the checklist that you were developing based on discussion with staff w.r.t. process used to review actuarial submissions and compile updated forecast and actual results for our financial reporting purposes.

Thanks.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April 20, 2017 4:10 PM
To: Petsche, Nadine (TBS)
Subject: RE: Pension Checklist

Hi Nadine,

We'll aim to send this over to you tomorrow.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, April 20, 2017 9:51 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: Pension Checklist

Shayan,

I was hoping you could send the draft checklist your team had drafted for the APFR pension related work. There may be an opportunity for us to leverage it in this year's documentation of process and related controls.

Thanks in advance.

Nadine

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image001.pdf

Checklist of procedures (DRAFT).pdf

Pension reporting procedures - DRAFT

Inputs

All year-end assumptions are consistent with the basis chosen by OPCD
Contributions are entered correctly, including any split between past service cost (employer/employee) and transfers.
Service cost is consistent with the new basis (as at year-end) for next year's expense (and basis for future year's projection)
Headcount projection is consistent with OPCD's expectation.
Market value of assets is updated to actual amount and not based on projection formula (assuming EROA)
Market asset reconciliation is consistent (i.e. if preliminary MVA was used for prior year-end, should there be any adjustments made when using the source of information provided? Was there any contribution receivable that was included/excluded that would impact the contributions inputs? Should the gain/loss be different?)

Assets reconciliation (on total plan) - Market Value of Assets ("MVA"), Market-Related Value of Assets ("MRVA")

MVA reconciles from prior year based on cash flows, and investment gains and losses
Actual return on MVA should be net of expenses (if EROA assumption is net of expenses)
Calculation of market related value of assets
The difference between actual and expected return on MRVA is appropriately amortized
The inclusion/exclusion of non-investment expenses should be consistent with the EROA assumption
Confirm whether cash flows reflect any receivables and make appropriate balance sheet adjustments
Confirm mid-year (i.e. "average") cash flows consistently used in determining MRVA, consistent with method used in determining the return on assets component included for pension expense
Ensure reasonableness of return on assets considering asset allocation, market benchmarks and consistency with similar plans

Obligation reconciliation (on total plan basis)

Opening position is consistent with prior year-end
Interest on obligation is consistent with interest cost included in expense
Service cost includes portions relating to both joint sponsors
Past service cost and transfers are reconciled separately from current service cost
Benefit payment is consistent with benefit payment under the asset reconciliation
Actuarial gain/loss is appropriate (can be explained by experience, change in assumptions etc.)
Confirm year-end obligation is consistent with the assumptions basis chosen by OPCD
The signs of all components are appropriate; year-end obligation reconciles from the previous year-end obligation considering all components

Expense

Determination of Province's current service cost is consistent with the province's share of the plan, net of any contributions by other agencies (employers' portion)
Current service cost does not include any transfer or past service
Interest cost is consistent with the interest reflected for obligation reconciliation, determined based on beginning of the year discount rate
Expected return on assets is consistent with the beginning of the year assumption
Expected return on assets is consistent with the market-related value of assets calculation
Amortization of unrecognized gains/losses is consistent with the unrecognized gains/losses at beginning of the year and prior streams

New gains/losses arising during the year to be amortized

Obligation actuarial gain/loss to be amortized over EARSL, amount as per "obligation reconciliation". Gain/loss should not include any transfer or past service cost
Any differences in expected MRVA and actual MRVA is amortized (return below/over EROA)
Cash flows used to determine the Expected MRVA should be the same as the actual MRVA reconciliation

Continuity schedule / year-end (100%)

Comparison of opening balance with closing amounts at the prior year-end
Net liability (prior to valuation allowance) reconciles from the previous year-end position (considering employer contributions and expense)
Net liability (prior to valuation allowance) reconciles from the current funded status (considering closing obligation, MRVA, unamortized amounts and adjustments)
Balance test: net liability determined under (2) and (3) are equal

Continuity schedule / year-end (Province) - applies to jointly sponsored plans

Appropriate portion of the Plan is recognized for the province (e.g. 50%)
Reversal of any contribution receivable (by the province) included in the funded position (i.e. MRVA)
Consistency between any adjustment for accumulated contributions made by other agencies (employer portion) vs. the recognition under the "agencies" reporting when consolidated
Application of valuation allowance, if any

RE_ Pension issues.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Pension issues
Date: Monday, July 30, 2018 08:22:23

Hi Cindy,

Yes, I can certainly attend the call with OPTrust.

For the letter to OTPP, are you thinking some language that would summarize our discussion and ask them to confirm it?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Monday, July 30, 2018 7:55 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: Pension issues

Hi Uros – a couple of questions for you:

1) I would like to invite you to attend the call with OPTrust re: OPSEU – are you ok with attending that call? It is yet to be scheduled.

2) Could you draft some preliminary language for a letter that we could send to OTPP re: the discussion you had with them on Thursday?

Thanks,

Cindy

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RE_ Please confirm.rtf

From: Petsche, Nadine (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Please confirm
Date: Monday, May 15, 2017 12:52:51

Thanks for the additional clarity Uros. We'll be in touch if we need anything further.

Best regards,

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 15, 2017 12:51 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Shayan Jafrani
Subject: RE: Please confirm

Hi Nadine,

You are correct – only those contributions that are required to be made regardless of any surplus would go to reduce the economic benefit available from expected future accruals for service. Given that there are no such requirements for either OTPP or OPSEUPP, the present value of such contributions is nil for both plans.

Examples of contributions that would be required regardless of any surplus are those contributions that cannot be reduced below a certain level even if the plan was overfunded. New Brunswick plans are examples of such plans – they have a minimum contribution floor of 9% that must be made regardless of the funded status of the plan. In other words, even if the plan was in surplus, the contributions could be reduced below 9%. So that contribution of 9%, that must be made regardless of any surplus, would be present-valued and included in the para 56 and 57 calculation. This is the main reason NB had to write down their pension asset. However, in contrast, there are no such minimum contribution floors for OTPP and OPSEUPP – the contributions could be reduced or eliminated if there were excess assets in the plan.

Another example is a set-up where the employer must at least match employee contributions (eg. 4% of pay) but where the employee contributions are not reassessed based on the funded level of the plan. In that case, the employer must contribute at least 4% regardless of any surplus. Again, in the OTPP and OPSEUPP case, there are no such requirements – while generally speaking employer and employees share costs 50/50%, both are subject to increases and reductions depending on the funded status of the plan, with no minimums that would apply regardless of surplus.

For greater clarity, treating any funding contributions as “contributions required regardless of any surplus” would be incorrect, as that would ignore the distinction made in paragraphs 56/57 (otherwise PSAS would simply refer to “contributions”). It would also be inconsistent with Canadian practice where only contributions like those descried in the examples above would normally be taken into account. Finally, it would not align with the Expert Panel conclusions.

Please let me know if this answers your question below.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, May 15, 2017 12:01 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>

Subject: RE: Please confirm

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

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To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan
Subject: RE: Please confirm

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These documents contain complete PSAB asset ceiling test analysis for OTPP and OPSEUPP respectively. They include the perpetuity assumption for both Service Cost and for Contributions. As noted in the memos (section 3.2 in each of the documents), the present value, in perpetuity, of future service cost was $100.1B for OTPP and $13.88B for OPSEUPP. The present value, in perpetuity, of future contributions that are required to be made regardless of any surplus is Nil for both OTPP and OPSEUPP. The analysis is based on our understanding of PSAS asset ceiling requirements; it is also consistent with how these rules are applied in Canadian practice, and it is consistent with the conclusions of the Expert Panel report.

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Please let me know if you need any further detail or if you'd like to discuss.

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To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
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Thanks in advance.

Nadine

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To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Please confirm
Date: Monday, May 15, 2017 13:02:17

My pleasure, Nadine. I will be in PSAB Taskforce meetings all of Wednesday and Thursday, but Shayan should be back by then, and I will be keeping an eye on my email throughout the week. Christina is now also back from vacation, so we're in good shape.

Uros

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, May 15, 2017 12:53 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Please confirm

Thanks for the additional clarity Uros. We'll be in touch if we need anything further.

Best regards,

Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]

Sent: May 15, 2017 12:51 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Shayan Jafrani
Subject: RE: Please confirm

Hi Nadine,

You are correct – only those contributions that are required to be made regardless of any surplus would go to reduce the economic benefit available from expected future accruals for service. Given that there are no such requirements for either OTPP or OPSEUPP, the present value of such contributions is nil for both plans.

Examples of contributions that would be required regardless of any surplus are those contributions that cannot be reduced below a certain level even if the plan was overfunded. New Brunswick plans are examples of such plans – they have a minimum contribution floor of 9% that must be made regardless of the funded status of the plan. In other words, even if the plan was in surplus, the contributions could be reduced below 9%. So that contribution of 9%, that must be made regardless of any surplus, would be present-valued and included in the para 56 and 57 calculation. This is the main reason NB had to write down their pension asset. However, in contrast, there are no such minimum contribution floors for OTPP and OPSEUPP – the contributions could be reduced or eliminated if there were excess assets in the plan.

Another example is a set-up where the employer must at least match employee contributions (eg. 4% of pay) but where the employee contributions are not reassessed based on the funded level of the plan. In that case, the employer must contribute at least 4% regardless of any surplus. Again, in the OTPP and OPSEUPP case, there are no such requirements – while generally speaking employer and employees share costs 50/50%, both are subject to increases and reductions depending on the funded status of the plan, with no minimums that would apply regardless of surplus.

For greater clarity, treating any funding contributions as “contributions required regardless of any surplus” would be incorrect, as that would ignore the distinction made in paragraphs 56/57 (otherwise PSAS would simply refer to “contributions”). It would also be inconsistent with Canadian practice where only contributions like those descried in the examples above would normally be taken into account. Finally, it would not align

with the Expert Panel conclusions.

Please let me know if this answers your question below.

Uros

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To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
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CC: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Please confirm
Date: Monday, May 15, 2017 11:49:16
Attachment 1: OTPP Recognition of accrued benefit asset (EY 4 April 2017) - Final.pdf
Attachment 2: OPSEUPP Recognition of accrued benefit asset (EY 7 April 2017) - draft.pdf

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OTPP Recognition of accrued benefit asset (EY 4 April 2017) - Final.pdf

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Building a better working world

Nadine Petsche
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
7 Queen's Park Crescent, 2nd Floor
Toronto ON M7A 1Y7

4 April 2017

Ontario Teacher's Pension Plan
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $26.9B (obligation of $123.8, market related-value of asset of $169.8B, unamortized actuarial gain of $19.1B)
- The Province's portion (50%) of the accrued benefit asset is $12.3B[1]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $12.3B for its respective portion of the Plan.

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.

[1] Reflects specific downward net adjustment of $1.2B by OPCD to the Province's portion of the Plan for the Province's financial statements

- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors under the Teacher's Pension Act ("Act").
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province has an equal share (50%) in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs*".

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$175.6B
Market-related value of assets ("MVRA")	$(169.8)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$175.6B
Obligation	$(123.8)B
Plan surplus	$51.8B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$51.8B

The adjusted benefit asset for the Plan is $51.8B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

Mercer's accounting results letter determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer's calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan's expected future accruals to be approximately $95B, based on the current number of active employees and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$51.8B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $51.8B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$26.9B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$26.9B
Province's portion of the accrued benefit asset (50%) [PS3250.050 x 50%]	13.5B
Other Province specific adjustment made by OPCD	(1.2)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$12.3B

Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $12.3B (without any asset impairment) could be recognized for the Province's financial reporting under PSAB.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Actuarial valuation report for OTPP as at 1 January 2016 prepared by Mercer for funding purposes
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re; Ontario Teachers' Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- Teachers' Pension Act
- OTPP Funding Management Policy
- Letter Re: Accounting results as at 31 March 2017 prepared by Mercer
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

OPSEUPP Recognition of accrued benefit asset (EY 7 April 2017) - draft.pdf

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7 April 2017

Ontario Public Service Employees' Union Pension Plan - DRAFT
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Public Service Employees' Union Pension Plan ("OPSEUPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OPSEUPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OPSEUPP in the Province's financial statements. This document does not constitute an accounting opinion and should not be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $1.95B (obligation of $16.60B, market related-value of asset of $18.51B, unamortized actuarial loss of $0.04B)
- The Province's portion (50%) of the accrued benefit asset is $0.61B[1]. This amount does not reflect any adjustment for the differential use of the Rate Stabilization Fund ("RSF") by the joint sponsors discussed later in this document.

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $0.65B ($0.61B, adjusted for the estimated differential use of the RSF) for its respective portion of the Plan.

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS.

[1] Reflects specific downward net adjustment of $0.37B by OPCD to the Province's portion of the Plan for the Province's financial statements

- The Plan is jointly sponsored by the Province, represented by the Chair of the Management Board of Cabinet, and the Ontario Public Service Employees' Union ("OPSEU"), representing the employees.
- Funding valuations must be filed at least once every three years.
- The Province's portion of the Plan is 50% of the overall Plan, reflecting the sharing principle between the sponsors in accordance with the plan text and sponsorship agreement:
  - Employers match the contributions of the members.
  - Any emerging actuarial gains and losses are to be shared equally between the sponsors.
  - Any surplus is to be shared equally between the joint sponsors under the current arrangement (the proportion may be collectively bargained).
  - Any deficit is to be funded by the joint sponsors and required contributions will increase in equal amounts.
- The Plan has established a Rate Stabilization Fund ("RSF"), as the sum of past unspent surpluses which were evenly allocated between the joint sponsors. Each sponsor may decide, without the other joint sponsor's consent, the use of its portion of the surplus.
- As at 31 December 2014, the date of the most recently completed funding valuation, the Province's RSF balance was $0.1B and the OPSEU's RSF balance was $0.01B. This means that the OPSEU joint sponsor has historically used $0.09B more surplus than the Province.
- While the joint sponsors established a trust ("OPTrust"), the Board of Trustees is responsible for the administration of the Plan and the investment of the assets. Decisions related to amendments to the trust agreement, plan text, and sponsorship agreement (e.g. contribution level, benefit to be provided) are the responsibility of the joint sponsors.
- The funding policy provides the joint sponsors a recommended framework for addressing the priorities for surplus use and deficit funding.
- The Plan documents explicitly state that no surplus shall be paid out of the fund to either sponsors.
- Contribution holiday does not constitute a surplus withdrawal according to the sponsorship agreement. Furthermore, the sponsorship agreement permits contribution holiday (i.e. sponsors may use their respective RSF to meet any additional contribution requirements).

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Valuation discount rate: 5.90%
- Inflation rate: 2.00%
- Salary escalation rate: 1.75% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

Under the current arrangement, the Province has an equal share (50%) in the costs and risks of the OPSEUPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and the employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 50% portion to the Province. A further adjustment may need to be made to account for differential use of RSF by each of the joint sponsors. The need for RSF adjustment was also noted in the Pension Asset Expert Advisory Panel report.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs"*.

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. The Plan text explicitly prohibits any surplus withdrawal by both joint sponsors. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Province may use its portion of the RSF for contribution reduction without any restriction and does not require consent by the other sponsor. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$18.90B
Market-related value of assets ("MVRA")	$(18.51)B
Actuarial gains/(losses) not recognized due to smoothing	$0.39B
Unamortized actuarial gains/(losses), on MRVA basis	$(0.04)B
Unamortized actuarial gains/(losses), on MVA basis	$0.35B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$18.90B
Obligation	$(16.60)B
Plan surplus	$2.30B
Unamortized losses	$0.00B
Adjusted benefit asset (PS 3250.053)	$2.30B

The adjusted benefit asset for the Plan is $2.30B.

3.2 Expected future benefit

PS 3250.56 states **"***a government determines its expected future benefit the sum of:*

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

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

Present value of the Plan's expected future accruals

PS 3250.57 further states "*A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…"*

According to the accounting results letter provided by OPTrust, the Plan's actuary (Willis Towers Watson, "WTW") has determined the following using the Province's assumptions for financial reporting under PSAB:

- The 2017 total service cost is $0.39B
- The total present value of expected future accruals is $13.88B as at 31 December 2016

The letter indicates that the present value of expected future accruals has been calculated on an open group basis (i.e. the current number of active employees). This is in line with PSAS requirements.

We have validated the actuary's calculation of the total present value of expected future accruals of $13.88B. We have estimated the present value of the Plan's expected future accruals to be approximately $12.38B, on an open group basis using a perpetuity approach (i.e. the current number of active employees) and the province's assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 5.90%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $0.39B / (0.059-0.0275) = $12.38B.

We note that our estimate is approximately $1.5B lower than the amount determined by the actuary. The actuary's result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuary to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan's funding status, our interpretation is that there are no minimum contributions that the Province is required to make, regardless of any surplus. Moreover, since there is no restriction on the sponsor's use of its RSF, the contribution can be reduced to zero for the sponsors without each other's consent. The sponsorship agreement explicitly explains that a contribution holiday can be taken when there

is a surplus. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OPSEUPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OPSEUPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

No plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$13.88B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$13.88B

The Plan's expected future benefit is $13.88B.

3.3 Valuation allowance

PS 3250.054 states "*the adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$2.30B
Plan's expected future benefit (PS 3250.056)	$13.88B
Valuation allowance (PS 3250.054) [max (0, $2.30B – 13.88B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$1.95B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B

Based on the RSF allocation as at 31 December 2014, the most recent funding valuation date, OPSEU has utilized their RSF $0.09B more than the Province:

OPSEU's RSF balance at 31 December 2014	$0.01B
Province's RSF balance at 31 December 2014	0.10B
Adjustment for the differential use of RSF by the joint sponsors	$0.09B

In other words, the Province has $0.09B more of unused RSF than OPSEU at 31 December 2014.

Accordingly, the Province's portion of the Plan's accrued benefit asset, adjusted for the relative position of the sponsors' RSFs and net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B
Adjustment for the differential use of RSF by the joint sponsors	(0.09)B
Plan's accrued benefit asset to be divided equally between the joint sponsors	1.86B
Province's portion of the accrued benefit asset to be divided evenly (50% x 1.86B)	0.93B
Province's unused RSF in excess of OPSEU's RSF	0.09B
Other Province specific adjustment made by OPCD	(0.37)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$0.65B

Based on the results of the analysis above, OPCD may conclude that an accrued benefit asset of $0.65B could be recognized for the Province's financial reporting under PSAS. This asset is after an adjustment for the differential use of RSF by the joint sponsors. No asset impairment is required.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Appendix
Information Provided

Our analysis is based on the following information we received:

- Province's financial reporting information under PSAS as at 31 March 2017, prepared by OPCD
- Actuarial Information for the OPESU Pension Plan provided by OPSEU Pension Trust (related to 2016 year-end financial information, including to actuarial calculations performed by Willis Towers Watson)
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re: OPESU Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- OPSEUPP actuarial valuation funding report as at 31 December 2014 by Willis Towers Watson
- OPSEU actuarial gain or loss allocation history (up to 31 December 2014)
- OPSEUPP plan text
- The Sponsorship Agreement for OPESUPP
- Ontario Public Service Employees' Union Pension Act
- OPTrust Funding Policy: Board-Approved Policy
- Pension Asset Expert Advisory Panel report

Appendix
Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

.50 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets.

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired, and, accordingly, no valuation allowance is required.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Glossary

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

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

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

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

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

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

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

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

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

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

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

benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

RE_ Public Accounts Related Q’s.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Monday, June 12, 2017 18:27:07

Hi Nadine,

We believe our current proposed approach remains appropriate (i.e. reducing the province's portion from 50% to 49%/ 47.7% to reflect non-consolidated participating employers). Generally, we would consider the plans on a going-concern basis for accounting purposes. On such basis, we do not have any reason to assume any of these non-op employers would not make good on their required contributions. Certainly, should any of these employers become insolvent, we would have to revisit and reconsider the percentage adjustments assumed. However, there is no reason to assume these employers would become insolvent on a going concern basis either.

Let us know if you have a different reaction. We can further discuss during our call tomorrow.

Have a great evening.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]

Sent: Monday, June 12, 2017 3:16 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
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Cc: Hatzis, Len (TBS); Compagnone, Lisa (TBS)

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If you require anything further please let us know.

Paul

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· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other ‘excluded’ employers who have failed to make their own required contributions to the OTPP.

· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:

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· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP’s most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of

the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

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• Liquor Control Board of Ontario

• Niagara Parks Commission

• North Bay Regional Health Centre (Northeast Mental Health Centre)

• Ontario Agency for Health Protection and Promotion

• Ontario Lottery and Gaming Corporation

• Ontario Pension Board

• Ontario College of Trades

• Ontario Public Service Employees Union (seconded or acting employees)

• Ontario Shores Centre for Mental Health Sciences

• Ontario Teachers' Pension Plan Board

• OPSEU Pension Plan Trust Fund (includes non-bargaining unit employees)

• Providence Continuing Care Centre

• St. Joseph's Care Group – Lakehead Psychiatric Hospital

• Waypoint Centre for Mental Health Care

• Workplace Safety and Insurance Appeals Tribunal

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Date: Monday, June 12, 2017 15:09:12

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o Private schools and other 'excluded employers' not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP

OPSEUPP:

· The OPSEUPP is governed by a Sponsorship Agreement dated April 18, 1994, as amended, between Ontario and OPSEU ("Sponsorship Agreement"); a trust agreement dated October 25, 1994, as amended, the OPTrust Plan Text and the *Ontario Public Service Employees' Union Pension Act, 1994*.

· Like the OTPP, the OPSEUPP is also a JSPP under the PBA.

· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP's most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of

the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

• The Province of Ontario (civil servants and crown employees)

• Alcohol and Gaming Commission of Ontario

• Centre for Addiction and Mental Health

• Legislative Assembly of Ontario

• Liquor Control Board of Ontario

• Niagara Parks Commission

• North Bay Regional Health Centre (Northeast Mental Health Centre)

• Ontario Agency for Health Protection and Promotion

• Ontario Lottery and Gaming Corporation

• Ontario Pension Board

• Ontario College of Trades

• Ontario Public Service Employees Union (seconded or acting employees)

• Ontario Shores Centre for Mental Health Sciences

• Ontario Teachers' Pension Plan Board

• OPSEU Pension Plan Trust Fund (includes non-bargaining unit employees)

• Providence Continuing Care Centre

• St. Joseph's Care Group – Lakehead Psychiatric Hospital

• Waypoint Centre for Mental Health Care

• Workplace Safety and Insurance Appeals Tribunal

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

RE_ Public Accounts meeting 5_30pm .rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Chen, Raymond (TBS) [Raymond.Chen@ontario.ca]
Subject: RE: Public Accounts meeting 5:30pm
Date: Thursday, September 22, 2016 13:33:56

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681964~201609221733580000~Z~D0FAAAC84634D0D172C9B1A65AB01581
View the original item

OK. Just wanted to let you know it’s on a different floor than the recent meeting with the AG, but the same building. See you at 5:30. Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdan

RE_ Public Accounts meeting 5_30pm .rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Chen, Raymond (TBS) [Raymond.Chen@ontario.ca]
Subject: RE: Public Accounts meeting 5:30pm
Date: Thursday, September 22, 2016 13:33:56

OK. Just wanted to let you know it's on a different floor than the recent meeting with the AG, but the same building. See you at 5:30. Nadine

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September 22, 2016 1:32 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Cc: Veinot, Cindy (TBS); Chen, Raymond (TBS)
Subject: RE: Public Accounts meeting 5:30pm

Ok. we will see you later.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, September 22, 2016 1:31 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Chen, Raymond (TBS) <Raymond.Chen@ontario.ca>
Subject: Public Accounts meeting 5:30pm

Hi Kerry and Matt.

As discussed, you are invited to discuss your findings on PS 3250 this afternoon at 5:30. Location details are provided below. We will provide your names to security.

Whitney Block Rm 6420, 99 Wellesley St W, Toronto, ON M7A 1A1

Nadine

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RE_ Q’s.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Q's
Date: Tuesday, January 31, 2017 12:40:26

Thanks Lucy. Great points! N

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: January 31, 2017 10:48 AM
To: Petsche, Nadine (TBS)
Subject: Re: Q's

Hi Nadine,

1. I think your response captures the right ideas. It is fair to say that the recent standards were considered as relevant sources of guidance, amongst others, when assessing the appropriate accounting treatment. Is the Chair reviewing these responses? She may have some comments on this one.

2. For context, I believe what they are referring to is that the Panel believes that PS 3250 is applied to the plan, and then the government picks up its share of that accounting, rather than applying PS 3250 to the governments share of the plan. I think this is the "different methodology" they are referencing. I understand that is a slightly different approach to applying the guidance than is set out in the Province's position paper and implied by the AG's comments on the issue.

I hope this helps.
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA

Date: 01/30/2017 07:50 PM
Subject: Q's

Lucy,
I've received the following 2 media Q's for which I need to draft a response. Below are some initial thoughts. Any comments/suggestions would be most helpful. N

1. Are you basing your position on an accounting standard that hasn't come into effect yet?

Draft A: 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. The government has argued that unilateral control was not necessary to report the asset and that there was no impairment to the assets reported on the Province's books. (not sure what the question could be referencing w.r.t. different methodology. Any thoughts?)

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RE_ Question.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Question
Date: Tuesday, October 04, 2016 18:46:37

Are you able to be on as well or will you be at the committee?

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca
--
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-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, October 4, 2016 5:36 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: Fw: Question

9 am tomorrow?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Tuesday, October 4, 2016 17:33
To: Danyluk, Kerry (CA - Toronto)
Subject: Re: Question

Today won't work. Let me see about early tomorrow. Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Danyluk, Kerry (CA - Toronto)
Sent: Tuesday, October 4, 2016 16:33
To: Veinot, Cindy (TBS)
Subject: Question

This is a very tall ask. But I am being asked if there is any chance of a call between you guys, including your communications team, and us today or this evening? Or early tomorrow?

Please let me know. Thanks.

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca | deloitte.ca<http://www.deloitte.ca/>
--
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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, October 4, 2016 3:23 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Danek, Mary (TBS) <Mary.Danek@ontario.ca>
Subject: RE: Final Report

Hi Kerry - would Friday work?

Cindy

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: October-04-16 3:21 PM
To: Veinot, Cindy (TBS)
Subject: RE: Final Report

Hi, Cindy. I know you must be very busy. But do you have time for a quick call in the next few days?

--
Kerry Danyluk
Partner | National Accounting and Assurance
D: +1 (416) 775 7183
kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca> | deloitte.ca<http://www.deloitte.ca/>
--
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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, October 2, 2016 1:07 PM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>
Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
Subject: RE: Final Report

Thanks Matt and Kerry

Cindy

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

Hi Nadine and Cindy,

Please find attached our final report.

Kind regards,

Matt

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RE_ Question (impt).rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: RE: Question (impt)
Date: Monday, December 05, 2016 10:40:00

Hi Nadine,

We did not look at any other jurisdictions in providing the papers to you. We will attempt to do the research, but this may take some time as the plans could be classified just at DB at the public accounts level, while be treated as a multi-employer plan on individual financial statements, so it is more than just reviewing the FS of every province. So I am not sure that we will be able to meet your timeline. We can try, but not guarantee anything. Can you confirm whether you still want us to proceed?

Thanks

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, December 5, 2016 8:58 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: Question (impt)

Matt/Pina,

Cindy has asked if any research was done on how other jurisdictions are accounting for their multi-employer plans. Please advise as we will be discussing our status of analysis this afternoon with the Panel. If by chance we have not, can we do some research please.

Thanks.

Nadine

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RE_ Question (impt).rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: RE: Question (impt)
Date: Monday, December 05, 2016 10:46:40

Ok- we will start there.

-----Original Message-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, December 5, 2016 9:43 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: Re: Question (impt)

If we can check NB, BC, SK, AB perhaps?

From: Colley, Matthew (CA - Toronto)
Sent: Monday, December 5, 2016 9:40 AM
To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
Subject: RE: Question (impt)

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Thanks

Matt

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Sent: Monday, December 5, 2016 8:58 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: Question (impt)

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RE_ Question (impt).rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: RE: Question (impt)
Date: Monday, December 05, 2016 14:14:38

Hi Nadine,

We did find some examples of multi-employer plans in Alberta and Saskatchewan that are reported as multi-employer plans at the government organization level, but on a consolidated basis are reported as just a defined benefit plan.

In Alberta they have the university plans (universities are consolidated in Alberta) as well as the Alberta Health Service Plans which are reflected as DB plans.

In Saskatchewan, an example would be the Regional Health Authorities which report pensions as multi-employer plans, while consolidated 100% and reflected as a DB plan at the Provincial Account level.

Does this help?

Thanks

Matt

-----Original Message-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, December 5, 2016 9:43 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: Re: Question (impt)

If we can check NB, BC, SK, AB perhaps?

From: Colley, Matthew (CA - Toronto)
Sent: Monday, December 5, 2016 9:40 AM
To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
Subject: RE: Question (impt)

Hi Nadine,

We did not look at any other jurisdictions in providing the papers to you. We will attempt to do the research, but this may take some time as the plans could be classified just at DB at the public accounts level, while be treated as a multi-employer plan on individual financial statements, so it is more than just reviewing the FS of every province. So I am not sure that we will be able to meet your timeline. We can try, but not guarantee anything. Can you confirm whether you still want us to proceed?

Thanks

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, December 5, 2016 8:58 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>

Subject: Question (impt)

Matt/Pina,
Cindy has asked if any research was done on how other jurisdictions are accounting for their multi-employer plans. Please advise as we will be discussing our status of analysis this afternoon with the Panel. If by chance we have not, can we do some research please.
Thanks.
Nadine

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RE_ Question from pension panel.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
Subject: RE: Question from pension panel
Date: Tuesday, March 14, 2017 09:20:03

Thank you Patricia. This is helpful.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Ma, Patricia (TBS)" <Patricia.Ma2@ontario.ca>
To: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Sun, Alicia (TBS)" <Alicia.Sun@ontario.ca>
Cc: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 03/13/2017 05:26 PM
Subject: RE: Question from pension panel

Hi Nelson,

Nadine also posed us the question but seems she didn't have the opportunity to pass on the response.

The 85% refers to active member count from consolidated Hospitals i.e. not including pensioners, as at December 31.

Hope that answers the question.

Thanks,

Patricia

From: Tam, Nelson (TBS)
Sent: March-13-17 5:20 PM

To: Sun, Alicia (TBS); Ma, Patricia (TBS)
Cc: lucy.durocher@ca.pwc.com
Subject: FW: Question from pension panel

Alicia, Patricia

Can you answer the question for Lucy? Nadine has not responded.

Thanks

Nelson

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March-12-17 5:10 PM
To: Petsche, Nadine (TBS)
Cc: Tam, Nelson (TBS)
Subject: Question from pension panel

Hi Nadine,

For the Supplemental Report for the Panel, I had a quick drafting question that I would like to confirm with you.

- In your memos on HOOPP accounting, it includes the calculation of the province's portion of the pension liability as "Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers)" with similar language used for CAATPP.
Please confirm that the basis of "% members in HOOPP *from* hospitals consolidated in the public accounts" is the same as "% members in HOOPP *employed by* hospitals consolidated in the public accounts". I would like to confirm that "from" is not a broader calculation (e.g. including retirees or some other metric.)

Regards,
Lucy

Lucy Durocher
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RE_ Question on OTTP FMP.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Question on OTTP FMP
Date: Sunday, September 11, 2016 13:52:19
Attachment 1: @

This message has been archived. View the original item
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Here is my review with comments

Note that I will be out for the next 1h30 as it seems the travelling takes that time – may have access to emails to some extent

Martin Raymond, FSA
Attachments:
image001.png (5 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681007~201609111752430000~Z~D0B93DF9C16F8019406340A7798268A1&AttachmentId=1image001.png

Pension Asset Ceiling_additional information for AG (Sept10)_MR.docx (30 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681007~201609111752430000~Z~D0B93DF9C16F8019406340A7798268A1&AttachmentId=2Pension Asset Ceiling_additional information for AG (Sept10)_MR.docx

RE_ potential conflict.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: potential conflict
Date: Friday, August 10, 2018 15:41:46

Yes, thank you. I have received two different invites. Can you please confirm the time of the meeting?

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

---

From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Date: August 10, 2018 at 12:05:27 PM EDT
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: potential conflict

Thanks Uros, as you have probably seen they have moved the meeting to Monday.

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 8, 2018 2:20 PM
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: potential conflict

Hi Sarah,

Thanks for letting me know. I will have to move some meetings around, but I will be able to make that time if necessary.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, August 8, 2018 1:30 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: potential conflict

Hi Uros,

I want to flag that the Minister may have a conflict with the pensions briefing we have scheduled on August 15th, as the House may still be sitting. I will receive confirmation later this week whether this conflict is happening. Just in case wondering about your availability for August 13th between 3-4:30pm.

Thanks

Sarah

Sarah Hosick

Executive Assistant & Special Policy Advisor (A)

Assistant Deputy Minister's Office | Office of the Provincial Controller

Office of the Treasury Board | Treasury Board Secretariat

7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7

416-212-8512

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RE_ potential conflict.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: potential conflict
Date: Wednesday, August 08, 2018 14:19:55

Hi Sarah,

Thanks for letting me know. I will have to move some meetings around, but I will be able to make that time if necessary.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, August 8, 2018 1:30 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: potential conflict

Hi Uros,

I want to flag that the Minister may have a conflict with the pensions briefing we have scheduled on August 15th, as the House may still be sitting. I will receive confirmation later this week whether this conflict is happening. Just in case wondering about your availability for August 13th between 3-4:30pm.

Thanks

Sarah

Sarah Hosick

Executive Assistant & Special Policy Advisor (A)

Assistant Deputy Minister's Office | Office of the Provincial Controller

Office of the Treasury Board | Treasury Board Secretariat

7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7

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Re_ Outline of position paper proposed allocations Oct 7.docx.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Outline of position paper proposed allocations Oct 7.docx
Date: Thursday, October 13, 2016 13:02:46

Hi Nadine

I'm just running a few minutes late, I will join shortly.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/07/2016 04:02 PM
Subject: Outline of position paper proposed allocations Oct 7.docx

---

Hi Lucy.
As discussed, the attached version of the paper outline includes proposed section allocations. Please let me know if any of the notes are inconsistent with your understanding.
Thanks and have a wonderful Thanksgiving weekend!
Nadine[attachment "Outline of position paper proposed alloations Oct 7.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Outline of position paper proposed allocations Oct 7.docx.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Outline of position paper proposed allocations Oct 7.docx
Date: Sunday, October 16, 2016 23:43:18

Thanks Lucy. I am copying Shyrose on this response. I think we would likely just need his name and to get the necessary clearance in place. Shyrose will be in touch if further details are required.
Regards,
Nadine

From: lucy.durocher@ca.pwc.com
Sent: Sunday, October 16, 2016 11:22 AM
To: Petsche, Nadine (TBS)
Subject: Re: Outline of position paper proposed allocations Oct 7.docx

Hi Nadine,

In respect of one of the sections discussing the differences between the funding valuations/OTPP financial statements and the Province's financial statements, I think it would be helpful if I could get our actuary to read through the write up, particularly in respect of the funding valuation differences. Currently the SOW does not list our actuary as someone performing work (to date all my conversations with him have been high level and theoretical). However, I would like to get him added to the SOW as vendor personnel.

Individual's Legal Name
Individual's Role and Experience Level
Service Category
Per Diem Rate

Mario Chassé
General Consultant (Actuarial), Level 2
Service Category 2
See “charges on a per diem rate basis”

I can ask him to sign a confidentiality agreement.
What else should be done to ensure that the SOW reflects that he will be providing some work under the contract?

Thanks,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223

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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/07/2016 04:02 PM
Subject: Outline of position paper proposed allocations Oct 7.docx

Hi Lucy.
As discussed, the attached version of the paper outline includes proposed section allocations. Please let me know if any of the notes are inconsistent with your understanding.
Thanks and have a wonderful Thanksgiving weekend!
Nadine[attachment "Outline of position paper proposed alloations Oct 7.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Pension Asset Expert Panel.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Pension Asset Expert Panel
Date: Friday, October 07, 2016 10:10:08

Thanks Lucy. Looking forward to chatting at 1pm. N

From: lucy.durocher@ca.pwc.com
Sent: Friday, October 7, 2016 10:06 AM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: Fw: Pension Asset Expert Panel

Hi Cindy,

Please see some names below from our actuary.

Nadine - I believe we have a touch base call scheduled for this afternoon at 1pm. Please confirm if this call will go ahead.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
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----- Forwarded by Lucy Durocher/CA/ABAS/PwC on 10/07/2016 10:02 AM -----

From: Mario Chasse/CA/ABAS/PwC
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/06/2016 05:17 PM
Subject: Re: Fw: Pension Asset Expert Panel

Hi Lucy.... here are a list of good actuaries that are outside of accounting firms:

Andrew Fung - Morneau Shepell - 416-380-2168 - AFung@morneaushepell.com - Andrew used to work at OMERS, so very familiar with JSPP. Before OMERS he was a consultant at another large actuarial firm.

Anne G.S. Soh - OMERS - (416) 369-3133 - asoh@omers.com - Anne is Vice President, Actuarial Services & Plan Actuary at OMERS (an internal actuary of a large JSPP in Ontario)

Phillip Morse - Willis Towers Watson - (416) 960-7113 - philip.morse@willistowerswatson.com - Phillip

is the valuation actuary and senior consultant of a large JSPP

Regards

Mario Chassé
PwC | Director, Actuarial Services
T: +1 416 365 8822
Email: mario.chasse@ca.pwc.com
Assistant: Tasha Adhihetty | T: +1 416 941 8383 ext. 16232
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http://www.pwc.com/ca

From: Lucy Durocher/CA/ABAS/PwC
To: Mario Chasse/CA/ABAS/PwC@Americas-CA
Date: 10/06/2016 03:14 PM
Subject: Fw: Pension Asset Expert Panel

Hi Mario,

Please see request from the Province for names of good actuaries that are outside of the accounting firms. Do you know anyone that might fit the bill?

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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----- Forwarded by Lucy Durocher/CA/ABAS/PwC on 10/06/2016 03:13 PM -----

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 10/06/2016 03:12 PM
Subject: Pension Asset Expert Panel

Hi Lucy,

As you may have seen, the Province is setting up an expert panel to review the pension asset issue. We would like to include an actuary on the panel, from outside the accounting firms (so as not to conflict another firm as the

panel may well engage someone). Would you be able to ask your internal actuarial contacts if they have any recommendations for someone from one of the actuarial firms who has a high level of expertise in JSPPs. It could be someone who has recently retired.

Thanks,

Cindy

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Re_ Pension Assets.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Pension Assets
Date: Saturday, September 03, 2016 11:48:05

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Ok

Envoyé de mon iPhone

> Le 3 sept. 2016 à 09:07, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> a écrit :
>
> Good morning Martin.
> Late yesterday the AG communicated that the pensio

Re_ Position Paper and Slide Deck.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Position Paper and Slide Deck
Date: Wednesday, November 16, 2016 19:09:47

Hi Nadine,

Thanks for the update. Just let me know either way how it pans out for Friday. I know these things always take more time to get everything lined up.

Lucy

Sent from my iPhone

On Nov 16, 2016, at 6:07 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> Thanks again for your feedback on the slides and paper. I was hoping to be able to confirm that we'll have the approvals in place for you to be able to participate in Friday's meeting of the Panel, but as is usual…it is taking longer than planned. I'm not sure if the approvals will be obtained in time, so I just wanted to make sure that you aren't holding your schedule for Friday afternoon on our account. If the situation looks more positive tomorrow, I'll let you know. Thanks for your flexibility and support.
>
> Nadine
>
> **From:** lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
> **Sent:** November 15, 2016 3:36 PM
> **To:** Petsche, Nadine (TBS)
> **Subject:** Re: FW: Position Paper and Slide Deck
>
> Hi Nadine,
>
> In regards to Friday, - my items are items 2 and 3 on the PSA discussion group agenda, so I should be finished by 12:00pm and can join the panel in the afternoon between 12:30 and 5pm, if that would be desirable.

Slide deck - I have inputted the following suggestions into the deck but kept the font red for ease of identification.

Slide 3 - I think it might be helpful to include the word "unilateral". Perhaps "There is no legally enforceable right to unilaterally access the asset" would be better. This is actually the phrase used by the AG in her letter of September 13, 2016 so I think captures the OAGs views appropriately.

Slide 22 - I don't think the ITA limits the level of surplus, but rather, "In addition, the Income Tax Act imposes limits on the level of contributions that may be made to a pension plan that has an "excess surplus" (as defined by the ITA)"

Additional comments:

Slide 13 - Second bullet point - I found this paragraph a bit confusing as to the point it is trying to make. My suggestions are below. I have not updated the deck for this, pending whether you agree.

§The Financial Statement Concepts definition of an asset references “control” over an economic resource in Section PS 1000 and does not address “shared control”, which is relevant to the situation of a joint defined benefit plan, in respect of asset recognition. However, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards, indicating that an asset subject to shared control with another party can be recognized in the financial statements.

Appendix 1 - there is a total for the OTF, but not a total for the Ontario government. The position paper has $9.3bn as a total, so I have taken the liberty to add it to the slide deck as I think it was omitted in error

- It's not clear why 1990 is included as it is a deficit and not a surplus and the numbers aren't included in the $9.3bn total but other years when there was a deficit (e.g. 2003 onwards) are not shown. Is there a reason for including 1990 specifically? Perhaps it should be indicated why?

Appendix 4 - there is an asterisk by OTPP Filed Discount rate, but not clear what it references to. Should it be clearer in this appendix that "OTPP filed discount rate" relates to that used in OTPP's financial statements prepared using Part IV and that the "Province Economic Assumption for Nominal Return" relates to that used in the Province's financial statements prepared using PSAB in relation to the OTPP plan.

Position paper:

I have updated the pictures. For reference, the pictures are done in power point and I just used a "snipping tool" to copy them into the paper. I attach the PPT deck for reference also.

Here is the revised position paper - I have added in couple of comments - relatively minor. I think it is looking in really good shape.

Lucy

Lucy Durocher
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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 11/14/2016 04:44 PM
Subject: FW: Position Paper and Slide Deck

Hi Lucy.
Can you please review the attached and help out with the diagrams. Thanks. Nadine

From: Keates, James (TBS)
Sent: November 14, 2016 3:36 PM
To: Petsche, Nadine (TBS)
Subject: Position Paper and Slide Deck

Nadine, here is the current version of the position paper and slide deck. We need Lucy's help with comments 1 and 14 for the paper. 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 | 416 327-2721

[attachment "Draft Pension Asset Position Paper November 14.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "OTPP Pension Accounting Deck - November 14 2016.pptx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Pronunciation .rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: Re: Pronunciation
Date: Thursday, September 07, 2017 12:32:54

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Btw I'm in the lobby at Frost

Uros Karadzic
Partner, People Advisory Services
Office: +1 416 943 2087
Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

Re_ Pronunciation .rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: Re: Pronunciation
Date: Thursday, September 07, 2017 12:31:27

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Yes - phonetically it's Oo-rosh Karajik

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Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

Re_ Pronunciation .rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: Re: Pronunciation
Date: Thursday, September 07, 2017 12:34:34

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No rush, just want to make sure I'm at the right place :)

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Partner, People Advisory Services
Office: +1 416 943 2087
Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

_____

Re_ Q’s.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Q's
Date: Tuesday, January 31, 2017 11:47:50

Hi Nadine,

1. I think your response captures the right ideas. It is fair to say that the recent standards were considered as relevant sources of guidance, amongst others, when assessing the appropriate accounting treatment. Is the Chair reviewing these responses? She may have some comments on this one.

2. For context, I believe what they are referring to is that the Panel believes that PS 3250 is applied to the plan, and then the government picks up its share of that accounting, rather than applying PS 3250 to the governments share of the plan. I think this is the "different methodology" they are referencing. I understand that is a slightly different approach to applying the guidance than is set out in the Province's position paper and implied by the AG's comments on the issue.

I hope this helps.
Lucy

Lucy Durocher
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Email: lucy.durocher@ca.pwc.com
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 01/30/2017 07:50 PM
Subject: Q's

Lucy,
I've received the following 2 media Q's for which I need to draft a response. Below are some initial thoughts. Any comments/suggestions would be most helpful. N

1. Are you basing your position on an accounting standard that hasn't come into effect yet?

Draft A: 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. The government has argued that unilateral control was not necessary to report the asset and that there was no impairment to the assets reported on the Province's books. (not sure what the question could be referencing w.r.t. different methodology. Any thoughts?)

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Re_ Question (impt).rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Question (impt)
Date: Tuesday, December 06, 2016 10:07:43

In Alberta some plans are in a surplus position but the amortization of actuarial losses bring the plans into a liability position for accounting.

Sent from my iPhone

> On Dec 6, 2016, at 7:02 AM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:
>
> Thanks Matt. I guess there were likely limited details, if any wrt recognition of plan assets associated with those plans? N
>
> Original Message
> From: Colley, Matthew (CA - Toronto)
> Sent: Tuesday, December 6, 2016 6:55 AM
> To: Petsche, Nadine (TBS)
> Cc: Colavecchia, Pina (CA - Toronto); Veinot, Cindy (TBS)
> Subject: Re: Question (impt)
>
>
> No, in the brief research we did, we did not find examples where the multi- employer plan was effectively sole sponsored at the provincial level but was not consolidated.
>
> Sent from my iPhone
>
>> On Dec 6, 2016, at 5:25 AM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:
>>
>>
>> Thanks Matt. Just wondering if any examples were found with different treatment? N
>> Original Message
>> From: Colley, Matthew (CA - Toronto)
>> Sent: Monday, December 5, 2016 1:14 PM
>> To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
>> Subject: RE: Question (impt)
>>
>>
>> Hi Nadine,
>>
>> We did find some examples of multi-employer plans in Alberta and Saskatchewan that are reported as multi-employer plans at the government organization level, but on a consolidated basis are reported as just a defined benefit plan.
>>
>> In Alberta they have the university plans (universities are consolidated in Alberta) as well as the Alberta Health Service Plans which are reflected as DB plans.
>>
>> In Saskatchewan, an example would be the Regional Health Authorities which report pensions as multi-employer plans, while consolidated 100% and reflected as a DB plan at the Provincial Account level.
>>
>> Does this help?
>>

>> Thanks
>>
>> Matt
>>
>> -----Original Message-----
>> From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
>> Sent: Monday, December 5, 2016 9:43 AM
>> To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
>> Subject: Re: Question (impt)
>>
>> If we can check NB, BC, SK, AB perhaps?
>>
>> From: Colley, Matthew (CA - Toronto)
>> Sent: Monday, December 5, 2016 9:40 AM
>> To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
>> Subject: RE: Question (impt)
>>
>>
>> Hi Nadine,
>>
>> We did not look at any other jurisdictions in providing the papers to you. We will attempt to do the research, but this may take some time as the plans could be classified just at DB at the public accounts level, while be treated as a multi-employer plan on individual financial statements, so it is more than just reviewing the FS of every province. So I am not sure that we will be able to meet your timeline. We can try, but not guarantee anything. Can you confirm whether you still want us to proceed?
>>
>> Thanks
>>
>> Matt
>>
>> From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
>> Sent: Monday, December 5, 2016 8:58 AM
>> To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
>> Subject: Question (impt)
>>
>> Matt/Pina,
>> Cindy has asked if any research was done on how other jurisdictions are accounting for their multi-employer plans. Please advise as we will be discussing our status of analysis this afternoon with the Panel. If by chance we have not, can we do some research please.
>> Thanks.
>> Nadine
>>
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Re_ Question (impt).rtf

From: Petsche, Nadine (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: Re: Question (impt)
Date: Monday, December 05, 2016 10:42:42

If we can check NB, BC, SK, AB perhaps?

From: Colley, Matthew (CA - Toronto)
Sent: Monday, December 5, 2016 9:40 AM
To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
Subject: RE: Question (impt)

Hi Nadine,

We did not look at any other jurisdictions in providing the papers to you. We will attempt to do the research, but this may take some time as the plans could be classified just at DB at the public accounts level, while be treated as a multi-employer plan on individual financial statements, so it is more than just reviewing the FS of every province. So I am not sure that we will be able to meet your timeline. We can try, but not guarantee anything. Can you confirm whether you still want us to proceed?

Thanks

Matt

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, December 5, 2016 8:58 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
Subject: Question (impt)

Matt/Pina,

Cindy has asked if any research was done on how other jurisdictions are accounting for their multi-employer plans. Please advise as we will be discussing our status of

analysis this afternoon with the Panel. If by chance we have not, can we do some research please.

Thanks.

Nadine

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Re_ Question from pension panel.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
Subject: Re: Question from pension panel
Date: Sunday, March 12, 2017 18:09:13

Thanks Lucy. I'll follow up on the details and get back to you. Nadine

From: lucy.durocher@ca.pwc.com
Sent: Sunday, March 12, 2017 5:10 PM
To: Petsche, Nadine (TBS)
Cc: Tam, Nelson (TBS)
Subject: Question from pension panel

Hi Nadine,

For the Supplemental Report for the Panel, I had a quick drafting question that I would like to confirm with you.

- In your memos on HOOPP accounting, it includes the calculation of the province's portion of the pension liability as "Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers)" with similar language used for CAATPP.
Please confirm that the basis of "% members in HOOPP *from* hospitals consolidated in the public accounts" is the same as "% members in HOOPP *employed by* hospitals consolidated in the public accounts". I would like to confirm that "from" is not a broader calculation (e.g. including retirees or some other metric.)

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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Re_ Question on OTTP FMP.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Question on OTTP FMP
Date: Sunday, September 11, 2016 13:23:38

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=20170628868100 6~20160911172351000 0~Z~D0B936A8312623F80119AB5C49A88911View the original item

Yes these would be the funding valuation since this valuation basis - which is conservative - will determine whether a surplus exists to be used ...

Envoyé de mon iPhone

Le 11 sept. 2016 à 09

Re_ Question.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Question
Date: Tuesday, October 04, 2016 19:22:04

Great. Thanks for organizing on short notice. Speak to you tomorrow

Sent from my iPhone

> On Oct 4, 2016, at 6:51 PM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:
>
> I will participate in the call -- the committee meeting starts at 12:30. I have another meeting at 10, but I think 30 minutes should be fine.
>
> -----Original Message-----
> From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
> Sent: October-04-16 6:47 PM
> To: Veinot, Cindy (TBS)
> Subject: RE: Question
>
> Are you able to be on as well or will you be at the committee?
>
> --
> Kerry Danyluk
> Partner | National Accounting and Assurance
> D: +1 (416) 775 7183
> kdanyluk@deloitte.ca | deloitte.ca
> --
> Deloitte is proud to be a National Partner of the Canadian Olympic team
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> Please consider the environment before printing.
>
>
> -----Original Message-----
> From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Sent: Tuesday, October 4, 2016 5:36 PM
> To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
> Subject: Fw: Question
>
> 9 am tomorrow?
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Sent: Tuesday, October 4, 2016 17:33
> To: Danyluk, Kerry (CA - Toronto)
> Subject: Re: Question
>
>
> Today won't work. Let me see about early tomorrow. Cindy
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Danyluk, Kerry (CA - Toronto)
> Sent: Tuesday, October 4, 2016 16:33
> To: Veinot, Cindy (TBS)
> Subject: Question

>
>
> This is a very tall ask. But I am being asked if there is any chance of a call between you guys, including your communications team, and us today or this evening? Or early tomorrow?
>
> Please let me know. Thanks.
>
> --
> Kerry Danyluk
> Partner | National Accounting and Assurance
> D: +1 (416) 775 7183
> kdanyluk@deloitte.ca | deloitte.ca<http://www.deloitte.ca/>
> --
> Deloitte is proud to be a National Partner of the Canadian Olympic team
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> Please consider the environment before printing.
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> From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Sent: Tuesday, October 4, 2016 3:23 PM
> To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
> Cc: Danek, Mary (TBS) <Mary.Danek@ontario.ca>
> Subject: RE: Final Report
>
> Hi Kerry - would Friday work?
>
> Cindy
>
> From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
> Sent: October-04-16 3:21 PM
> To: Veinot, Cindy (TBS)
> Subject: RE: Final Report
>
> Hi, Cindy. I know you must be very busy. But do you have time for a quick call in the next few days?
>
> --
> Kerry Danyluk
> Partner | National Accounting and Assurance
> D: +1 (416) 775 7183
> kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca> | deloitte.ca<http://www.deloitte.ca/>
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> From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Sent: Sunday, October 2, 2016 1:07 PM
> To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>
> Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
> Subject: RE: Final Report
>
> Thanks Matt and Kerry
>
> Cindy
>
> From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]

> Sent: October-02-16 11:18 AM
> To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
> Cc: Danyluk, Kerry (CA - Toronto)
> Subject: Final Report
>
>
> Hi Nadine and Cindy,
>
> Please find attached our final report.
>
> Kind regards,
>
> Matt
>
>
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Re_ please review (last page).rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: please review (last page)
Date: Thursday, September 22, 2016 10:27:24

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https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20161025736511 9~201609221427280000~Z~2023F328FAED7506EE91D8EE36C7A291View the original item

Thank you. I will take a look.

I don't believe we have confirmed a time that work to talk. Did you hear back from Cindy on her availability?

Lucy

Lucy Durocher
PwC | Partner, National Acc

Re_ please review (last page).rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: please review (last page)
Date: Thursday, September 22, 2016 10:27:24

Thank you. I will take a look.

I don't believe we have confirmed a time that work to talk. Did you hear back from Cindy on her availability?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/22/2016 10:26 AM
Subject: please review (last page)

Hi Lucy.
Just forwarding a deck (we just became aware of) that demonstrates, based on scenario analysis, that the Province can expect to be in the temporary zone 30% of the time.
Talk to you later.
N[attachment "FMP_Temporary Plan Improvement Zone Discussion Deck.pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ potential conflict.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: Re: potential conflict
Date: Friday, August 10, 2018 21:23:37

No deck was requested for this, so I was planning to speak on the issue and take questions. Is that ok?

Cindy can share our previous correspondence with her as the pre-reading if appropriate.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

---

From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Date: August 10, 2018 at 5:27:05 PM EDT
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: potential conflict

Sorry one more question from me - do you have a deck that you'd like us to share electronically?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hosick, Sarah (TBS)
Sent: Friday, August 10, 2018 4:02 PM
To: Uros Karadzic
Subject: RE: potential conflict

The most-up to date one is 2:45-3:30pm (attached for your reference).

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 10, 2018 3:42 PM
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: potential conflict

Yes, thank you. I have received two different invites. Can you please confirm the time of the meeting?

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 |
sarah.anderton@ca.ey.com<mailto:sarah.anderton@ca.ey.com>

From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca<mailto:Sarah.Hosick@ontario.ca>>
Date: August 10, 2018 at 12:05:27 PM EDT
To: Uros Karadzic <uros.karadzic@ca.ey.com<mailto:uros.karadzic@ca.ey.com>>
Subject: RE: potential conflict

Thanks Uros, as you have probably seen they have moved the meeting to Monday.

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 8, 2018 2:20 PM
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca<mailto:Sarah.Hosick@ontario.ca>>
Subject: RE: potential conflict

Hi Sarah,

Thanks for letting me know. I will have to move some meetings around, but I will be able to make that time if necessary.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
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Assistant: Sarah Anderton | Phone: +1 416 943 3143 |
sarah.anderton@ca.ey.com<mailto:sue.lentze@ca.ey.com>

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, August 8, 2018 1:30 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com<mailto:uros.karadzic@ca.ey.com>>
Subject: potential conflict

Hi Uros,

I want to flag that the Minister may have a conflict with the pensions briefing we have scheduled on August 15th, as the House may still be sitting. I will receive confirmation later this week whether this conflict is happening. Just in case wondering about your availability for August 13th between 3-4:30pm.

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)

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RE_ Reference to Deloitte opinion.rtf

From: Veinot, Cindy (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Reference to Deloitte opinion
Date: Wednesday, August 30, 2017 13:50:05

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I’ve cleared the wording the EY – can you help me understand what you want to talk to them about? I was just providing the three bullets re: context for you to see how it would be positioned.

RE_ Reference to Deloitte opinion.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: RE: Reference to Deloitte opinion
Date: Tuesday, September 05, 2017 10:51:34

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Hi Cindy,

Please find below the wording that we would be comfortable with using:

* An opinion from Deloitte LLP on aspects of the Province’s accounting as at March 31, 2016 for the OT

RE_ Reference to Deloitte opinion.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Reference to Deloitte opinion
Date: Wednesday, August 30, 2017 14:51:39

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Hi Cindy,

I think the way the wording of the Summary of the Opinion is quite clear that we don’t opine on the valuation of the asset, and I think we want to make sure the E&Y is aware of what

RE_ Reference to Deloitte opinion.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Reference to Deloitte opinion
Date: Wednesday, August 30, 2017 13:45:35

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Hi Cindy,

I have passed this onto our firm’s risk management. One item that I think we would want to do is have a conversation with E&Y about the communication. Would you be able to put me in

RE_ Reference to Deloitte opinion.rtf

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To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Reference to Deloitte opinion
Date: Wednesday, August 30, 2017 15:27:53

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OK – I think we’re fine on that – Uros Karadzic is involved in the EY work, and was briefed on the Deloitte opinion during the Panel’s work.

Let’s connect at 5:15.

Sarah – can you send

RE_ Regroup on pension items (misc).rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: RE: Regroup on pension items (misc)
Date: Thursday, April 27, 2017 12:31:39
Attachment 1: image001.png

Hi Shayan.

I think for purposes of the noon discussion, Uros' participation may not be necessary. Perhaps suggested topics for Uros to address with Cindy at a subsequent meeting could be raised on Tuesday so that Cindy can assess the timing for a discussion with him. Her availability is limited to the lunch hour on Tuesday and there won't be any time to speak about other topics at that time.

Hope this is ok.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April 27, 2017 12:29 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS); Fong, Pauline (TBS)
Subject: RE: Regroup on pension items (misc)

Hi Nadine,

Do you think it would be helpful if Uros attended the meeting next week?

The 3 of us are all available at 10am or at 3pm onwards on Tuesday if that works for your team.

Christina and I are still available at noon.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, April 25, 2017 10:06 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: Regroup on pension items (misc)

Hi Shayan.

As we look forward to post-Budget release, we would like to schedule some time to regroup on the matters noted in your email of April 11th to Pauline Fong. We have had a chance to discuss your comments internally, and look further to reviewing our analysis with you to determine next steps and timing.

To support consistency in our accounting for each type of pension plan impacting our financials (i.e. sole sponsor, joint sponsor, multi-employer), it would be helpful to have a summary by type of plan that reflects the relevance and appropriate accounting treatment for non-controlled/non-consolidated employers. We were hoping that your team could assist in drafting such a document. Please feel free to connect with

Pauline for further clarification of this request.

In terms of timing, we will continue to have busy days over the coming weeks, but we hoped that we could meet with you next Tuesday at noon? Cindy's current schedule would allow her to participate in the discussion as well.

Please let Shyrose know if that time would work for your team. We look forward to meeting with you again, and to working together to enhance OPCD's pension related processes.

Thanks again to you and your team for your support and advice.

Regards,

Nadine

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image001.pdf

RE_ Remodeling - OPSEUPP.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Li, Wendy (TBS) [Wendy.Li@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Remodeling - OPSEUPP
Date: Friday, June 16, 2017 17:09:06
Attachment 1: image001.jpg

Hi Wendy,

If you like, Shayan and I can come over on Monday PM. Would that work for you?

We briefly discussed on how the % is to be determined and I think that's still up for discussion. I would imagine the change in % would be minimized if it's based on the accumulative contribution amount. However, we note that would also add another layer of recordkeeping/tracking. Right now all years are set to 47.66% as I've setup the spreadsheet such that the all contributions are to increase at the same % (which, is not an unreasonable assumption for projection). We are happy to discuss further.

As for the opening balance adjustment – I think it's best for us to talk through it so that we are all in understanding the adjustment that's required to be made and what's the most appropriate way to do so.

Let us know if Monday works. Have a great weekend.

Thanks!

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Li, Wendy (TBS) [mailto:Wendy.Li@ontario.ca]
Sent: Friday, June 16, 2017 4:30 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Remodeling - OPSEUPP

Hi Christina,

I have a few questions related to the % calculation.

1. Currently, the same %, i.e. 47.66%, is used for all years. My understanding from our discussion is that the percentage will be calculated based on accumulative contributions, and likely will change from year to year.

2. Impact on assets and liability due to percentage change is adjusted to opening balance as the model is built now. Let's discuss this as I don't think we would want to restate opening balances whenever the % changes in the future.

Depending on where you're with other plans, please let me know if you are coming to our office or I can call you to discuss OPSEUPP.

Thank you,

Wendy Li

Senior Policy Analyst

External Reporting

Accounting Policy and Financial Reporting Branch

Office of Provincial Controller

416.325.5480

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: June 16, 2017 1:31 PM
To: Li, Wendy (TBS)
Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS); Shayan Jafrani
Subject: Remodeling - OPSEUPP

Hi Wendy, Pauline,

As Shayan is completing his review on OTPP, I updated the OPSEUPP. Shayan will also do a QA review on this model, but thought to share given our timeline.

Attached is the current draft version of the remodeling spreadsheet for OPSEUPP. I have not fully finalized the projection capability (some of the numbers currently remain hardcoded as you had them) due to priority of work.

Based on my conversation with Pauline when we gone over OTPP, it was my understanding that eventually, OPCD may want to provide the ON's own disclosure exhibits for its portion of the plans. As such, and for better clarity, you will find that there is a 100% disclosure tab, as well as a "disclosure (Prov)" tab. This tab represents the portion (47.7%) of ON's reporting of the Plan.

The yellow tabs are "must have" going forward (new data input tab, the two disclosures,

smoothing of assets calculation, gl schedule). All inputs are now done under the “data input” tab.

I have shown the opening balance adjustment as two separate line items: (343) and 40 (row 71 and 72 under the Prov’s disclosure tab). The 323 represents the reversal of the “year-end adjustment and difference in contributions”, and the 40 represents the change due to the % change. The net opening adjustment is then (303). The reason why I setup this way is for potential future % changes – which OPCD should decide how this adjustment would be accounted for going onwards. If the % change is not expect to be significant, this would be the cleanest way – but we can also explore the possibility of amortizing it. I also left the “consolidated agencies contributions” line item similar to PSPP, which is for OPCD to consider how it should be reporting consistent with your other systems inputs.

If it’s helpful, I can also come in to go through the setup with you.

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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RE_ Review_ Analysis.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Grindley, Clair (CA - Toronto) [clgrindley@deloitte.ca]
Subject: RE: Review: Analysis
Date: Friday, September 16, 2016 13:32:24
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Cindy

As indicated in my previous email, the expense and contribution will not necessarily be equal.

It will most likely be equal when we have the unamortized gains situation.

In other c

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CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Grindley, Clair (CA - Toronto) [clgrindley@deloitte.ca]
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Cindy

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https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681524~201609161732350000~Z~D0DBF7AB219B345945DC4F3ECAB7EEF1&AttachmentId=5test_valuation_allowance_2017 MVA unamort loss.pdf

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https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681524~201609161732350000~Z~D0DBF7AB219B345945DC4F3ECAB7EEF1&AttachmentId=6test_valuation_allowance_2017 base.pdf

RE_ Revised asset ceiling reports.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Revised asset ceiling reports
Date: Thursday, July 06, 2017 16:38:08

Thanks Christina. Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: July 6, 2017 4:27 PM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani
Subject: RE: Revised asset ceiling reports

Hi Nadine,

No problem, we will provide you with updated versions next week reflecting current figures.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, July 06, 2017 2:31 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: Revised asset ceiling reports

Hi Christina.

Cindy was hoping to review a copy of the revised asset ceiling reports, reflecting the pension adjustments. I know that we were waiting for feedback from the OAG. We should assume no change for this exercise. Is it possible to have them ready for early next week?

Thanks.

Nadine

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RE_ Statement of facts.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: Statement of facts
Date: Tuesday, September 27, 2016 10:47:09

I'm not sure I understand your suggestion. Attribute the comment to her and not fix it? If that's it, then I don't think so. I would propose to fix it and send it back to her.

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, September 27, 2016 4:42 PM
To: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Subject: Statement of facts

· The OTPP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.

Hi Matt and Kerry – Legal has reviewed this bullet in the statement of facts – they think

the words in yellow should be changed (used to say funding plans). Otherwise can we attribute this fact to the AG?

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RE_ Status request.rtf

From: Veinot, Cindy (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Colavecchia, Pina (CA - Toronto) [pcolavecchia@deloitte.ca]
Subject: RE: Status request
Date: Friday, November 25, 2016 09:49:09

How about 10:30 am this morning?

-----Original Message-----
From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: November-25-16 7:13 AM
To: Petsche, Nadine (TBS)
Cc: Colavecchia, Pina (CA - Toronto); Veinot, Cindy (TBS)
Subject: Re: Status request

Ok, so in case we can't find time for a call today, you would want OPSEU today and CAAT early next week?

Sent from my iPhone

> On Nov 25, 2016, at 5:37 AM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:
>
>
> Hio Matt.
> Cindy will want to be on the call as well. I have copied her on the response so that she can advise what time will work for her. I will be at an off site course but will call in for the discussion. OPSEUPP is the highest priority and I had understood that it was being reviewed last week. Looking forward to the update and an EYA. Thanks. Nadine
> From: Colley, Matthew (CA - Toronto)
> Sent: Friday, November 25, 2016 12:22 AM
> To: Petsche, Nadine (TBS); Colavecchia, Pina (CA - Toronto)
> Subject: RE: Status request
>
>
> Hi Nadine,
>
> Can we give you a call tomorrow to discuss timing? Please let us know what times you have available.
>
> Kind regards,
>
> Matt
>
> From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
> Sent: Thursday, November 24, 2016 6:01 PM
> To: Colavecchia, Pina (CA - Toronto) <pcolavecchia@deloitte.ca>
> Cc: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
> Subject: FW: Status request
>
> Hi Pina.
> I didn’t have any luck finding a contact internally who might have additional details on CAAT, but I’ve sent out a couple more requests. In the meantime, the OPSEUPP analysis is becoming rather urgent. Looking forward to an update.
> Thanks. N
>

>
> From: Petsche, Nadine (TBS)
> Sent: November-24-16 2:51 PM
> To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>)'; Colavecchia, Pina (CA - Toronto) (pcolavecchia@deloitte.ca<mailto:pcolavecchia@deloitte.ca>)
> Subject: Status request
>
> Matt/Pina,
> Cindy is requesting a status update on analysis for OPSEUPP and CAATPP.
> We are attaching a revised version of the draft HOOPP analysis shared late last week. Additional edits will be forthcoming for the section marked.
> Please advise as to when we might receive copies of the analysis for OPSEUPP and CAATPP. Cindy is quite keen on getting this analysis done for the Panel ASAP.
> Thanks.
> Nadine
>
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RE_ Status update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Thursday, April 13, 2017 15:56:00
Attachment 1: image001.jpg

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Meeting re: balance sheet adjustments

2. Provided a summary of our analysis and suggestions related to the balance sheet adjustments

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Continue to assist with the balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD

4. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) – EY

5. Provide a specific request list (checklist of items to confirm and list of Plans) for OPCD related to item #4 - EY

6. Assist with sponsor agreement and funding policy review, per EY's request (item

#5) – OPCD

Next week and after

1. Excel tool update and associated “audit checklist”
2. SERP/SRAs reporting

Have a great long weekend!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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RE_ Status update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Friday, April 07, 2017 17:33:20
Attachment 1: image001.jpg

Hi Nadine,

To address your comments below:

1. There is no current requirement for OPCD related to the pension plans research. We will provide you with a list of additional Plans for OPCD to consider and the related funding policies to review early next week.

2. For the balance sheet adjustment, we have identified the items to be discussed. We will be providing OPCD a list of related questions by Monday. We will arrange for a call to discuss then.

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, April 07, 2017 5:09 PM

To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Status update

Thanks for this status update Christina.

Please see my comments below.

Have a great weekend.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-07-17 4:59 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

Hi Nadine,

As discussed, here is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Asset ceiling test for OTPP document updated

2. Draft asset ceiling test for OPSEUPP document provided

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1. Review of draft ELHTs memo – OPCD

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4. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD (Please advise of any current requirements.)

5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD (please advise w.r.t. anticipated timeframe)

Next week and after

1. Excel tool update and associated "audit checklist"

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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RE_ Status update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Thursday, April 13, 2017 15:56:00
Attachment 1: image001.jpg

Hi Nadine,

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2. SERP/SRAs reporting

Have a great long weekend!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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RE_ Status update.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Friday, April 07, 2017 17:09:14
Attachment 1: image001.jpg

Thanks for this status update Christina.

Please see my comments below.

Have a great weekend.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-07-17 4:59 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

Hi Nadine,

As discussed, here is the updated weekly summary of our work and priorities based on our discussions to-date.

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5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD (please advise w.r.t. anticipated timeframe)

Next week and after

1. Excel tool update and associated "audit checklist"

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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RE_ Status update.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Status update
Date: Tuesday, April 04, 2017 10:15:56
Attachment 1: image001.png
Attachment 2: image002.jpg

Thanks Shayan.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April 4, 2017 10:15 AM
To: Petsche, Nadine (TBS); Christina Chan
Cc: Uros Karadzic
Subject: RE: Status update

Hi Nadine,

I've expanded item #6 in our e-mail below to include this. We are taking a closer look at the 2,246M adjustment, part of which relates to the treatment of agency contributions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada

Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, April 03, 2017 5:46 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Status update

Thanks Christina.

For completeness purposes, can you please touch base with Shayan to see if there's another item to be added in relation to the credit adjustment of $2,246 million (that reduced the accrued benefit asset as at March 31, 2016).

Regards,

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-03-17 5:41 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

Hi Nadine,

As discussed during our call, here is the summary of our work and priorities based on our discussions to-date.

Let us know if you would like us to structure it any differently going forward. Also, please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed last week

1. Draft ELHTs memo provided **(should we look into obligations other than 3250/3255 with Blake Langill and Suzie Gignac as per our SOW?)**

2. Draft OTPP's asset ceiling test letter provided

In progress this week

1. Review of draft ELHTs memo – OPCD

2. Finalize OTPP's asset ceiling test letter – EY

3. Prepare OPSEU's asset ceiling test letter – EY

4. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) - EY

5. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD

6. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD

Next week and after

1. Finalize item #4-6 above

2. Update ELHTs memo, subsequent to OPCD's review

3. Excel tool update and associated "audit checklist"

4. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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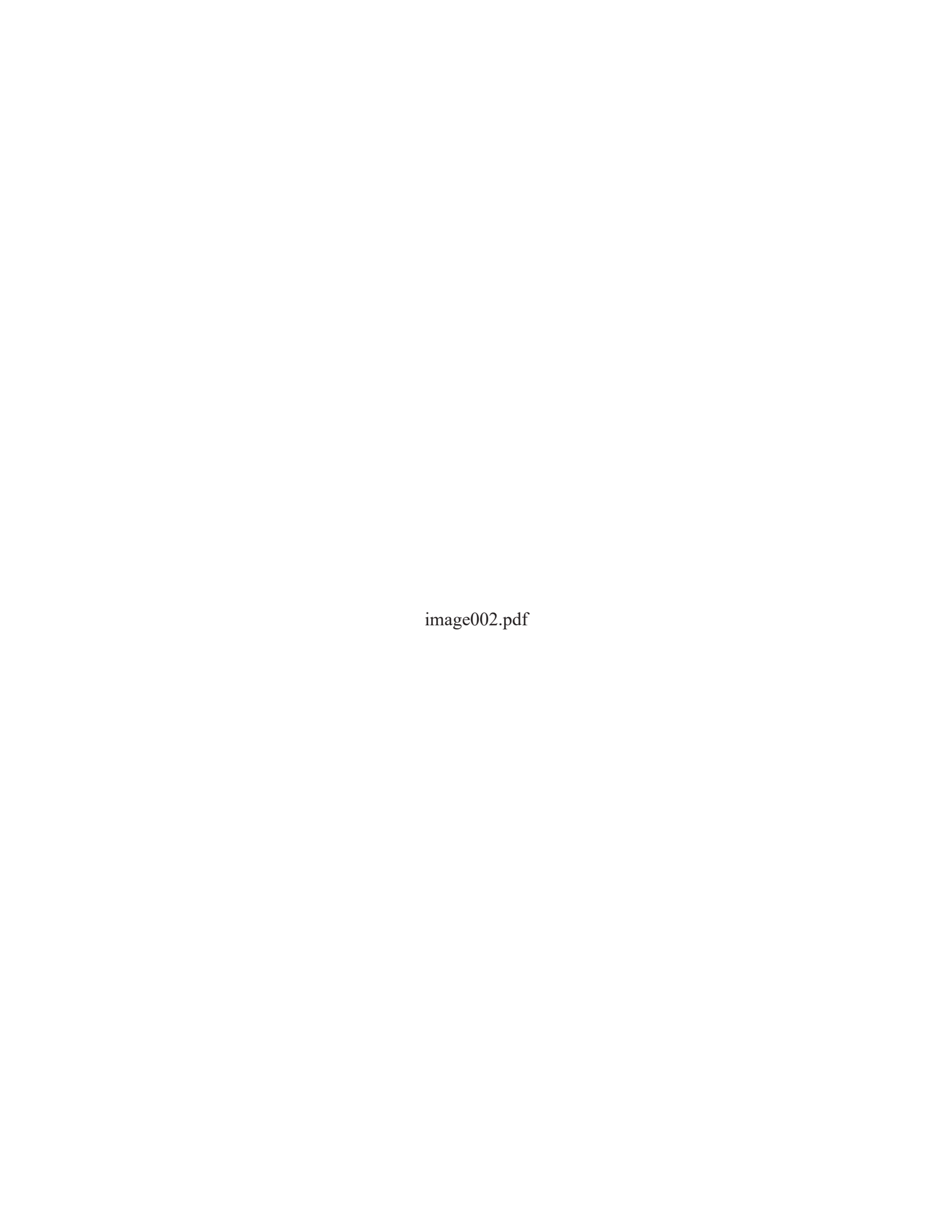
image002.pdf

RE_ Status update.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Monday, April 03, 2017 17:46:28
Attachment 1: image001.jpg

Thanks Christina.

For completeness purposes, can you please touch base with Shayan to see if there's another item to be added in relation to the credit adjustment of $2,246 million (that reduced the accrued benefit asset as at March 31, 2016).

Regards,

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-03-17 5:41 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

Hi Nadine,

As discussed during our call, here is the summary of our work and priorities based on our discussions to-date.

Let us know if you would like us to structure it any differently going forward. Also, please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

<u>Completed last week</u>

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4. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) - EY

5. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD

6. Continue discussions related to contributions by other agencies – EY & OPCD

Next week and after

1. Finalize item #4-6 above

2. Update ELHTs memo, subsequent to OPCD's review

3. Excel tool update and associated "audit checklist"

4. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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image001.pdf

RE_ Status update.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Status update
Date: Tuesday, April 04, 2017 10:15:14
Attachment 1: image002.png
Attachment 2: image003.jpg

Hi Nadine,

I've expanded item #6 in our e-mail below to include this. We are taking a closer look at the 2,246M adjustment, part of which relates to the treatment of agency contributions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, April 03, 2017 5:46 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Status update

Thanks Christina.

For completeness purposes, can you please touch base with Shayan to see if there's another item to be added in relation to the credit adjustment of $2,246 million (that reduced the accrued benefit asset as at March 31, 2016).

Regards,

Nadine

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Sent: April-03-17 5:41 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

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Let us know if you would like us to structure it any differently going forward. Also, please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

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6. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD

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Regards,

Christina

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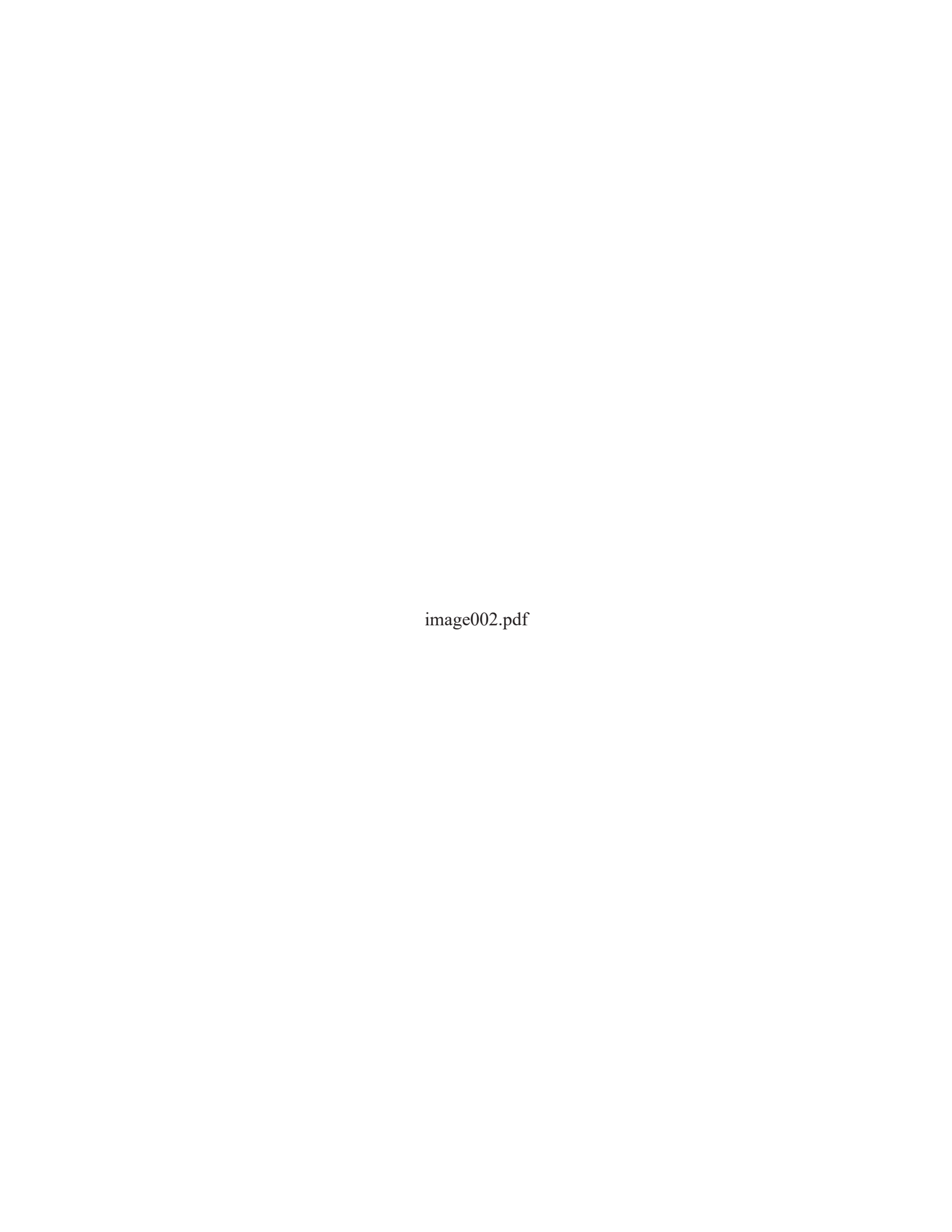
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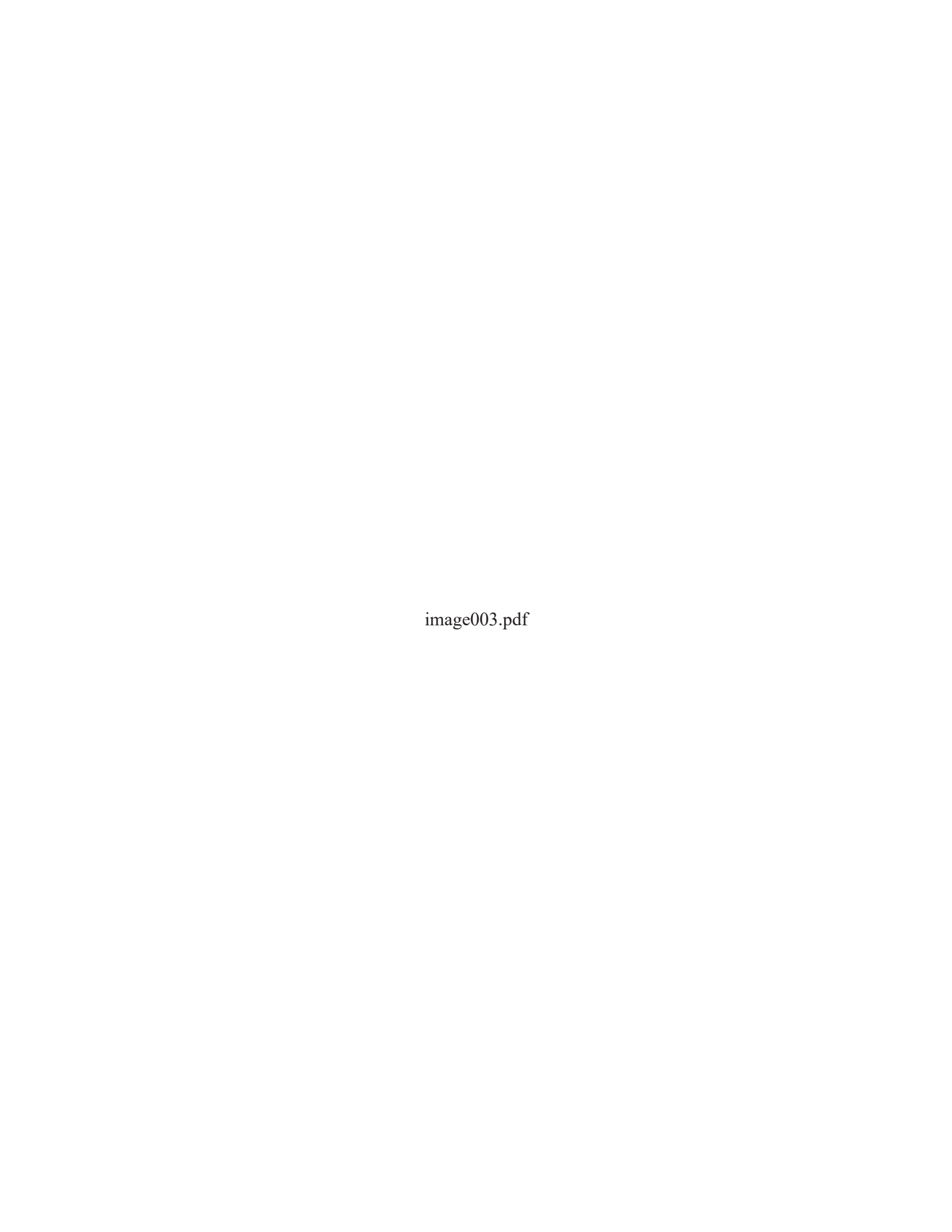
image003.pdf

RE_ Status update.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Christina Chan [Christina.Chan@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Status update
Date: Friday, April 07, 2017 17:58:11
Attachment 1: image001.jpg

Hi Nadine,

Just for a bit of additional colour on item 1 below, we're working on formulating a more specific request for help (ie. a checklist of items to confirm, and the list of plans that would make sense to look into). This would hopefully streamline things on your end and speed up the process overall. In parallel we are also doing our own review of the BC and other plans we already discussed.

Uros

From: Christina Chan
Sent: Friday, April 07, 2017 11:33:20 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: RE: Status update

Hi Nadine,

To address your comments below:

1. There is no current requirement for OPCD related to the pension plans research. We will provide you with a list of additional Plans for OPCD to consider and the related funding policies to review early next week.

2. For the balance sheet adjustment, we have identified the items to be discussed. We will be providing OPCD a list of related questions by Monday. We will arrange for a call to discuss then.

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, April 07, 2017 5:09 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Status update

Thanks for this status update Christina.

Please see my comments below.

Have a great weekend.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-07-17 4:59 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani

Subject: Status update

Hi Nadine,

As discussed, here is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Asset ceiling test for OTPP document updated

2. Draft asset ceiling test for OPSEUPP document provided

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) – EY

4. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD (Please advise of any current requirements.)

5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD (please advise w.r.t. anticipated timeframe)

Next week and after

1. Excel tool update and associated “audit checklist”

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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image001.pdf

RE_ Summary of Opinion.rtf

From: Veinot, Cindy (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Jack, Shannon (TBS) [Shannon.Jack@ontario.ca]
Subject: RE: Summary of Opinion
Date: Monday, February 06, 2017 10:54:49
Attachment 1: image001.jpg

Hi all,

This summary may be released in connection with the release of the Panel's report, currently planned for February 13. I think we need a call before then to discuss – both between the accountants and between the communications teams.

Shannon – can you work with Matt and Kerry to find a time that works for us (30 minutes) over the next couple of days.

Thanks,

Cindy

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: November-17-16 8:30 PM
To: Veinot, Cindy (TBS)
Cc: Danyluk, Kerry (CA - Toronto)
Subject: Summary of Opinion

Hi Cindy,

Please find attached the summary of our opinion.

Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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NATIONAL
PARTNER

RE_ Summary of impact based on proposed year-end adjustments.rtf

From: Fong, Pauline (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan.Jafrani@ca.ey.com [Shayan.Jafrani@ca.ey.com]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Summary of impact based on proposed year-end adjustments
Date: Monday, May 29, 2017 11:12:58
Attachment 1: image002.jpg
Attachment 2: Pensions elimination overall summary 2016.xlsx
Attachment 3: 20170529111043608.pdf

Hi Christina,

As the model for OPSEUPP and PSPP includes all agencies as a reversal within the model, when looking at other agencies column you would need add the impact of not reversing the agencies DC contributions not only for the $47 for each year but also the non-reversal of the organizations of $22M in order to arrive on the total fiscal implications on expense.

The following is the roll-forward of Agency elimination before any adjustment:

($Millions)

April 1, 2016 ($837)

Add: (47M) Elimination with Government Enterprises Dr. Agency Elimination Other Agency Cr. Pension Expense total

Add: (22M) Elimination with Government Organizations Dr. Agency Elimination Other Agency Cr. Expense within the agency itself

Closing March 31, 2016 (906M) *does not add due to some rounding*

Add: (47M) If assumed the same as last year - Elimination with Government Enterprises Dr. Agency Elimination Other Agency Cr. Pension Expense total

Add: (22M) if assumed the same as last year - Elimination with Government Organizations Dr. Agency Elimination Other Agency Cr. Expense within the agency itself

Closing March 31, 2017 (975) estimated.

Also the $906M is actually the March 31, 2016 closing and not the opening.

Please call me if you need further clarification.

Pauline

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: May-26-17 11:02 AM
To: Fong, Pauline (TBS); Ma, Patricia (TBS); Li, Wendy (TBS); Patel, Bharat (TBS); Sun, Alicia (TBS)
Cc: Petsche, Nadine (TBS); Shayan Jafrani
Subject: Summary of impact based on proposed year-end adjustments

Hi everyone,

Thank you for forwarding us the most updated spreadsheets for all plans. We have reflected them accordingly for our analysis.

As promised, please find attached a summary of impact based on the proposed year-end adjustments. We have prepared an one-pager with both years on it (on legal size paper), as well as an individual summary page for each of the two comparative years.

Let us know if you have any questions.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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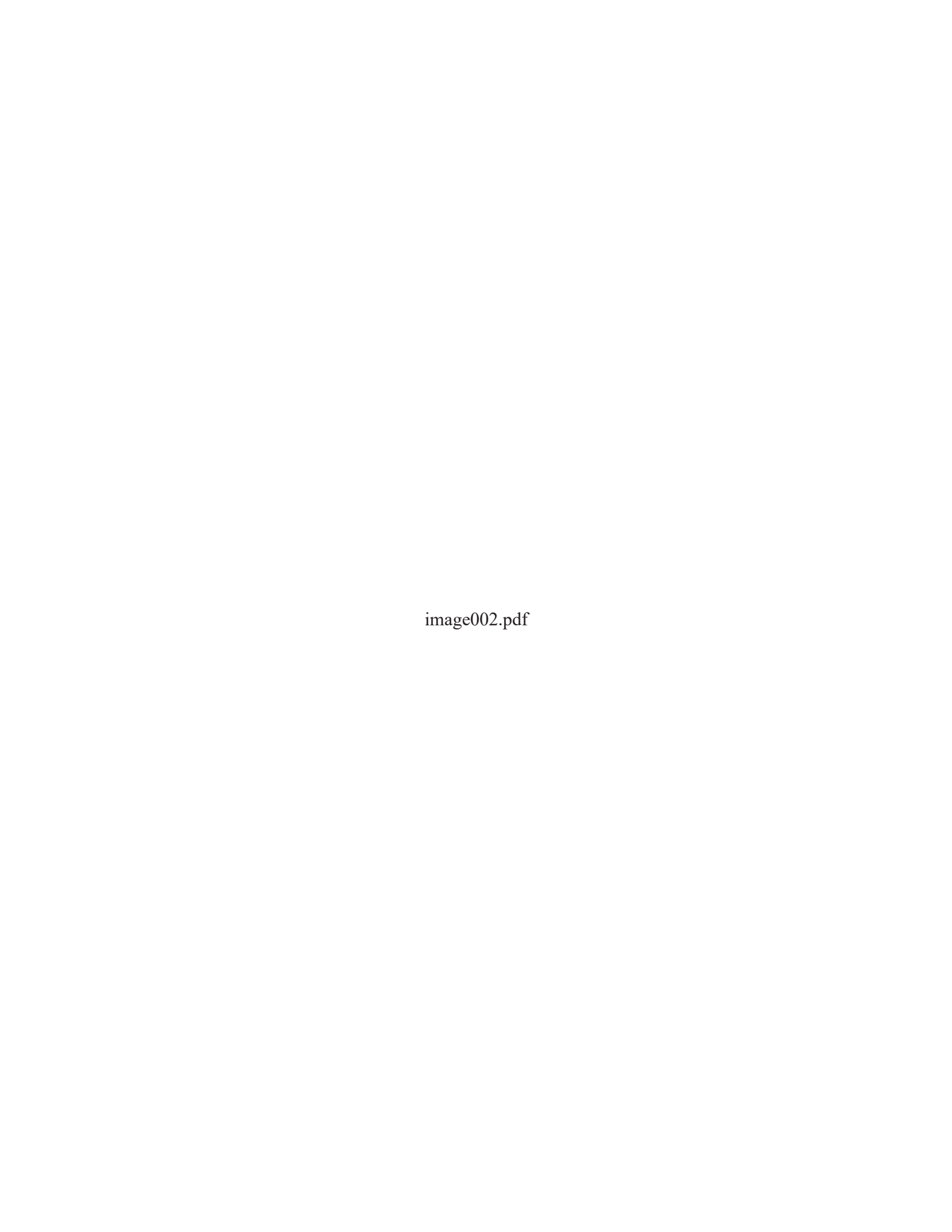
image002.pdf

Pensions elimination overall summary 2016.pdf

OPS Agency Elimination - Pension Expenditure ($)
Source: notes to agencies' finanical statements

	Minsitry	2013-14	2014-15	2015-16	Ref#	
Enterprises						
Algonquin Forestry Authority	MNR	orgs	orgs			PSPP only
Liquor Control Board of Ontario	MEDT	27,115,000	27,304,000	28,343,000		PSPP/OPSEU
Niagara Parks Commission	MTR	orgs	orgs	orgs		
Ontario Clean Water Agency	MOE	orgs	orgs	orgs		
Ontario Lottery & Gaming Corporation	FIN	19,285,000	18,548,000	19,022,000		
Ontario Power Generation Inc.	MENE	own plan	own plan	own plan		
Hydro One Inc.	MENE	own plan	own plan	own plan		
Total - Enterprises		46,400,000	45,852,000	47,365,000		
Organizations						
Agricorp	OMAFRA	own plan	own plan	own plan		
Algonquin Forestry Authority	MNR	116,707	108,932	130,519		
Agricultural Research Institute of Ontario	OMAFRA	no disclosure	no disclosure	no disclosure		
Cancer Care Ontario	MOHLTC	own plan	own plan	own plan		
Education Quality and Accountability Office	MEDU	no disclosure	no disclosure	no disclosure		
Independent Electricity Market Operator	MEI	own plan	1,508,000	own plan		
Infrastructure Ontario	MEI	531,000	486,000	410,238		
Legal Aid Ontario	MAG	own plan	own plan	own plan		
Mental Health Centre Penetanguishene (Waypointe Centre of Mental Health)	MOHLTC	7,042,395	6,533,129	2,991,049		
Metrolinx	MTO	own plan	own plan	own plan		
Metro Toronto Convention Centre Corporation	MTR	own plan	own plan	own plan		
Niagrara Parks Commission	MTR	2,129,415	2,238,881	2,318,549		
Northern Ontario Heritage Fund Corporation	MNDM	-	-	-		
Ontario Agency for Health Promotion and Protection	MOHLTC	3,019,000	2,805,000	2,599,000		
Ontario Art Council		288,117	316,634	304,108		
Ontario Clean Water Agency	MOE	4,300,000	4,369,000	4,498,593		
Ontario Electricity Financial Corporation	MOF	own plan	own plan	own plan		
Ontario Energy Board	MEI	1,460,000	1,565,000	1,500,000		
Ontario Financing Authority	MOF	-	-	-		
Ontario Immigrant Investors Corporation	MTI	no disclosure	no disclosure	no disclosure		
Ontario Mortgage Housing Corporation	MMA	no disclosure	no disclosure	no disclosure		
Ontario Northland Transportation Commission	MNDM	own plan	own plan	own plan		
Ontario Place Corporation	MTR	118,000	135,000	82,262		
Ontario Power Authority	MEI	2,034,000	Merge with IESO	N/A		
Ontario Racing Commission	FIN	294,000	280,000	285,000		
Ontario Realty Corporation	MBS					
Ontario Science Centre	MCUL	1,213,000	1,305,000	1,272,000		
Ontario Securities Commission	MOF	4,587,000	4,533,000	4,852,000		
Ontario Student Loan Trust		n/a	n/a	n/a		
Ontario Tourism Marketing Partnership Corporation	MTR	603,797	604,668	618,294		
Ottawa Convention Centre	MTC	own plan	own plan	own plan		
Royal Ontario Museum	MCUL	own plan	own plan	own plan		
Smart System for Health Agency (eHealth)	MOHLTC	own plan	own plan	own plan		
Toronto Waterfront	MEI	own plan	own plan	own plan		
Trillium Foundation	MCUL	no disclosure	no disclosure	no disclosure		
TV Ontario	MEDU	own plan	own plan	own plan		
Total - Organizations		27,736,431	26,788,244	21,861,612		
Total pension expenditure included in agencies		74,136,431	72,640,244	69,226,612		

20170529111043608.pdf

2015-16 Actual - Pensions and Other Employee Future Benefits ($M)

wp: B2

	OTPP	OTRCA	PSPP	PSSP	OPSEU	Agency	HOOP	CAAT	Other Plans	Total Pension	Teachers Total	OPS Total
LIABILITY (ASSET)												
Obligations for benefits	58,184	154	23,147	38	7,779	-906	25,204	4,147	-205	117,542	58,338	30,058
Less: plan fund assets	-78,499	-13	-21,886		-8,690		-28,628	-4,033		-141,749	-78,512	-30,576
Unamortized actuarial gains (losses)	9,001	11	-521		48		4,203	-93		12,649	9,012	-473
Adjustments	1,167	2	646		342		93	-4		2,246	1,169	988
Total (Asset) Liability	-10,147	154	1,386	38	-520	-906	872	17	-205	-9,312	-9,993	-3
Valuation Allowance	*10,147*				*521*					*10,668*	*10,147*	*0*
Total (Asset) Liability	**0**	**154**	**1,386**	**38**	**1**	**-906**	**872**	**17**	**-205**	**1,356**	**154**	**-3**
EXPENSE												
Cost of benefits	1,451	4	619	31	207	-47				2,265	1,455	810
Amortization of actuarial losses (gains)	-362	-12	203		26					-145	-374	229
Employee contributions			-318							-318	0	-318
Cost of plan amendments	0	0								0	0	0
Recognition of unamortized actuarial losses (gains)	0	0								0	0	0
Interest expense (revenue)	-939	3	108		-42					-870	-936	66
Adjustments	-32	-3	-77		-14					-126	-35	-91
Total	118	-8	535	31	177	-47	0	0		806	110	696
Increase/(Decrease) in Valuation Allowance	*1,480*				*34*					*1,514*	*1,480*	*34*
Total	**1,598**	**-8**	**535**	**31**	**211**	**-47**	**0**	**0**	**0**	**2,320**	**1,590**	**730**

($ millions)	OTPP	PSPP	OPSEU	HOOP	CAAT	
Cash contributions	1,600 (a)	361 (b)	214 (c)	930	202	Per BOG
Special Payment	n/A	99 (b)	N/A (c)			
Benefit Payments	5,548 (a)	1,176 (b)	897 (c)	1,924	410	
	(a)					
Government's best estimate						
Inflation rate	2.00% (a)	2.00% (b)	2.00% (c)	2.00%	2.00%	
Salary escalation rate (Long-Term)	3.00% (a)	3.00% (b)	3.00% (c)	4.25%	3.00%	
Discount rate and expected rate of return on pension plan assets	6.25% (a)	6.00% (b)	6.25% (c)	5.75%	6.00%	
EARSL	15.3 (a)	10.8 (b)	12.2 (c)	12.8	13.7	
Pension Expense included in Salaries, Wages and Benefits Expense						
Per BOG used for disclosure				**747**	**190**	Per BOG
Expense per calculation				751	198	

(a) OTPP (inclu. RCA) Calculations 2015-16 PA
(b) PSPP Calculations 2015-16 PA
(c) OPSEU Calculations 2015-16 PA

2014-15 Actual - Pensions and Other Employee Future Benefits ($M)

wp: B2

	OTPP	OTRCA	PSPP	PSSP	OPSEU	Agency	HOOP	CAAT	Other Plans	Total Pension	Teachers Total	OPS Total
LIABILITY (ASSET)												
Obligations for benefits	56,901	165	22,215	29	7,567	-837	23,500	3,973	-173	113,340	57,066	28,974
Less: plan fund assets	-71,539	-13	-20,435		-8,185		-25,463	-3,709		-129,344	-71,552	-28,620
Unamortized actuarial gains (losses)	4,817	12	-1,238		-183		2,936	-233		6,111	4,829	-1,421
Adjustments	1,154		666		314		82	-2		2,214	1,154	980
Total (Asset) Liability	-8,667	164	1,208	29	-487	-837	1,055	29	-173	-7,679	-8,503	-87
EXPENSE												
Cost of benefits	1,462	3	624	-27	214	-46				2,230	1,465	765
Amortization of actuarial losses (gains)	-156	-8	256		48					140	-164	304
Employee contributions			-310							-310	0	-310
Cost of plan amendments	0	0								0	0	0
Recognition of unamortized actuarial losses (gains)	0	0								0	0	0
Interest expense (revenue)	-707	4	148		-29					-584	-703	119
Adjustments	-31	-3	-77		-14					-125	-34	-91
Total	568	-4	641	-27	219	-46	0	0		1,351	564	787

($ millions)	OTPP	PSPP	OPSEU	HOOP	CAAT	
Cash contributions	1,531 (a)	355 (b)	218 (c)	899	196	Per BOG
Special Payment	n/A	99 (b)	N/A (c)			
Benefit Payments	5,315 (aa)	1,083 (b)	798 (c)	1,702	372	
Government's best estimate						
Inflation rate	2.25% (aa)	2.25% (b)	2.25% (c)	2.25%	2.25%	
Salary escalation rate (Long-Term)	3.25% (aa)	3.25% (b)	3.25% (c)	4.50%	3.25%	
Discount rate and expected rate of return on pension plan assets	6.50% (aa)	6.25% (b)	6.50% (c)	6.00%	6.25%	
EARSL	14.4 (aa)	10.9 (b)	12.1 (c)	12.3	12.2	
Pension Expense Included in Salaries, Wages and Benefits Expense Per BOG used for disclosure				843	199	Per BOG
Expense per calculation				859	209	

(a) OTPP (inclu. RCA) Calculations 2014-15 PA
(aa) OTPP (inclu. RCA) Calculations 2014-15 PA
(b) PSPP Calculations 2014-15 PA
(c) OPSEU Calculations 2014-15 PA

RE_ Supplemental Report - Pension Panel.rtf

From: Veinot, Cindy (TBS) []
To: 'lucy.durocher@ca.pwc.com' [lucy.durocher@ca.pwc.com]
Subject: RE: Supplemental Report - Pension Panel
Date: Wednesday, March 15, 2017 11:52:12

Hi Lucy – I've deleted the message – as much as I didn't want toJ

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March-15-17 10:46 AM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); plomalley@outlook.com
Subject: Re: Supplemental Report - Pension Panel

Hi Cindy.

I apologize for this e-mail. It was sent it error and should only have been sent to the Panel. Please disregard it.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: Lucy Durocher/CA/ABAS/PwC
To: Cindy.Veinot@ontario.ca, plomalley@outlook.com, Nelson.Tam@ontario.ca
Cc: uros.karadzic@ca.ey.com, mgold@kmlaw.ca, Paul.Martin@gnb.ca
Date: 03/15/2017 10:36 AM
Subject: Supplemental Report - Pension Panel

Hi Cindy,

Please see attached the supplemental report (final draft) from the Pension Asset Expert Advisory Panel.

If you have any feedback on this document please can you provide this today. The Panel is hoping to finalize it by the end of the day, if possible. It is a much shorter document than the original Report.

The password is the same as the Report. If you need a reminder of it, please let me know and I will provide under separate e-mail.

Regards,
Lucy

[attachment "PAEAP- Supplemental Report FINAL.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

Lucy Durocher
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RE_ Two follow-up items.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: Two follow-up items
Date: Tuesday, August 29, 2017 18:13:25
Attachment 1: image001.gif

Hi Cindy,

Thank you for sharing the wording with us. We agree that it fairly represents our work. A minor point is to perhaps consider referring to EY instead of Ernst & Young LLP, but if there is a reason for using the legal name that's ok. Should there be further changes to the text, please let us know.

Following up on the other three remaining items from our discussion:

· **Assumption setting and documentation**: reviewing our files, it appears that MOF developed assumptions in November last year, TBS reviewed and approved them in December, the actuaries prepared reports based on those assumptions by the end of January and in February TBS/MOF prepared documentation supporting the assumptions. As discussed, I believe we could add value both in terms of the assumption setting process, and separately in terms of support and documentation to assist AG's review. With accelerated timelines this year, we should likely start those discussions in the coming weeks in September.

· **Meeting with Nancy Kennedy**: Thank you for suggesting this meeting. Should we attempt to organize it in the next couple of weeks?

· **HOOPP/CAAT modelling**: I briefly re-confirmed with Christina and it sounds like we have done all the modelling work for HOOPP/CAAT, but if there are any follow up questions or additional items needed, of course we can complete those. Christina will follow up with her contacts to clarify.

Please let me know your thoughts.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, August 29, 2017 7:51 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Two follow-up items

Hi Uros,

With respect to the references to the EY report, here is a first draft of what we may communicate:

- The professional staff's interpretation of PSAB standards is supported by their own research and analysis as well as:
    - The report of the Pension Asset Expert Advisory Panel released on xxx, which can be found at xxxxxx.xxx stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
    - An opinion from Deloitte LLP on OTPP, a summary of which is included in Appendix A, supporting the ability to recognize a pension asset in the absence of having a unilateral right to reduce contributions to the plan.
    - **Analysis completed by Ernst & Young LLP as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. Ernst & Young LLP confirmed no valuation allowance was required for either plan.**

We are still working through our communication plan, so the text above may change,

but in the meantime, if you could let me know if you are OK with the bullet on EY, that would be great.

Please treat as confidential.

Thanks,

Cindy

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 25, 2017 5:30 PM
To: Veinot, Cindy (TBS)
Cc: Gregory Winston; Christina Chan
Subject: Two follow-up items

Hi Cindy,

It was very nice to see you again today. Thank you for a good discussion.

While there were a few follow-up items, I wanted to get back to you today on two of the most urgent:

· References to EY report: I connected with Greg and Blake, and all three of us were in agreement that you can refer to our work as you pull together the supporting documents on which you based your accounting decision. We would like to ask, however, if you could share with us the wording you're planning to use (and continue sharing it as it may evolve through the Public Accounts communications materials sign-off process), just so we are aware of what is being communicated.

· Security clearance: Greg has connected with Mark on this today. Apparently they

know each other as they have already worked together on some prior projects.

I hope you have a great weekend, and I will get back to you next week on the other items.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

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image001.pdf

RE_ Two follow-up items.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Two follow-up items
Date: Wednesday, August 30, 2017 18:35:26
Attachment 1: image001.gif

Sounds good, Mark. I would just note that when we refer to EY, we normally don't include LLP (ie. EY is the operating brand, while Ernst & Young LLP is the legal name). Sometimes in an effort to simplify things we inadvertently make them more complicated!

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Donaldson, Mark (TBS) [mailto:Mark.Donaldson@ontario.ca]
Sent: Wednesday, August 30, 2017 6:19 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Two follow-up items
Sensitivity: Confidential

PLEASE TREAT AS CONFIDENTIAL

Hi Uros,

In addition to Cindy's email below, there are other communication materials being crafted that will go out for circulation in which EY is reference. The references with respect to OTPP and OPSEUPP read consistently as:

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

This paragraph appears in our backgrounder, and twice in our Q&As.

Just wanting to confirm this was acceptable.

Cheers,

Mark

Mark Donaldson, CPA, CMA

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division, Treasury Board Secretariat

7 Queen’s Park Cres, 2nd Floor

Toronto, Ontario

M7A 1Y7

Tel: 416.325.8027

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 29, 2017 6:13 PM
To: Veinot, Cindy (TBS)
Cc: Christina Chan; Gregory Winston
Subject: RE: Two follow-up items

Hi Cindy,

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Please let me know your thoughts.

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, August 29, 2017 7:51 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Two follow-up items

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2017. Ernst & Young LLP confirmed no valuation allowance was required for either plan.

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Sent: August 25, 2017 5:30 PM
To: Veinot, Cindy (TBS)
Cc: Gregory Winston; Christina Chan
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Uros

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Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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image001.pdf

RE_ Two follow-up items.rtf

From: Veinot, Cindy (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Two follow-up items
Date: Tuesday, August 29, 2017 07:51:25
Attachment 1: image001.gif

Hi Uros,

With respect to the references to the EY report, here is a first draft of what we may communicate:

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Please treat as confidential.

Thanks,

Cindy

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 25, 2017 5:30 PM
To: Veinot, Cindy (TBS)
Cc: Gregory Winston; Christina Chan
Subject: Two follow-up items

Hi Cindy,

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I hope you have a great weekend, and I will get back to you next week on the other items.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

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Mobile: +1 416 970 2087 | EY/Comm: 1685272

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image001.pdf

RE_ Two follow-up items.rtf

From: Veinot, Cindy (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Two follow-up items
Date: Friday, August 25, 2017 17:45:52
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image001.pdf

RE_ Two follow-up items.rtf

From: Donaldson, Mark (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Two follow-up items
Date: Wednesday, August 30, 2017 18:36:50
Attachment 1: image001.gif

Noted. Thanks.

Sent with BlackBerry Work
(www.blackberry.com)

From: Uros Karadzic <uros.karadzic@ca.ey.com>
Date: Wednesday, Aug 30, 2017, 6:35 PM
To: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Two follow-up items

Sounds good, Mark. I would just note that when we refer to EY, we normally don't include LLP (ie. EY is the operating brand, while Ernst & Young LLP is the legal name). Sometimes in an effort to simplify things we inadvertently make them more complicated!

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Donaldson, Mark (TBS) [mailto:Mark.Donaldson@ontario.ca]
Sent: Wednesday, August 30, 2017 6:19 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Two follow-up items

Sensitivity: Confidential

PLEASE TREAT AS CONFIDENTIAL

Hi Uros,

In addition to Cindy's email below, there are other communication materials being crafted that will go out for circulation in which EY is reference. The references with respect to OTPP and OPSEUPP read consistently as:

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

This paragraph appears in our backgrounder, and twice in our Q&As.

Just wanting to confirm this was acceptable.

Cheers,

Mark

Mark Donaldson, CPA, CMA

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division, Treasury Board Secretariat

7 Queen's Park Cres, 2nd Floor

Toronto, Ontario

M7A 1Y7

Tel: 416.325.8027

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 29, 2017 6:13 PM
To: Veinot, Cindy (TBS)
Cc: Christina Chan; Gregory Winston
Subject: RE: Two follow-up items

Hi Cindy,

Thank you for sharing the wording with us. We agree that it fairly represents our work. A minor point is to perhaps consider referring to EY instead of Ernst & Young LLP, but if there is a reason for using the legal name that's ok. Should there be further changes to the text, please let us know.

Following up on the other three remaining items from our discussion:

· **Assumption setting and documentation**: reviewing our files, it appears that MOF developed assumptions in November last year, TBS reviewed and approved them in December, the actuaries prepared reports based on those assumptions by the end of January and in February TBS/MOF prepared documentation supporting the assumptions. As discussed, I believe we could add value both in terms of the assumption setting process, and separately in terms of support and documentation to

assist AG's review. With accelerated timelines this year, we should likely start those discussions in the coming weeks in September.

· **Meeting with Nancy Kennedy**: Thank you for suggesting this meeting. Should we attempt to organize it in the next couple of weeks?

· **HOOPP/CAAT modelling**: I briefly re-confirmed with Christina and it sounds like we have done all the modelling work for HOOPP/CAAT, but if there are any follow up questions or additional items needed, of course we can complete those. Christina will follow up with her contacts to clarify.

Please let me know your thoughts.

Uros

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
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image001.pdf

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To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Two follow-up items
Date: Friday, August 25, 2017 17:45:52
Attachment 1: image001.gif

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RE_ touch base.rtf

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: touch base
Date: Friday, September 23, 2016 16:21:01

9:30 am is fine for me as well. n

From: Veinot, Cindy (TBS)
Sent: September 23, 2016 4:11 PM
To: Danyluk, Kerry (CA - Toronto); Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Subject: RE: touch base

I think tomorrow at 9:30 is preferable from my perspective.

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: September-23-16 4:08 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto)
Subject: RE: touch base

I'm sorry. I can't make this time. Matt and I are available at 9.30 tomorrow. Or we can talk on Sunday morning Toronto time (presuming that works for Matt, which I did not check.)

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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of the Canadian Olympic team

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-----Original Appointment-----
From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, September 23, 2016 3:23 PM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: touch base
When: Saturday, September 24, 2016 2:00 PM-3:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: teleconference 416 212 8014 code 1474532#

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Re_ Remodeling - OPSEUPP.rtf

From: Li, Wendy (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Re: Remodeling - OPSEUPP
Date: Friday, June 16, 2017 17:12:16
Attachment 1: image001.jpg

Monday works for me. I will find a place for the meeting.

Have a good weekend!

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Christina Chan
Sent: Friday, June 16, 2017 5:09 PM
To: Li, Wendy (TBS)
Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS); Shayan Jafrani
Subject: RE: Remodeling - OPSEUPP

Hi Wendy,

If you like, Shayan and I can come over on Monday PM. Would that work for you?

We briefly discussed on how the % is to be determined and I think that's still up for discussion. I would imagine the change in % would be minimized if it's based on the accumulative contribution amount. However, we note that would also add another layer of recordkeeping/tracking. Right now all years are set to 47.66% as I've setup the spreadsheet such that the all contributions are to increase at the same % (which, is not an unreasonable assumption for projection). We are happy to discuss further.

As for the opening balance adjustment – I think it's best for us to talk through it so that we are all in understanding the adjustment that's required to be made and what's the most appropriate way to do so.

Let us know if Monday works. Have a great weekend.

Thanks!

Christina

Christina Chan, ASA | People Advisory Services | Manager

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Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Li, Wendy (TBS) [mailto:Wendy.Li@ontario.ca]
Sent: Friday, June 16, 2017 4:30 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Remodeling - OPSEUPP

Hi Christina,

I have a few questions related to the % calculation.

1. Currently, the same %, i.e. 47.66%, is used for all years. My understanding from our discussion is that the percentage will be calculated based on accumulative contributions, and likely will change from year to year.

2. Impact on assets and liability due to percentage change is adjusted to opening balance as the model is built now. Let's discuss this as I don't think we would want to restate opening balances whenever the % changes in the future.

Depending on where you're with other plans, please let me know if you are coming to our office or I can call you to discuss OPSEUPP.

Thank you,

Wendy Li

Senior Policy Analyst

External Reporting

Accounting Policy and Financial Reporting Branch

Office of Provincial Controller

416.325.5480

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: June 16, 2017 1:31 PM
To: Li, Wendy (TBS)
Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS); Shayan Jafrani
Subject: Remodeling - OPSEUPP

Hi Wendy, Pauline,

As Shayan is completing his review on OTPP, I updated the OPSEUPP. Shayan will also do a QA review on this model, but thought to share given our timeline.

Attached is the current draft version of the remodeling spreadsheet for OPSEUPP. I have not fully finalized the projection capability (some of the numbers currently remain hardcoded as you had them) due to priority of work.

Based on my conversation with Pauline when we gone over OTPP, it was my understanding that eventually, OPCD may want to provide the ON's own disclosure exhibits for its portion of the plans. As such, and for better clarity, you will find that there is a 100% disclosure tab, as well as a "disclosure (Prov)" tab. This tab represents the portion (47.7%) of ON's reporting of the Plan.

The yellow tabs are "must have" going forward (new data input tab, the two disclosures, smoothing of assets calculation, gl schedule). All inputs are now done under the "data input" tab.

I have shown the opening balance adjustment as two separate line items: (343) and 40 (row 71 and 72 under the Prov's disclosure tab). The 323 represents the reversal of the "year-end adjustment and difference in contributions", and the 40 represents the change due to the % change. The net opening adjustment is then (303). The reason why I setup this way is for potential future % changes – which OPCD should decide how this adjustment would be accounted for going onwards. If the % change is not expect to be significant, this would be the cleanest way – but we can also explore the possibility of amortizing it. I also left the "consolidated agencies contributions" line item similar to PSPP, which is for OPCD to consider how it should be reporting consistent with your other systems inputs.

If it's helpful, I can also come in to go through the setup with you.

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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image001.pdf

Re_ Report and exec summary finished.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Report and exec summary finished
Date: Monday, January 23, 2017 23:10:11

Sorry about that.
Panel2017

Sent from my iPhone

On Jan 23, 2017, at 6:06 PM, Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca> wrote:

> Hi Lucy
>
> Can you please send the pw for the documents?
>
> Thanks
>
> Sarah

Sarah Hosick

Executive Assistant & Special Policy Advisor (A) | Office of the Provincial Controller Division

Office of the Treasury Board | Treasury Board Secretariat

7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7

416-212-8512

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: January-23-17 4:22 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Patricia O'Malley; Hosick, Sarah (TBS)
Subject: RE: Report and exec summary finished

Hi Cindy,

Please see attached the final version of the Report and the Executive summary.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: "Patricia O'Malley" <plomalley@outlook.com>
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>
Date: 01/23/2017 04:18 PM
Subject: RE: Report and exec summary finished

Hi Tricia – thanks for the update. If you send the report to myself and copy Sarah Hosick, we will get it to the appropriate folks.

Cindy

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: January-23-17 11:13 AM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Lucy Durocher
Subject: Report and exec summary finished

Hi Cindy

Both are done and final versions are signed off by all Panel members. Lucy will send to Communications today to begin translation etc. Nelson has provided the email addresses as he is ill and not in the office.

Also wanted to check with you who else should get copies at this point. I assume you and Karen should. If so, Lucy can forward at the same time.

Not sure if you have been advised about panel member schedules. Paul is available only week of Feb 6. Murray is in Asia until after mid-Feb. He can participate by phone in morning meetings. Uros and I are fairly open and flexible.

Best
Tricia

Tricia O'Malley
Mobile +1(416) 570 1924

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Re_ Request to share Accounting Opinion.rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Re: Request to share Accounting Opinion
Date: Saturday, October 15, 2016 04:26:43

Thanks Kerry.
Nadine

From: Danyluk, Kerry (CA - Toronto)
Sent: Friday, October 14, 2016 5:06 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto)
Subject: RE: Request to share Accounting Opinion

Hi, Nadine. We consent to our S. 7600 report dated October 2 being provided to PwC for the purpose you have noted below. This consent only applies to a release to PwC at this time.

Thank you.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, October 14, 2016 10:45 AM
To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: Request to share Accounting Opinion

Matt,

Further to our discussion, we are seeking permission to share the Section 7600 report with PricewaterhouseCoopers, today if possible.

Please see our request below. We look forward to hearing back from you.

Thanks.

Nadine

This note is to confirm that Deloitte LLP ("Deloitte") consents to the disclosure of its work product, including the accounting opinion, developed by Deloitte as part of or in connection with the work being done by PricewaterhouseCoopers LLP to assist Treasury Board Secretariat in compiling a Whitepaper describing the Province's position on Pension Asset accounting. The purpose of the disclosure is to allow PricewaterhouseCoopers LLP to review and consider the Deloitte LLP documentation in compiling the above-noted Whitepaper. The Whitepaper will not be based solely on Deloitte's work, but for purposes of consistency and completeness, it is considered beneficial to allow PricewaterhouseCoopers LLP to access the Deloitte's document. Please confirm your consent by responding to Karen Hughes and cc'ing me on your response.

Best regards,

Nadine

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Re_ Review_ Analysis.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: Re: Review: Analysis
Date: Wednesday, September 14, 2016 22:45:56
Attachment 1: @

This message has been archived. View the original item
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Hi Pauline
We will look at your document
Usually this is true that once we hit the ceiling we will end up with expense equal to contribution ... However the fact that the test is performed on the fa

Attachments:
Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx (5 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288681395~20160915024601000~Z~D0D32898348F33967F33D0E5BC4A82C1&AttachmentId=1Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Re_ Review_ Valuation Allowance.rtf

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Review: Valuation Allowance
Date: Friday, September 23, 2016 04:30:20
Attachment 1: image002.png
Attachment 2: image003.png

Cindy,
If it's agreed that we might want to include additional disclosure of the impacts under the AG's approach, perhaps the stated reason for sharing the analysis with the AG is to validate the numbers for supplementary disclosure that the Province would be planning to include in our notes (foe transparency). Adding the disclosure would also make it easier (I think) to sign off on the MLR unless the legislative accounting option is back on the table.. if folks really just want to avoid a battle in the media where he AG looks right, then they should reintroduce the legislated accounting option and take the qualified opinion (which I still think is a false threat). N
From: Veinot, Cindy (TBS)
Sent: Thursday, September 22, 2016 7:22 PM
To: Fong, Pauline (TBS)
Cc: Petsche, Nadine (TBS)
Subject: FW: Review: Valuation Allowance

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

Thanks,

From: Fong, Pauline (TBS)
Sent: September-21-16 4:37 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

Thank you.

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

Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

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

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

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

- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance

- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

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

Deloitte

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

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Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Objet : Review: Valuation Allowance

Hi Martin,

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

Regards,

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

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

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

Phone: (416) 212-4007

Pauline.fong@ontario.ca

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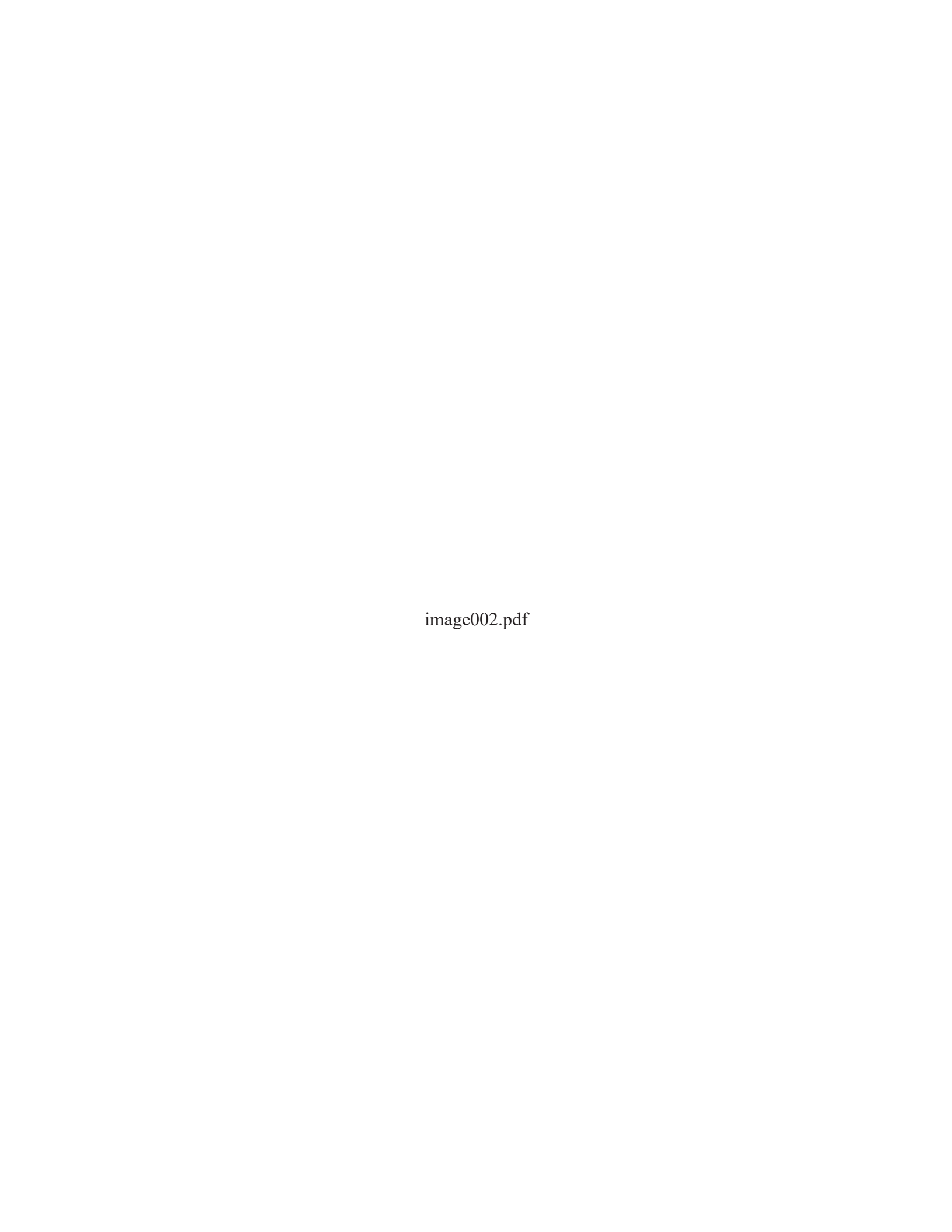
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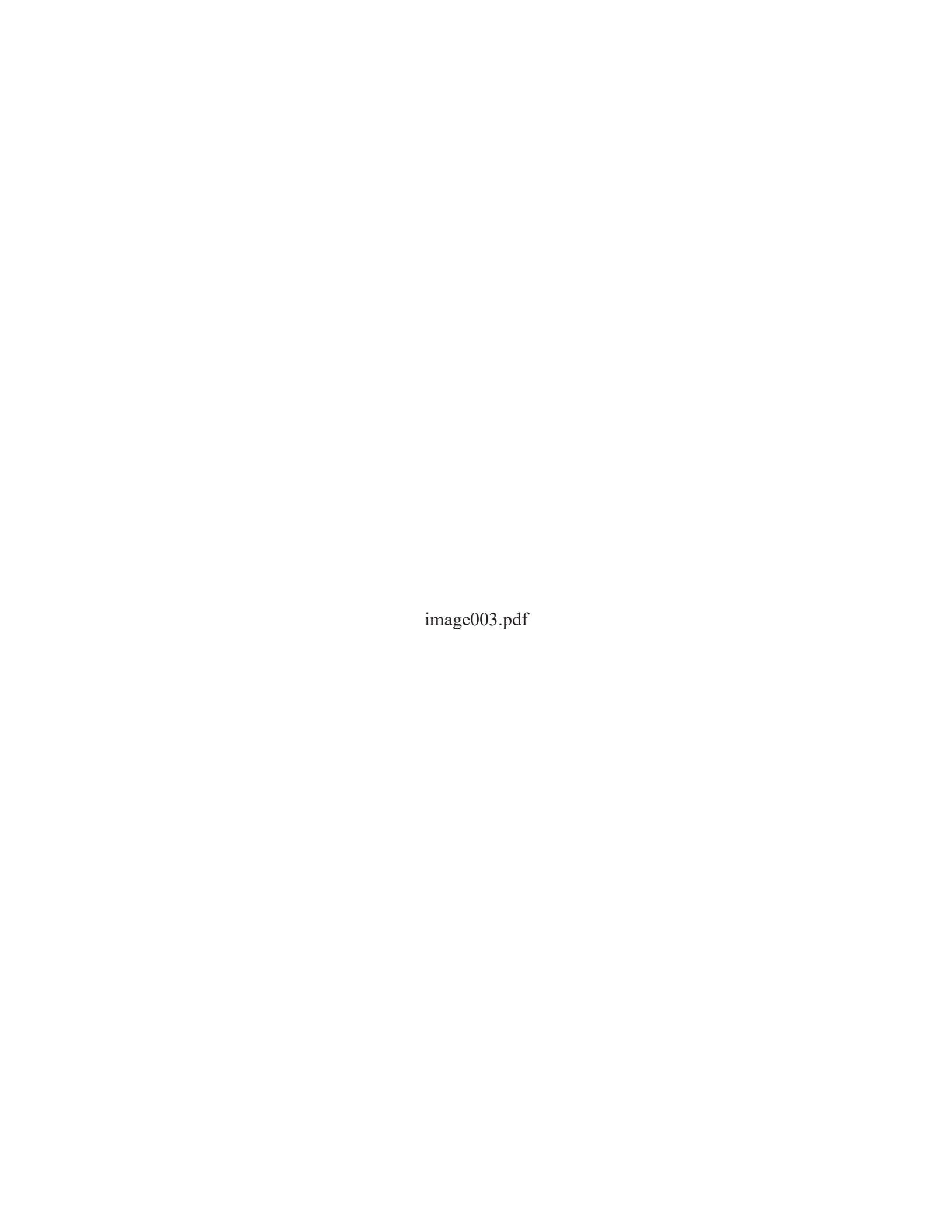
image003.pdf

TBS

Re_ Revised document.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Keates, James (TBS) [James.Keates@ontario.ca]
Subject: Re: Revised document
Date: Friday, October 28, 2016 15:50:32
Attachment 1: Draft Pension Asset Position Paper Oct 28 clean2.docx

---

See attached.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Keates, James (TBS)" <James.Keates@ontario.ca>
Date: 10/28/2016 01:53 PM
Subject: Revised document

Lucy,
Please find attached a 'track changes accepted' version of the position paper with some additional edits and notes for consideration. This cleaned version (subject to any additional edits by yourself and Jim) will serve as a revised draft for Cindy to review over the weekend. She will also receive the more detailed track changes version with comments. Can you please take a quick read of this version and insert any additional edits (including context setting w.r.t short term solvency exposure on the Province w.r.t funding requirements).
Thanks in advance.
N[attachment "Draft Pension Asset Position Paper Oct 28 clean2.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Draft Pension Asset Position Paper Oct 28 clean2.pdf

Position paper for Ontario Teachers' Pension Plan

Preamble

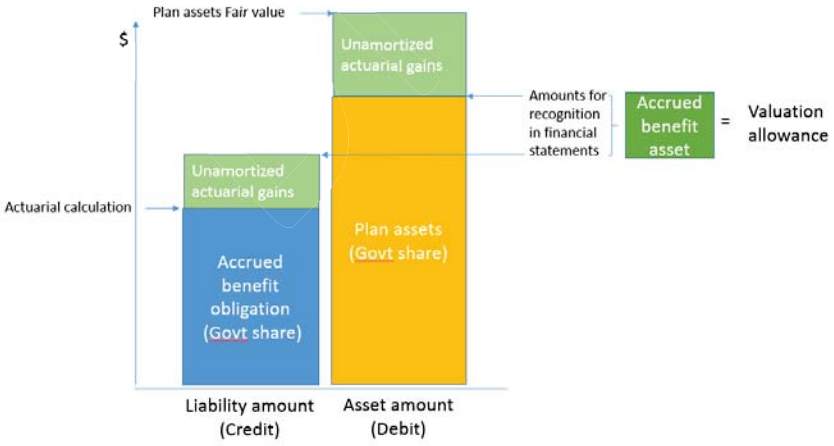
This document addresses the accounting for pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP. This position paper addresses the analysis for OTPP. A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, HOOPP and CAAT.

As described in PSAS, an accrued benefit asset (pension asset) arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. An Accrued Benefit Asset (AcBA) includes the effect of net unamortized experience gains or losses. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation. OTPP currently has net unamortized experience gains. The following illustration reflects the compilation of the net pension asset (accrued benefit asset) reported on the Province's books for the OTPP.



Commented [NP1]: Lucy – Inserted the summary slide here for the Panel's ease of reference. Unfortunately, I can't seem to edit the illustration. I think it would be good to remove some of the text (including ref to OAG view)?

LD – fixed. Note – I don't know whether there are actually amortized gains for both liability and assets for OTPP. Or just net gains. Can someone advise to ensure that the diagram actually reflects the OTPP situation, as it was originally intended as illustrative rather then specific. (there was also the illustration of net losses)

Do you want reference to the OAG view removed from the appendix as well, or just here.

DRAFT

It is important to note that contributions to the plan are based on funding objectives of the plan. In contrast, Benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

Commented [NP2]: Reworded

OK

The Province's position is that the asset balance (plan surplus for accounting purposes) in OTPP is an asset to the Province and it is appropriate to reflect it in the financial results in accordance with PSAS. The Province has also concluded that no valuation allowance under PSAS is required against the asset as at March 31, 2016.

The OAG disagrees with this position. The OAG has indicated that the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and as such that the Province does not control the assets which the OAG interprets PSAS as requiring. Further, the OAG considers the lack of an enforceable agreement at year-end with the Ontario Teachers' Federation (OTF) dictating lower contributions in the future as requiring that a full asset valuation allowance be taken against the asset under PSAS.

Commented [NP3]: Reworded.

OK

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook addresses the accounting of obligations for employee retirement benefits in government financial statements. Since 2001, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the period is reflected in Appendix F. Unqualified audit reports have been received for each of the years from the OAG on the Public Accounts. The pension accounting initially adopted by the Province for OTPP had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

In light of the contrasting views on interpretation of PS 3250 to the Province's jointly sponsored pension plans, a regulation was necessary to allow the public service to sign-off on the impact of the OAG's view on accounting for pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for pension assets of its two jointly-sponsored pension plans (OTPP and OPSEUPP) for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The change in accounting treatment for 2015-16 resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the 2015-16 annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's accounting, does not reflect the Province's interpretation of pension accounting under the PSAS.

Position paper for Ontario Teachers' Pension Plan

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

Background

Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1. The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the Ontario Teachers' Federation represented by its Executive (the "OTF") (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. The OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for the OTPP ;
d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP);
f) The Ontario Teachers' Pension Plan; and
g) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

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[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
a. It provides defined benefits.
b. The defined benefits are contributory benefits.
c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under the OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

Despite this general principle, under the TPA the Province is required to make additional contributions to the OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. [5] This clause has been interpreted as a short term solvency protection clause, rather than a clause that transfers substantive residual risk to the Province, as the rest of the arrangement is structured such that the risk of these payments is minimal and the risks of the long term funding of the plan must still be equitably shared. The Province is also permitted to make additional contributions in respect of a solvency deficiency[6] (although, as noted above, solvency funding is not required under the OTPP). Notwithstanding that subsection 5(1.1) of the OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under the OTPP since the OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Commented [NP4]: Lucy to add wording to reflect short term liquidity risk vs. long-term risk sharing. (focus of the paper is on asset recognition – worth stating? I don't think that additional risk on the liability side would impact the asset recognition, would it?)

The only implication would be that it would not be a JDBP if there was not an equitable sharing of risk – 3250 is clear that if the govt has residual risk it's not a JDBP

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).
[5] TPA, subsection 5(3).
[6] TPA, subsection 5(7).
[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at:

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the Partner's Agreement requires the Sponsors to negotiate and agree upon decisions relating to surplus or deficit utilization, which currently is outlined in the FMP. [8] The FMP indicates that deficits (or surpluses) may be addressed through increases (decreases) to the contribution rates, lowering (increasing) the amount of indexation and/or other decreases (increases) in benefits. While not binding upon the Sponsors, as the Sponsors can change the FMP at any time, any changes are required to have the mutual consent of both Sponsors. Accordingly, the Sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the Sponsors are included in appendix E. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. We note that the Sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the Sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

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https://www.otpp.com/documents/101791209401-l5e47lc2b-23f1-44e6-b5cld22e3e50dbc3lHow+ Contribution+Rates*HaverEvolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20lo versus l0.4yo/l2Vo, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.

[8] See, for example, Section 3.09 and 3.11 of the FMP.

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b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the Sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the Sponsors to agree upon the manner in which surplus is to be utilized, neither Sponsor has a legally enforceable right to unilaterally utilize surplus in the OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. Negotiations on the use of the surplus occur as specified in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding valuation shows a funding surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is to be resolved prior to filing the funding valuation.

Accounting for OTPP by the Province

Since fiscal year 2001-2002, the Province has recorded a pension asset for OTPP on the Statement of Financial Position. A pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus recognized investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense (see illustrative examples in Appendix J). The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

Commented [NP5]: Added

OK

With regards to any comparisons between surplus or deficit amounts reported in the Province's financial statements verses the OTPP's financial statements or funding reports, it is important to acknowledge

the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

> *.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.*
>
> *.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. …*
>
> *.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.*

Paragraph PS 3250.051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons…"

OTPP's most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website. The Province's relative portion of this surplus would be $6.6 billion. The OTPP's public financial statements showed a deficit for accounting purposes of $1.8 billion in its financial statements as at December 31, 2015, for which the Province's portion would be a deficit of $900 million. The following background helps to clarify the reasons for these different results. OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes.

Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a "funding valuation" on a going concern basis may also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on

the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP's accounting valuation and the Province's accounting valuation is shown in Appendix I.

Specifically, the discount rate used to value the obligations of the plan has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money makes the promises made today that will be paid out in the future cheaper. OTPP uses a discount rate based on corporate/government bond rates in its financial statements, as permitted by Part IV. The Province uses a discount rate based on the expected asset return, as permitted by PSAS. The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds. Both a discount rate based on the expected asset return and one based on corporate/government bonds are "best estimate" rates; they must both be based on management's best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more "right" or "wrong" relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

Typically the funding discount rate used for the funding valuation falls between the bond discount rate and the expected asset return, but it differs in that it does not purport to be the "best estimate" of the discount rate, rather it is designed to indicate the contributions that are required to fund the promised benefits with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta there are seven plans which prepare their financial statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix G. The analysis demonstrates that a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is actually in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability for financial reporting purposes.

The above analysis explains how different discount rates impact the net surplus/deficit reported on OTPP's financial statements, OTPP funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the 50% of the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under PSAB standards is of no consequence or relevance to the pension asset amount or pension expense reported by the Province for OTPP. .

To further clarify, that there is a deficit reported in the OTPP financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, if the OTPP had chosen (as an acceptable accounting policy choice) to use a discount rate more consistent with its counterparts in other jurisdictions (see Appendix G) such as a discount rate based on an asset return which would be closer to that used by the Province, it would eliminate much of the existing differences between the reported net surplus/deficit amounts between the OTPP statements and the Province's share of OTPP reported for accounting purposes in the Public Accounts.

Sufficiency of PS 3250 in assessing appropriate accounting for pension assets

Commented [NP6]: replaced 'completeness'

OK

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (paragraph PS 1150.04). Primary sources of GAAP are Sections PS 1200-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed (paragraph PS 1150.05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, Section PS 3250 which was based on Accounting Statement No. 5).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to shared control, as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception

of ASSETS, PS 3210 which is more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

Accounting Analysis

Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSA standards under PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

Standards in the PSA Handbook

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

RETIREMENT BENEFIT, Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

> *.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.*

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250, paragraph .003 as follows:

> *.003 Obligations for **retirement benefits** result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.*

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

RETIREMENT BENEFITS, Section PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

> *A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*
>
> *(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;*
>
> *(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;*
>
> *(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and*
>
> *(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.*
>
> *The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.*

Additional guidance on identifying Joint Defined Benefit Plans (JDBPs) is in PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP:

> *.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.*

DRAFT

> *.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.*

It should be noted that the definition of a Joint Defined Benefit Plan under Section 3250 is not the same as the definition of a JSPP under the PBA, although there are some overlapping concepts between the two. A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. The Province has concluded that OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. The OTPP is a contractual arrangement between the Province and OTF in which:

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees (addressed in paragraph 8 of the Partners' Agreement for example);

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example).

The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan.

The classification of OTPP as a JDBP for accounting purposes [and a JSPP under the PBA] by the Office of the Provincial Controller has been consistent since 2001 and had been consistently accepted without question by the Office of the Auditor General, including throughout the 2015/16 Public Accounts.

Question 2 – Recognition of a pension asset for a JDBP

RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

> *.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]*
>
> *.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.*

Section PS 3250.81 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a shared control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to shared control and not unilateral control paragraph .081 would have made this clear. This paper discusses the question of measurement separately in Question 3.

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250.016 to .017:

> *.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]*
>
> *.017 The components of the retirement benefit liability are:*
>
> > *(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;*
> >
> > *(b) plan assets, if any; and*

DRAFT

(c) unamortized actuarial gains and losses.

As the OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the net impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an "Accrued benefit asset" (ABA). An ABA is defined in Section PS 3250 as follows:

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

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan; the ABA is calculated by reference to accrued benefit obligation and plan assets, both determined based on the best estimate assumptions and the methodologies required by with Section PS 3250 for these items. As noted above an ABA is defined as the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan, this is the government's accumulated cash contributions less the government's share of the current and prior years' benefit expenses that are attributable to the government under the joint defined benefit plan. The Province's portion of OTPP resulted in an ABA of $10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (and the interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Paragraph 3250.80 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph 3250.50 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as the limit could result in an ABA being measured at anything from $nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .50-.59 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the Province does not share equitably in the risks and rewards of the OTPP because they bear only the risk of increased liabilities without being able to bear

any rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a joint defined benefit plan.

Concept of Shared Control and Asset Recognition

Included in the definition of a JDBP is the concept of shared control. Points (c) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of Shared Control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under PS 1000 would suggest that the government must control the economic resource and access to the future economic benefits. Since shared control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under shared control and specifically for plan assets of joint defined benefit plans for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with joint defined benefit plans and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for joint defined benefit plan assets, no further source of PSAS guidance need be considered.
- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, shared control is sufficient for asset recognition.
- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. With the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that PSAB did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix B to this paper, and further support PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (PS 3060.20), yet the accounting model required by Section PS 3060 for non- GBPs[9] is that of proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership. Joint defined benefit plans are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (3060.06 footnote 3). This reason indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to shared control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is shared control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a joint defined benefit plan. In other words, PS 3250 is a primary source of GAAP and provides sufficient and complete guidance on how to account for assets related to joint defined benefit plans.

Concept of Contingent Asset

CONTINGENT ASSETS, Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset (Section PS 3320.04). It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, being the impact of cumulative contributions and benefit expense. The fact that shared control exists with regards to access to the assets of the plan does not create additional uncertainty that would impact asset recognition under PSAS. The Province anticipates that in a broad sense, s any OTPP surplus would be shared in an "equitable manner" under the terms of the arrangement, and this is enabled through the ability to negotiate the utilization of the surplus including the ability to prevent the utilization of the surplus in a manner that does not benefit

[9] Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

the Province. This expectation is further supported by past history of surplus utilization (see Appendix X). The method, extent and timing of which the Province will obtain the expected future benefits (contributions reductions vs increase in benefits) is not certain. However PS section 3320 also states "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof" (Section PS 3320.07). Based on past history of surplus utilization for OTPP and based on the constating documents, expected future benefits for the Government are present. The uncertainty as with many types of assets relates to measurement uncertainty which will be discussed below.

Conclusion on recognition

Therefore the Province has concluded that PSAS permits the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, which is discussed in Question 2 of this position paper.

Question 3 – Measurement of a pension asset

For an asset to be recognized it must be reliably measureable (paragraph PS 1000.55). Section PS paragraphs 3250.050 to .059 address how to measure a pension asset. This is a two-step process. Firstly the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset when it is a net asset (a Debit) amount. When the resulting amount is an asset, the standard requires a second step to test that the asset is not impaired. It should be noted that impairment testing in some form is required for all assets recognized under PSAS standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset. The amount that is tested is the "adjusted benefit asset". When there are net unamortized gains the ABA is equal to the adjusted benefit asset. When there are net unamortized losses the ABA is reduced by those net unamortized losses to calculate the adjusted benefit asset. A graphical illustration of the calculation of the Accrued Benefit Asset (AcBA) and the Adjusted Benefit Asset (AdBA) are shown in appendix J. Section PS 3250 paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA or adjusted benefit asset. Note that for OTPP the accrued benefit asset equals the adjusted benefit asset as there are net unamortized actuarial gains.

DRAFT

Section PS 3250.50-.59 are included here for completeness and ease of reference:

Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an ABA and why a valuation allowance may be needed, rather than detailing the test to be applied. Part of this justification is to note that that an ABA may be impaired when "the government is not entitled to benefit from [the ABA] fully". Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

Section PS 3250.059 gives additional guidance to apply when an entity contemplates realizing future benefits through a surplus withdrawal: "A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal". This introduces the concept of a legally enforceable right but only in the context of a government's withdrawal of surplus and not in the context of contribution holidays. If the standard setters had intended legal enforceability to be the test throughout the standard, they would not have raised it only in the context of a withdrawal of surplus, but as a more fundamental notion in the guidance on expected future benefit.

It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to shared control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays. When considering the ability to realize expected future benefits under Section PS 3250.052, the Province's legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts. Pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". Expected does not equate to certainty (Section PS 1000.056).

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a

DRAFT

surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Further, paragraph PS 3250.055 indicates "The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of principles and is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix H for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the Sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[10]), and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, should also be considered. As previously discussed in respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. Similarly as the sponsors agreed to restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the Sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, the matter can be submitted to an arbitration board of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the

[10] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

DRAFT

contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS 3250.52.

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

Section PS 3250.53 to .58 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in paragraph 56.

Therefore in accordance with Section PS 3250.56 the Province calculated the expected future benefit as the sum of:

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

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

DRAFT

Each of these is discussed separately.

Through withdrawal of the surplus (Section PS 3250.056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, paragraph 3250.059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

The TPA for OTPP does not specify a method for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

> 10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:
>
> 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

> Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that"...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution. The Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

DRAFT

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus.

Through reducing future contributions (Section PS 3250.056 (a))

PS 3250.56(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

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

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significant diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in this second part of the calculation. Note that consistent with the calculation of the expected future accruals for service, no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (3250.56(a)). There is no further guidance in S 3250 as to how the calculation of minimum required contributions should be performed and what restrictions or parameters should be factored into this calculation. Typically for defined benefit plans minimum contributions include those that are required by the pension regulator to be made for funding. However, minimum contributions regardless of any surplus, may be required by plan text, legislation or other agreements with employees. For OTPP a key element of judgment is determining what contributions are required by the current plan arrangements "regardless of any surplus". The

constating agreements for OTPP require that the parties negotiate every 3 years as a minimum, and when there is a funding surplus.

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.
- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

DRAFT

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

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

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external consultants to conduct asset ceiling tests to assess the requirement for a valuation allowance against the $10.1 billion of net pension assets reported by the Province for OTPP . The results of those reports are summarized in Table 1 below.

DRAFT

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. No minimum employer contributions are required regardless of any surplus.	$44.6	There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present. This view leads to no reduction in the expected future benefit (EFB) where no minimum percentage of contributions exist in the plan provisions.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the valuation report and until a new report is completed. EFB is reduced by 2 years of $1.7B.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 10 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year horizon) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B in minimum funding requirement.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	Assumes the Government uses 50% of the surplus above the ITA surplus threshold for a contribution holiday and the employees use the other 50%. ITA limit for surplus is attained at end of 2025, leading to forced contribution reductions from year 2026. EFB is reduced by minimum employer funding requirements of

DRAFT

		$21.4B as at March 31, 2016
5. Every year, 50% of new surplus is applied to improve member benefits and the remaining 50% of the new surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and Government.	$12.9	ITA limit for surplus is attained at the end of 2041. As surplus used at 50% before to improve employee benefits, once ITA limit is attained, forced contribution reduction from year 2042. EFB is reduced by minimum employer funding requirement of $37.7B.

Note: Models above made no assumption on any value of the surplus withdrawal.

Under the Partners' Agreement, the parties are mandated to negotiate benefits and contributions every three years as a minimum and if agreement is not reached, it is reasonable to expect that a change in contributions might occur rather than the 'status quo' being retained.

For purposes of the OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

In addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between $19.9 Billion and $22.3 Billion); therefore indicating that no valuation allowance is required.

The determination of the minimum contribution levels required as input to the calculation of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions

DRAFT

related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty'.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44.

The OAG and the Government differ regarding whether it needs to be "expected" that the Government will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in paragraph .059. The Government considers that it needs to be expected that future economic benefits are to be obtained as reflected in the definition of an asset in Section PS 1000 and as reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to use a plan surplus.

Other guidance in the PSA Handbook on measurement

MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the current year financial statements. PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

> *.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts.*

Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.

The estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is an acceptable alternative under PSAB and consistent with rates followed by other senior Canadian governments. Historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets reported in the Public Accounts.

Impact of valuation allowance

The current AG's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no pension accounting surplus should be recognized in the Province's Public Accounts for JDBPs until the joint sponsor agrees to a change in the plan text for the Province to provide for unilateral authority to access surplus or reduce future contributions to enters into an agreement by year-end enabling the government to take a contribution holiday. In the absence of meeting either the criteria set out by the AG, any ABA would therefore be fully provided for through a valuation allowance, impacting each year's statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in which increased funding is made and also higher when poor investment returns create actuarial losses that have not yet been amortized into the statement of operations. These examples are illustrated in Appendix J.

For information purposes, refer to Appendix D for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the

DRAFT

PSAS. Of particular note is the impact in 2008 when the deficit would have be lower by $3 billion in a year when pension asset values fell significantly because of the financial crisis.

Comparability of Ontario accounting for JDBPs to other Provinces

Included in Appendix C is a legal opinion prepared by lawyers, Koskie Minsky, comparing access to the pension surplus of OTPP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTPP.

Quebec, Nova Scotia, Manitoba and New Brunswick also have pension plans that are in a net accrued benefit asset position before valuation allowance. In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the province's access to the plan assets. As a result, the Province of New Brunswick records the value of plan net assets as nil.

Conclusion on measurement

As discussed, there is significant professional judgement and estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

Commented [NP7]: Jim to update for additional details received by Pauline, if any.

Commented [NP8]: Are these jdbp?
LD – I checked the New Brunswick FS. It seems that several of their target benefit plans are not JDBPs. They do have one JDBP, but it is in deficit. It's not clear to me whether this plan is a target benefit pension plan or not and therefore whether an asset could be recognized if it was in an asset position.

Commented [NP9]: If we don't have any info. Let's delete for now.

Agree – have deleted

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Appendix A – Guidance in the PSA Handbook - FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210

Guidance in FINANCIAL STATEMENT CONCEPTS, Section PS 1000

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

.36 Assets have three essential characteristics:

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

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

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [Former paragraph PS 1000.36 retained in Archived Pronouncements.]

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

(a) no future economic benefit;

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

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

(paragraph PS 1000.38 deleted) [Former paragraph PS 1000.38 retained in Archived Pronouncements.]

RECOGNITION

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

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

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

.55 The recognition criteria are as follows:

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

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

benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

.57 Purchased natural resources and Crown lands are recognized in government financial statements. However, when natural resources and Crown lands have been inherited by the government in right of the Crown and have not been purchased, they are not given accounting recognition as assets in government financial statements. These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Similarly, art and historic treasures are also not recognized as assets.

.58 In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements. The intangible often called "human capital" that embodies the talent or intellectual capital of government employees is not recognized as an asset under existing accounting principles.

.59 Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied. Accrual accounting recognizes an asset until the future economic benefit underlying the asset is partly or wholly used or lost.

Guidance in ASSETS, Section PS 3210

Economic resources

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

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

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

DRAFT

(a) contracts or agreements (for example, accounts receivable and leases);
(b) another government's legislation (for example, transfers receivable);
(c) government's own legislation (for example, taxes, fines and penalties);
(d) voluntary contributions (for example, donations); or
(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or
(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

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

Future economic benefits

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

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

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

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

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

Control

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

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;
(b) can deny or regulate access to those benefits by others; and
(c) is exposed to the risks associated with the economic resource.
.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.
.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.
.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.
.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.
.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.
.22 Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. For example, a public sector entity may control the economic resource and access to the future economic benefits through a capital lease arrangement yet not own the economic resource.
.23 A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset. A public sector entity may establish the regulatory environment in an industry or sector within which organizations operate and impose conditions or sanctions on their operations. For example, a pollution control authority may have the ability to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority's interest extends only to the regulatory use of the economic resources and does not include the ability to control access to the future economic benefits.
.24 A public sector entity may act as trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the public sector entity merely administers the assets, following the terms and conditions set out in the agreement. It does not control the asset because it does not have access to the future economic benefits. Those benefits flow to the beneficiaries.

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Appendix B - Definitions of a Joint Defined Benefit Plan and Government Partnership

The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, paragraph PS 3060.06. GOVERNMENT PARTNERSHIP, Section PS 3060 was introduced into the PSA Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. RETIREMENT BENEFITS, Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A **government partnership** is not a government organization but is a contractual arrangement [2] between the government and a party or parties outside of the government reporting entity [3] that has all of the following characteristics:	A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners co-operate toward achieving significant clearly defined common goals;	(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;	Consistent in concept with the definition of a GP focusing on investments in the partnership and the definition of a JDBP

			focusing on contributions into the plan.
Criteria 3	(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and	(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.	(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership.	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.	

DRAFT

	Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

In addition to consistent wording, the concepts in the definitions of a government partnership and a joint defined pension plan are similar.

While similar in concept and wording, the definition of a joint defined pension plan is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including joint defined pension plans.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates "*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]". This principle is consistent with the proportionate consolidation method included in Section PS 3060.

DRAFT

Appendix C – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners'

Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan (''PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

DRAFT

In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[11] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect

[11] It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

DRAFT

to ongoing PSPP surpluses

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the

same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.
1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

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B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize 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.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

We trust that these comments have been of assistance to you. Should you have any questions in regard to them, please do not hesitate to contact the undersigned.

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Appendix D - Comparison of key measurements of the Province over the prior 10 years following the Auditor General's approach to pension accounting compared with following the Province's interpretation of the PSAS.

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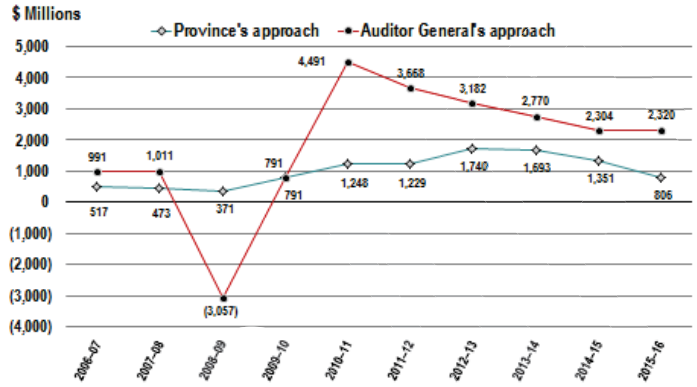
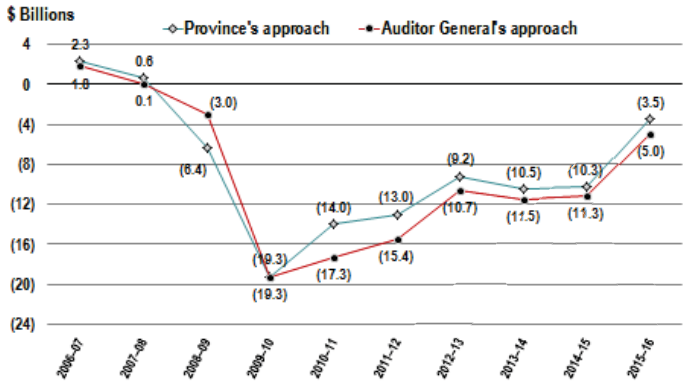
Pension expense comparison — 10-year Chart 1



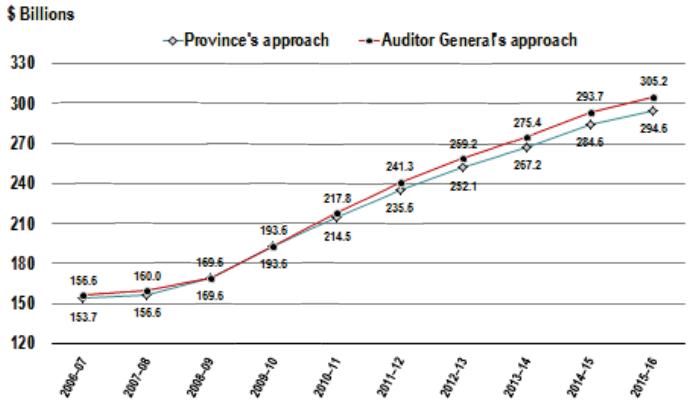
Surplus/(deficit) comparison — 10-year

Chart 2

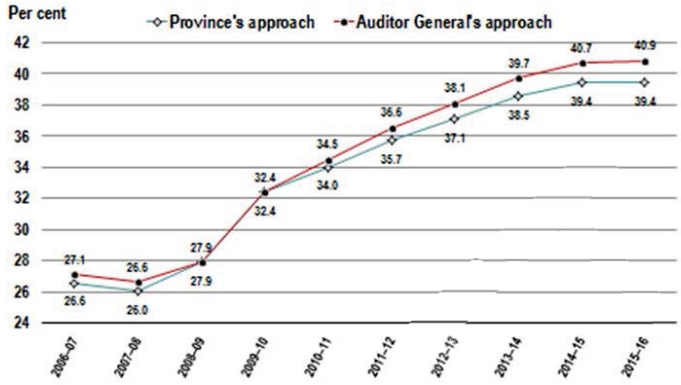


Net debt comparison — 10-year

Chart 3



Net debt-to-GDP comparison — 10-year Chart 4



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Appendix E – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities

Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Act and to the Partners' Agreement and FMP in order to determine how ongoing surplus is dealt with under the OTPP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the Teachers' Act provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the Pension Benefits Act, appointing the OTTP Board, and defining the role of the Board. By contrast, section 19 of the Partners Agreement sets out the responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the Sponsors to the OTPP have the authority to utilize ongoing surpluses. The process governing the use of ongoing surpluses by the Sponsors is set out in the Partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every

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Can you also insert references to Sections 10 and section 57.
Also to Section 58 to 60 that are relevant.
Section 19 requires a valuation to be prepared every three years.
This is also important.

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three years (section 73).

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

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

Section 77 of the Partners' Agreement anticipates that the Sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

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

We note that the mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the Sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the Sponsors do not agree to file the valuation, then the Sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

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

Funding Management Policy (FMP)
The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and

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how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP.
The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:
i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

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

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

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

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the Sponsors mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners; Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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Appendix F – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	**(405)**	**29**	**221**	**241**	**250**	**305**
Expense increase (reduction) in valuation Allowance						
Pension Expense after valuation Allowance	**(405)**	**29**	**221**	**241**	**250**	**305**

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772
Adjustment for different year ends	529	650	687	764	774
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220
Pension liability (Asset) at March 31 Reported before any valuation	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	998	1,051	1,118	1,175	1,217
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(146)	38	34	30	(4)
Pension expense before valuation	**359**	**354**	**60**	**266**	**523**
Expense increase (reduction) in valuation Allowance					
Pension Expense after valuation Allowance	**359**	**354**	**60**	**266**	**523**

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Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**(10,147)**
Valuation Allowance	**-**	**-**	**-**	**-**	**10,147**
Pension Liability (Asset) after valuation Allowance	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**-**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	**519**	**892**	**875**	**569**	**118**
Expense increase (reduction) in valuation Allowance					**1,480**
Pension Expense after valuation Allowance	**519**	**892**	**875**	**569**	**1,598**

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Appendix G - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP [Tables are to be updated]

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

1

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	3.25%	Market rate of Provincial Bonds

2

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario				
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	5.95%	LT return on plan assets
Alberta				
Teachers' Post-1992 Pension Plan	7.00%	LT return on plan assets	7.25%	LT return on plan assets
Universities Academic Pension Plan	6.10%	LT return on plan assets	6.25%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)				
Local Authorities Pension Plan	5.80%	LT return on plan assets	5.80%	LT return on plan assets
Public Service Pension Plan	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Management Employees Pension Plan	6.40%	LT return on plan assets	6.40%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.75%	LT return on plan assets	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.20%	LT return on plan assets	6.20%	LT return on plan assets
Special Forces Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan				
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.80%	LT return on plan assets	6.80%	LT return on plan assets
British Columbia				
Public Service Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec				
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	6.40%	LT return on plan assets less inflation
Newfoundland				
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	6.30%	LT return on plan assets
Nova Scotia				
Nova Scotia Public Service Superannuation Plan (PSSP)	6.75%	LT return on plan assets	6.35%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	6.40%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba				
Civil Service Superannuation Plan	6.00%	LT return on plan assets	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.50%	LT return on plan assets	6.25%	LT return on plan assets

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Appendix H – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining	$0

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			special payments	
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion		

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the Sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

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Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.
Actuarial cost method	*[To confirm – not clear from the valuation report]*	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation]	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. The Province uses adjusted market values for some classes of assets in certain plans.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate.	In measuring a pension obligation amount, the defined benefit obligation amount determined by the	Not specified. However two methods are specifically acknowledged – a)

Commented [NP12]: Opcd to confirm with Alex Killoch

	For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation]	plan's sponsor may be (but is not required to be) used. Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[12] The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.
Underlying population data	All valuation methodologies should use consistent underlying data of the population covered by the plan		
Inflation rate	All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Demographic assumptions	All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		
Other economic assumptions	All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]		

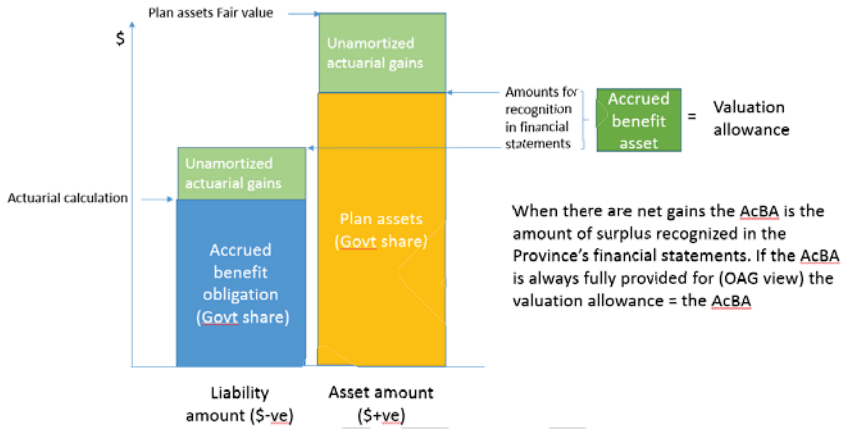
Commented [NP13]: OPCD to confirm with Alex Killoch

Commented [NP14]: Opcd to confirm with Alex Killoch

[12] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

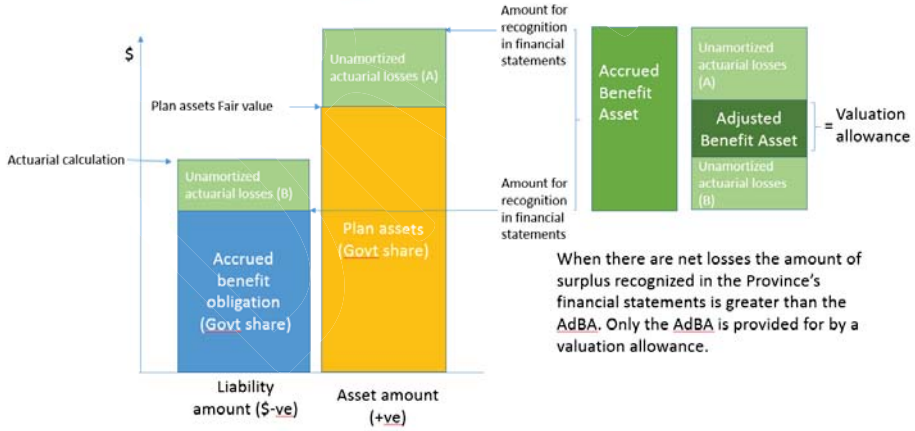
Appendix J – Impact of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses

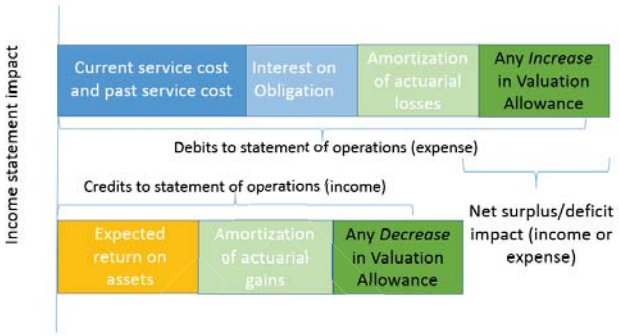


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the AdBA. Only the AdBA is provided for by a valuation allowance.

Components of Expense

The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

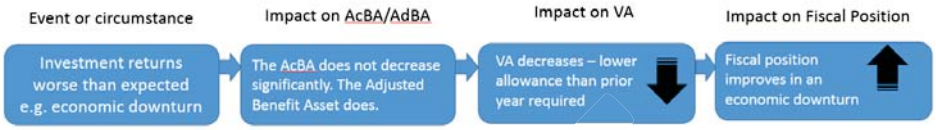
Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]

Event or circumstance	Impact on ABA	Impact on VA	Impact on Fiscal position
Contributions in excess of current service cost – i.e. additional funding	Plan assets increase more than the ABO ↑	VA increases to reduce ABA to zero ↑	Fiscal position worsens with additional funding ↓
2015-2016 example: Contributions of $1,812M exceeded other elements of pension expense by $1,514M	2015-2016 example: Additional contributions increase plan assets. AcBA increases by $1,514M	2015-2016 example: AcBA increase of $1,514M results in an increase to the VA of $1,514M	2015-2016 example: Deficit increases by $1,514M. The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.

Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

DRAFT

Re_ Revised memo.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Revised memo
Date: Tuesday, November 22, 2016 09:29:18

Yes. Very helpful. I have incorporated that information into the memo. It will be good to run t past MOECC tomorrow.

Sent from my iPhone

> On Nov 22, 2016, at 8:21 AM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:
>
> Thanks Lucy.. did you find the additional materials sent "* last Friday' (extracts from the TB submissions) helpful? Nadine
>
>
> From: lucy.durocher@ca.pwc.com
> Sent: Monday, November 21, 2016 11:05 PM
> To: Petsche, Nadine (TBS); Provis, Ian (TBS)
> Cc: michael.hawtin@ca.pwc.com; david.c.greenall@ca.pwc.com; Veinot, Cindy (TBS)
> Subject: Revised memo
>
>
> Nadine, Ian,
>
> In advance of our meeting with MOECC on Wednesday please feel free to circulate the revised version of the paper, updated for the comments we discussed in our last meeting.
>
> In response to Cindy's comment regarding what is the nature of the EAs, I have added in a new section - Section 3 - that specifically discusses this. I think it is a helpful section that sets the context for the future discussions and now includes the discussion on exchange vs non-exchange transactions (moved from the revenue recognition section).
> I have also added a couple of appendices - Appendix A notes the current accounting for Cap and trade programs by Quebec and by New Zealand. Appendix B considers the outcomes if an alternative view was taken to treat the EAs as similar to "currency in circulation" which is at the heart of the "New Zealand" model. I think the concept of treating EAs as similar to a currency has some merit, so I thought it was worth exploring. I am still comfortable with the identification of the EAs as being "goods" that are sold, but it is worth noting that an analysis under the "currency" view also results in substantially the same accounting.
>
> I also attach a tracked changes version, although this is tracked to the last version circulated to MOECC, not the last version that I sent to your group prior to our last meeting
>
>
>
>
>
> Regards,
> Lucy
>
> Lucy Durocher
> PwC | Partner, National Accounting Consulting Services
> T: +1 416 869 2311
> Email: lucy.durocher@ca.pwc.com

> Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
> PricewaterhouseCoopers LLP
> PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
> http://www.pwc.com/ca
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Re_ September 15 letter.rtf

From: Steele, Jana [JSteele@osler.com]
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: September 15 letter
Date: Saturday, September 17, 2016 08:13:32

Thanks Len.

Sent from my iPhone

> On Sep 17, 2016, at 8:13 AM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:
>
>
> Hi Jana
> Here is a letter (with attachments) that has relevance re the fmp. Thanks
> Sent from my BlackBerry 10 smartphone on the Rogers network.
>
>
>
> <MOF letter.pdf>

_____

****

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****

Re_ Sharing.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Re: Sharing
Date: Tuesday, September 20, 2016 13:58:57

Hi Lucy. There is no final version of the report available. It is expected to be filed at the end of the month. N

From: lucy.durocher@ca.pwc.com
Sent: Tuesday, September 20, 2016 12:38 PM
To: Petsche, Nadine (TBS)
Subject: Re: Sharing

The Mercer valuation report included in the binder you gave me was for 2015, which also appears to the one used by Deloitte's actuaries in the calculations of the expected future benefit to support the recognition of the asset.
The preliminary 2016 report is discussed in the attached 2016 filing confirmation. Is a final report by Mercer for 2016 been prepared yet that is available? I don't think it is of great importance if it is not available, but if it was available it could be relevant as I would expect it would include revised estimated contributions.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

Re_ Sorry, called into mtgs.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Sorry, called into mtgs
Date: Monday, September 26, 2016 16:45:41

No worries. It's completely understandable.

I am around tomorrow morning. I currently have some meetings scheduled at 10:30 (30 minutes) and 11:30 (30 minutes) but they are internal and can probably be moved around to accommodate the best time for you if you want to catch up.

Regards,

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/26/2016 04:39 PM
Subject: Sorry, called into mtgs

Likely talk tomorrow. N

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Re_ Status update.rtf

From: Petsche, Nadine (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Re: Status update
Date: Friday, April 07, 2017 20:55:01
Attachment 1: image001.jpg

Thanks Uros. This is very helpful. Thanks so much to you and the team. Nadine

From: Uros Karadzic
Sent: Friday, April 7, 2017 5:58 PM
To: Christina Chan; Petsche, Nadine (TBS)
Cc: Shayan Jafrani
Subject: RE: Status update

Hi Nadine,

Just for a bit of additional colour on item 1 below, we're working on formulating a more specific request for help (ie. a checklist of items to confirm, and the list of plans that would make sense to look into). This would hopefully streamline things on your end and speed up the process overall. In parallel we are also doing our own review of the BC and other plans we already discussed.

Uros

From: Christina Chan
Sent: Friday, April 07, 2017 11:33:20 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: RE: Status update

Hi Nadine,

To address your comments below:

1. There is no current requirement for OPCD related to the pension plans research. We will provide you with a list of additional Plans for OPCD to consider and the related funding policies to review early next week.

2. For the balance sheet adjustment, we have identified the items to be discussed. We will be providing OPCD a list of related questions by Monday. We will arrange for a call to discuss then.

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, April 07, 2017 5:09 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Status update

Thanks for this status update Christina.

Please see my comments below.

Have a great weekend.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April-07-17 4:59 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Status update

Hi Nadine,

As discussed, here is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Asset ceiling test for OTPP document updated

2. Draft asset ceiling test for OPSEUPP document provided

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) – EY

4. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD (Please advise of any current requirements.)

5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD (please advise w.r.t. anticipated timeframe)

Next week and after

1. Excel tool update and associated “audit checklist”

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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image001.pdf

Re_ Still in meetings.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Still in meetings
Date: Tuesday, September 27, 2016 13:40:08

I hope they are going well and working towards a good resolution.

Let me know if there is anything I can assist with.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/27/2016 01:38 PM
Subject: Still in meetings

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Re_ TBD -- pension asset valuation assurance.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: TBD -- pension asset valuation assurance
Date: Friday, November 11, 2016 19:32:58

Hi Nadine,

I wanted to up date you on our discussion on FOFI the other day and whether it would be applicable to reporting on the pension situation.

I think there are two parts to the question of what asset can be supported. The first is of course the calculation of the ABA in the first place, which is dependent on the assumptions used in calculating the actuarial liability and market related values of the plan assets in accordance with PSAS and actuarial practice/methodologies. This is not something that FOFI can be applied to because it is essentially balance sheet date assumptions. (In fact, this is essentially part of what the AG would have done for plans in liability positions). As long as there is a framework to compare the calculations against (e.g. PSAS and actuarial standards) then it would be expected that some form of assurance could be offered as to whether those assumptions and calculations are in accordance with PSAS - which is essentially what an actuarial opinion on an accounting valuation is doing.

The second part is whether the ABA will be realized by the Province, under the plan arrangements and considering the requirements in PS 3250 for the valuation allowance. This is the part that is more in line with a FOFI approach as it necessarily requires projecting forward certain scenarios to determine whether contribution holidays can be taken in the future, based on the current plan arrangements.

From an assurance perspective, FOFI reports are covered by AuG-6 *Examination of a financial forecast or projection included in a prospectus or other public offering document*. Technically, any FOFI related to the OTTP pension plan would not be going in a prospectus or other public offering document, however the purpose of this is to indicate that the guideline covers general purpose financial forecasts or projections. The Guideline does not deal with Special purpose FOFI. Given the nature of the projections it seems likely that this information would be special purpose FOFI and not general purpose.

For anything to have assurance on, there must be an underlying framework. AuG-6 notes that the underlying framework for FOFI is Part V Section 4250 (which we still use and refer to, even though it is not technically 'Canadian GAAP' for anyone anymore). Section 4250 provides the standards for measurement presentation and disclosure of FOFI for general purpose financial statements or in a special purpose format. Section 4250 distinguishes between a forecast, which is prepared using assumptions all of which reflect the entity's planned course of action for the period covered given management's judgment as to the most probable set of economic conditions. In other words a forecast uses only one set of conditions (and therefore only one output scenario) that is the most probable scenario, in management's judgment. A projection on the other hand uses the most probable set of economic conditions along with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in management's judgment.

In the case of both forecasts and projections the standard provides guidance on the time period for the forecast or projection as follows:
- The period covered by FOFI should not extend beyond the point in time for which such information can be reasonably estimated (4250.15)
- Forecasts would not not normally be prepared for periods beyond the following fiscal year except when there is reasonable assurance as to the operations in the forecast period.
- Projections may be presented for period extending beyond the following fiscal year when there is a reasonable basis for making estimates, although the degree of uncertainty normally increases with the length of the future period covered.

My concern with the nature of any projections or forecasts required for the pension plan in order to support the ability to realize the asset is that they are inherently long term and require a number of years of surplus in order to support the entire asset. The period for any projection would extent beyond that permitted by Section 4250 because the level of uncertainty going into even 5 years in the future, in the context of the plan, would be too great to meet the framework criteria.

As such, I do not believe that Section 4250 and AuG-6 provide a framework/assurance guidance that can be used to provide specific assurance on the ability of the Province to utilize the ABA through contribution holidays in the future.

Regards,
Lucy

Lucy Durocher
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/20/2016 01:36 PM
Subject: TBD -- pension asset valuation assurance

Hi Lucy.
One of the items we discussed on our recent call was the nature of assurance that might be feasible w.r.t. the valuation of the pension assets. You raised some good points and had already begun to explore past precedents with your firm's actuary. As noted, there would be questions about the assumptions used in the valuation and the appropriate scope of an engagement w.r.t. expectations for the actuary to perform data analysis/question assumptions, etc. and running the analysis.

I'm not sure if you've been able to give this item any further thought? Hoping we can plan to speak to it again tomorrow in the hopes that we can land on some options for consideration (some of which may involve asking other actuaries from the plans, etc. to also support the effort).

Thanks.
Nadine

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Re_ Timing question.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Timing question
Date: Sunday, September 25, 2016 07:59:39

Hi Nadine,

I am working on comments on your position paper this morning. I would hope to get you something by early afternoon.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/25/2016 05:38 AM
Subject: Timing question

Hi Lucy.
Just wondering how soon you couls provide a idraft summary of your hanalysis on the pension asset ceiling item? N

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Re_ tomorrow’s call.rtf

From: Hatzis, Len (TBS) []
To: Murray Gold [mgold@kmlaw.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Re: tomorrow's call
Date: Tuesday, November 15, 2016 21:01:56

Murray will be calling in from the US, so the call - in coordinates should have the 1 800 option. Thx

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 7:59 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Re: tomorrow's call

Murray is available for a call at 1230 tomorrow - Cindy do you mind sending out an invite for all of us at that time? Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:49 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

RE_ Update Summary.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Update Summary
Date: Monday, May 29, 2017 17:19:33
Attachment 1: image001.jpg
Attachment 2: Summary of impact based on proposed adjustments - by year_v2 (EY 29 May 2017).pdf
Attachment 3: Summary of impact based on proposed adjustments_v2 (EY 29 May 2017).pdf

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Hi Pauline,

Please find attached revised exhibits using the correct opening balance for the other agencies. To facilitate your meeting tomorrow, I've included the $22M in the pension expense line item with a simple footnote at this time. Shayan and I will connect tomorrow as well to ensure we are in agreement with the adjustment.

Have a great evening!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, May 29, 2017 4:58 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Update Summary

Hi Christina,

Could you please update the summary for what we discussed today? The moving with Cindy has been moved from Friday to tomorrow morning and it would be nice if we have the full fiscal picture.

Pauline

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

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

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image001.pdf

ONTARIO
150

Summary of impact based on proposed adjustments - by year_v2 (EY 29 May 2017).pdf

Summary of impact based on proposed adjustments as at 31 March 2016 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(837)	(7,699)
Pension expenditure	118	538	180	761	194.3	(69)	1,722
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(10,147)	1,385	(521)	872	16.7	(906)	(9,300)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(837)	(7,699)
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	837	462
Pension expenditure	232	560	155	754	194.3	-	1,895
Less: portion of contributions allocated in excess of ON	(13)		-	(4)	-	-	(17)
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(9,395)	741	(823)	778	16.5	-	(8,683)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	-	-	-	-	-	-	-
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	837	462
Pension expenditure	114	22	(25)	(7)	-	69	173
Less: portion of contributions allocated in excess of ON	(13)	-	-	(4)	-		(17)
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2016	752	(645)	(302)	(94)	(0.2)	906	617

Summary of impact based on proposed adjustments as at 31 March 2017 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.3%	50.0%		
Opening pension liability	(10,147)	1,385	(521)	872	16.7	(906)	(9,300)
Pension expenditure	(508)	518	132	621	198.7	*(69)*	893
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(12,290)	1,535	(608)	502	(0)	(975)	(11,836)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.3%	50.0%		
Opening pension liability	(9,395)	741	(823)	778	16.5	-	(8,683)
Pension expenditure	(381)	464	113	615	198.7	-	1,010
Less: portion of contributions allocated in excess of ON	40	-	-	(5)	0.5	-	36
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(11,371)	837	(929)	397	0	-	(11,066)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	752	(645)	(302)	(94)	(0.2)	906	617
Pension expenditure	127	(54)	(19)	(6)	-	69	117
Less: portion of contributions allocated in excess of ON	40.0	-	-	(5.0)	0.5	-	36
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2017	919	(698)	(321)	(105)	0.3	975	770

Summary of impact based on proposed adjustments_v2 (EY 29 May 2017).pdf

Summary of impact based on proposed adjustments - DRAFT

For illustration purposes only

Current	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016
Pension Liability - Continuity	50.0%	50.0%	100.0%	100.0%	50.0%	50.0%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(10,147)	1,208	1,385	(487)	(521)	1,056	872	28.5	16.7	(837)	(906)	(7,699)	(9,300)
Pension expenditure	118	(508)	538	518	180	132	761	621	194.3	198.7	(69)	(69)	1,722	893
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(10,147)	(12,290)	1,385	1,535	(521)	(608)	872	502	16.7	(0.1)	(906)	(975)	(9,300)	(11,836)

Proposed	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Pension Liability - Continuity	49.0%	49.0%	100.0%	100.0%	47.7%	47.7%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(9,395)	1,208	741	(487)	(823)	1,056	778	28.5	16.5	(837)	-	(7,699)	(8,683)
Opening balance adjustment (in aggregate)	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	837	-	462	-
Pension expenditure	232	(381)	560	464	155	113	754	615	194.3	198.7	-	-	1,895	1,010
Less: portion of contributions allocated in excess of ON	(13)	40		-	-	-	(4)	(5)	-	0.5	-	-	(17)	36
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(9,395)	(11,371)	740	837	(823)	(929)	778	397	16.5	0.2	-	-	(8,683)	(11,066)

Differences	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Opening pension liability	-	752	-	(645)	-	(302)	-	(94)	-	(0.2)	-	906	-	617
Opening balance adjustments at 1 April 2015	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	837	-	**462**	-
Pension expenditure	114	127	22	(54)	(25)	(19)	(7)	(6)	-	-	69	69	173	117
Less: portion of contributions allocated in excess of ON	(13)	40	-	-	-	-	(4)	(5)	-	0.5			(17)	36
Less: contributions made by ON	-	-	(0)	-	-	-	-	-	-	-	-	-	(0)	-
Ending fiscal pension liability, at 31 March 2017	752	919	(645)	(698)	(302)	(321)	(94)	(105)	(0.2)	0.3	906	975	617	770
F2016 differences, excluding opening balance adjustment		167		(54)		(19)		(11)		0.5		69		**153**

Commentary

1. Reflect all proposed adjustments (contribution receivable, unamortized contribution differences, cumulative transfer, reflect other participating employers)
2. Need to consider the treatment of recognizing difference between the portion of contributions included in assets and actual ON contributions
   For HOOPP, expense is subsequently determined based on the calculated opening and ending pension liability and actual contributions by other source. As such, it's implicitly included in pension expense (outside of calculation tool)
3. Pension expenditure for HOOPP reflects immediate gain/loss recognition arising from change in % allocation
   This is consistent with OPCD's current practice performed outside of the calculation spreadsheet
4. Increase of approximately $100M on OTPP's annual pension expense relates to removal of expected return on contribution receivable
5. F2016 Pension expense (income) for other agencies is estimated based on F2015 for illustration purposes
6. For other agencies, pension expense/(income) of $(69M) under current approach above includes $(47M) for Government Enterprises and $(22M) for Government Organizations
7. Above figures do not reflect asset ceiling test and the adjustment for the differential use of the Rate Stabilization Fund ("RSF") for OPSEUPP

RE_ Update.rtf

From: Petsche, Nadine (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: RE: Update
Date: Saturday, October 01, 2016 13:06:32

Thanks Kerry.

N

From: Danyluk, Kerry (CA - Toronto) [mailto:kdanyluk@deloitte.ca]
Sent: October 1, 2016 1:03 PM
To: Veinot, Cindy (TBS); Colley, Matthew (CA - Toronto); Petsche, Nadine (TBS)
Subject: Update

Just letting you all know that I have not heard anything yet.

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

--

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Friday, September 30, 2016 12:03 PM

To: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Cc: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Subject: RE: Statement of Facts and Assumptions (Final September 30).docx

We are ok with this statement.

I think there is a typo in one of the changes you made – top of page 3 of the doc you sent – 3rd line from the top – should be “make” vs. “makes”.

Thanks,

Cindy

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-30-16 11:48 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Danyluk, Kerry (CA - Toronto)
Subject: Statement of Facts and Assumptions (Final September 30).docx

Hi Nadine and Cindy,

Here is the statement of facts that we think should be included in the opinion. Can you please review and just ensure that you are ok with them in this final form? Kerry has updated Cindy on the status of our communication with the AG, but we figured we would send this to you one final time to confirm you are ok with these as well.

Thanks

Matt

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RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 18, 2017 18:08:41
Attachment 1: @

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Hi Nadine,

Please find attached the comparative figures for PSPP, OPSEUPP and CATTPP related to the year-end adjustments discussed.

We will provide similar exhibits for OTPP and HOOPP

Attachments:

image001.png (7 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20170621800566 7~201705182211110000~Z~008E1FCF5077FE69C1765D6E2FFF4191&AttachmentId=1image001.png

CATTPP - comparative figures (draft EY 18 May 2017).pdf (10 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20170621800566 7~201705182211110000~Z~008E1FCF5077FE69C1765D6E2FFF4191&AttachmentId=2CATTPP - comparative figures (draft EY 18 May 2017).pdf

PSPP - comparative figures (draft EY 18 May 2017).pdf (10 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20170621800566 7~201705182211110000~Z~008E1FCF5077FE69C1765D6E2FFF4191&AttachmentId=3PSPP - comparative figures (draft EY 18 May 2017).pdf

OPSEUPP - comparative figures (draft EY 18 May 2017).pdf (14 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=2017

06218005667~20170518221111000~Z~008E1FCF5077FE69C1765D6E2FFF4191&AttachmentId=4OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

RE_ Weekly Status Update.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Wednesday, May 17, 2017 15:24:58
Attachment 1: image001.png

Hi Nadine,

Christina and I have been working through the adjusted balance sheet and expense figures for the pension plans, as discussed. We expect to have our analysis to you tomorrow.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Shayan Jafrani
Sent: Monday, May 08, 2017 9:14 AM
To: 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <Uros.Karadzic@ca.ey.com>

Subject: RE: Weekly Status Update

Hi Nadine,

Your changes noted. Regarding the year-end adjustments, we expect to have the figures by May 17th as per the project plan attached (from Christina's earlier e-mail). The focus this week will be to confirm the appropriate treatment for each plan.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, May 05, 2017 8:13 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Thanks Shayan.

The list looks fine, but just a couple of comments as noted below.

Hope you have a great weekend too (despite the rain).

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-05-17 7:56 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Uros Karadzic
Subject: FW: Weekly Status Update

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3. Support on HOOPP related to indexation assumption for members who are assumed to take lump sum upon termination

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4. Review of draft ELHTs memo – OPCD

5. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY (hoping this can be done w.r.t. #1 above)

6. Research on other public plans as identified by EY– OPCD

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2. Excel tools update and provide OPCD with associated "audit checklist" (FYI - APFR team completing template developed based on checklist to document current year's activities)

3. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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image001.pdf

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To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 04, 2017 15:45:54
Attachment 1: image001.png

Hi Christina.

Can you please provide additional details w.r.t. the status of the asset ceiling work on OTPP and OPSEUPP, as well as an ETA. We have a status meeting with the OAG tomorrow, so it would be good to know.

Thanks in advance.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April 28, 2017 4:16 PM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani; Uros Karadzic
Subject: RE: Weekly Status Update

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1. Excel tools update and provide OPCD with associated “audit checklist”

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Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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CC: Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Monday, May 08, 2017 09:14:24
Attachment 1: image001.png
Attachment 2: Year-end adjustment projection plan (4 May 2017).pdf

---

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Shayan

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Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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image001.pdf

Year-end adjustment projection plan (4 May 2017).pdf

Project Plan (DRAFT)

OTB – Year-end adjustment analysis and narrative

Task	Target deadline
Project plan	Thursday, May 4, 2017
Skeleton outline	Thursday, May 4, 2017
Accounting treatment related to non-controlled and/or non-consolidated agencies • Summary and comparison among plans, and current accounting treatment applied by OPCD • Proposed adjustments • High level impact on proposed adjustments (without reflecting other adjustments)	Wednesday, May 10, 2017
Discuss and confirm decisions on adjustments related to other agencies	Friday, May 12, 2017
Comparative figures (1 April 2015 to 31 March 2017); by layers of adjustments and by plan	Wednesday, May 17, 2017
Narrative related to proposed adjustments	Friday, May 19, 2017
Draft memo for review and discussion	Wednesday, May 24, 2017
Final memo	Wednesday, May 31, 2017

Layers of adjustments include (OTPP, PSPP, OPSEUPP, HOOPP, CAATPP; as applicable):

1. Contribution receivable
2. Unamortized contribution differences
3. Unamortized cumulative transfers in historical years
4. Recognition related to non-controlled and/or non-consolidated agencies/other employers

The memo will not include adjustments to reflect:

1. Consistent approach related to market-related value of assets calculation
2. Adjustment for rate stabilization fund (OPSEUPP)

RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 04, 2017 16:01:40
Attachment 1: image001.png

Hi Nadine,

We are not aware of any outstanding items related to the asset ceiling work at the moment. Our previous documents were issued in draft versions for your team to review. We plan to finalize the memo subsequent to your team's review so that we can incorporate any changes/comments you may have.

If this is different from your expectation, please advise.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, May 04, 2017 3:46 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

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Nadine

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Regards,

Shayan

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Subject: RE: Weekly Status Update
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CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
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Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Date: Friday, April 28, 2017 16:15:40
Attachment 1: @

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Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we’ve missed something or if you would prefer to prio

Attachments:

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RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 18, 2017 18:08:41
Attachment 1: image001.png
Attachment 2: CATTPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 3: PSPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 4: OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

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Hi Nadine,

Please find attached the comparative figures for PSPP, OPSEUPP and CATTPP related to the year-end adjustments discussed.

We will provide similar exhibits for OTPP and HOOPP tomorrow, along with more detail narrative on each of the proposed adjustments.

Let us know if you have any questions or if you would like to discuss.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Shayan Jafrani
Sent: Wednesday, May 17, 2017 3:25 PM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic

<uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Hi Nadine,

Christina and I have been working through the adjusted balance sheet and expense figures for the pension plans, as discussed. We expect to have our analysis to you tomorrow.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Shayan Jafrani
Sent: Monday, May 08, 2017 9:14 AM
To: 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <Uros.Karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Hi Nadine,

Your changes noted. Regarding the year-end adjustments, we expect to have the figures by May 17th as per the project plan attached (from Christina's earlier e-mail). The focus this week will be to confirm the appropriate treatment for each plan.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, May 05, 2017 8:13 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Thanks Shayan.

The list looks fine, but just a couple of comments as noted below.

Hope you have a great weekend too (despite the rain).

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-05-17 7:56 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Uros Karadzic
Subject: FW: Weekly Status Update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Project plan related to year-end adjustment

2. Skeleton outline of year-end adjustment memo

3. Support on HOOPP related to indexation assumption for members who are assumed to take lump sum upon termination

In progress – next week

1. Meeting scheduled on May 10, 2017 related to asset ceiling

2. Meeting scheduled on May 10, 2017 related to ELHT (consideration outside of PS 3250/3255)

3. Year-end adjustment (per proposed project plan)

a. Accounting treatment related to non-controlled/non-consolidated

4. Review of draft ELHTs memo – OPCD

5. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY (hoping this can be done w.r.t. #1 above)

6. Research on other public plans as identified by EY– OPCD

Next week and after

1. Year-end adjustment: comparative figures, memo (possible to complete by mid-May?)

2. Excel tools update and provide OPCD with associated "audit checklist" (FYI - APFR team completing template developed based on checklist to document current year's activities)

3. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
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image001.pdf

CATTPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	7,877,201	8,226,900	3,938,600	4,113,450	3,938,600	4,113,450
Interest accrued on benefits	488,149	492,684	244,074	246,342	244,074	246,342
Total current period benefit cost (including past service)	252,800	272,800	126,400	136,400	126,400	136,400
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Cost of plan amendments (ROM transfers)	-	14,331	-	7,166	-	7,166
Less: Benefits paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Experience loss/(gain)	-	3,800	-	1,900	-	1,900
Change in assumptions (basis)	(4,815)	363,516	(2,408)	181,758	(2,408)	181,758
EOY DBO (actuary)	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Reconciliation of Assets - MVA (based on actuary's letter)						
BOY, Market value of assets	7,934,500	8,563,100	3,967,250	4,281,550	3,967,250	4,281,550
Contributions - employees	206,066	214,491	103,033	107,246	103,033	107,246
Contributions - employer	206,066	215,495	103,033	107,748	103,033	107,748
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Assets return	602,903	665,144	301,451	332,572	301,451	332,572
End of year, Market value of assets	8,563,100	9,340,100	4,281,550	4,670,050	4,281,550	4,670,050
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY, MRVA	7,379,800	8,027,600	3,689,900	4,013,800	3,689,900	4,013,800
Contributions and transfers	412,132	429,987	206,066	214,993	206,066	214,993
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit payment	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Expected return on assets (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Actuarial asset gain/(loss), in excess of EROA	1,084,143	1,247,156	542,072	623,578	542,072	623,578
EOY, MVRA	8,027,600	8,901,600	4,013,800	4,450,800	4,013,800	4,450,800
Pension Expense						
Current service cost (gross), including past service	252,800	272,800	126,400	136,400	126,400	136,400
Less employee contributions (in respect of current service cost)	(206,066)	(214,491)			-	-
Interest - obligation	488,149	492,684	244,074	246,342	244,074	246,342
Expected rate of return (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Amortization - (gains)/loss	109,872	88,579	54,936	44,290	54,936	44,290
Amortization of contribution differences	-	-	(119)	(39)	-	-
Change in valuation allowance	-	-	-	14,255	-	13,753
Expense/(Income)	182,714	154,560	194,271	198,742	194,390	198,279

Comparative figures: CATTP
Ending Fiscal 2016

	Current				Proposed	
(employer contributes 126% of employee contributions)					Contribution differences	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	7,877,201		3,938,600		3,938,600	
Less: pension fund assets, opening balance	(7,379,800)		(3,689,900)		########	
Pension liability (surplus) - BOY	497,401		248,700		248,700	
Unamortized experience losses (gains)	(440,620)		(220,310)		(220,310)	
Pension liability (asset) at BOY	56,781		28,390		28,390	
Unamortized difference in contributions (EE vs ON)	-		158		-	
Pension liability (asset) at BOY	56,781		28,548		28,390	
Opening balance adjustment (by layer)					(158)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Less: pension fund assets, closing balance	(8,027,600)	(8,901,600)	(4,013,800)	########	########	########
Pension deficit/(surplus) - EOY	199,300	154,300	99,650	77,150	99,650	77,150
Unamortized experience losses (gains)	(165,871)	(181,806)	(82,935)	(90,903)	(82,935)	(90,903)
Pension liability (asset) at EOY	33,429	(27,506)	16,715	(13,753)	16,715	(13,753)
Unamortized difference in contributions	-	-	39	(502)	-	-
Pension liability (asset) at Fiscal EOY	33,429	(27,506)	16,754	(14,255)	16,715	(13,753)
Valuation allowance			-	14,255	-	13,753
Pension liability (asset) at Fiscal EOY, after valuation allowance			16,754	-	16,715	-
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	56,781	33,429	28,548	16,754	28,548	16,715
opening balance adjustment (write-offs)	-	-	-	-	(158)	-
Adjusted opening balance liability	56,781	33,429	28,548	16,754	28,390	16,715
Pension expenditure	182,714	154,560	194,271	198,742	194,390	198,279
Less: x% of contribution (in excess of ON contributions)					-	502
Less: ON contributions	(206,066)	(215,495)	(206,066)	(215,495)	(206,066)	(215,495)
Ending Fiscal pension liability	33,429	(27,506)	16,754	(0)	16,715	(0)
Balance test	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:
1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - contributions are exactly 50/50 ever since 2006. Current adjustment are for under contribution (under 50%) prior to 2006, which could be a result of contribution policy (e.g. contribution holiday) but should not be an accounting impact
3. No adjustment for cumulative transfer

PSPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	22,215	23,147	22,215	23,147	22,215	23,147
Interest accrued on benefits	1,375	1,373	1,375	1,373	1,375	1,373
Current service cost (in respect of current period's accrual)	586	615	586	615	586	615
Past service cost - employee	29	38	29	38	29	38
Past service cost - employer	5	5	5	5	5	5
Transfers	111	85	111	85	111	85
Less: benefits paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Experience loss/(gain)	62	915	62	915	62	915
Change in assumptions (basis)	(59)	-	(59)	-	(59)	-
EOY DBO	23,147	24,934	23,147	24,934	23,147	24,934
Reconciliation of Assets - MVA						
BOY, Market value of assets	22,223	23,075	22,223	23,075	22,223	23,075
Contributions - employees (in respect of current service accrual)	290	302	290	302	290	302
Contributions - Ontario (total, except past service)	361	368	361	368	361	368
Contributions - other employers	48	53	48	53	48	53
Contributions - past service (employees and employers)	33	42	33	42	33	42
Transfers	111	85	111	85	111	85
Benefit paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Assets return	1,184	1,385	1,184	1,385	1,184	1,385
EOY, Market value of assets	23,075	24,066	23,075	24,066	23,075	24,066
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY	20,435	21,886	20,435	21,886	20,435	21,886
Contributions and transfers	843	851	843	851	843	851
Benefit payment	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Expected return on assets (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Actuarial asset gain/(loss)	3,051	2,670	3,051	2,670	3,051	2,670
EOY MVRA	21,886	22,861	21,886	22,861	21,886	22,861
Pension Expense						
Current service cost (Gross)	586	615	586	615	586	615
Less employee contributions (in respect of current service cost)	(290)	(302)	(290)	(302)	(290)	(302)
Less other employer contributions	-	-	-	-	(48)	(53)
Past service cost (employer, not contributed by ON)	5	5	5	5	-	-
Interest - obligation	1,375	1,373	1,375	1,373	1,375	1,373
Expected rate of return (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Amortization - (gains)/loss	203	132	203	132	203	132
Amortization of unwinding cumulative transfer reported as CSC in historical year	(74)	-	-	-	-	-
Expense/(Income)	538	522	612	522	560	464
check against current workbook	538	522				

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	22,215		22,215		22,215	
Less: pension fund assets, opening balance	(20,435)		(20,435)		(20,435)	
Pension liability (asset) at BOY	1,780		1,780		1,780	
Unamortized experience losses (gains)	(1,238)		(1,238)		(1,238)	
Pension liability (asset) at BOY	542		542		542	
Adjustment for cumulative transfer	74		-		-	
Adjustment for different year ends	592		592		-	
Pension liability (asset) at BOY	1,208		1,134		542	
Opening balance adjustment (by layer)			(74)		(592)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	23,147	24,934	23,147	24,934	23,147	24,934
Less: pension fund assets, closing balance	(21,886)	(22,861)	(21,886)	(22,861)	(21,886)	(22,861)
Pension liability (asset) at Fiscal EOY	1,261	2,073	1,261	2,073	1,261	2,073
Unamortized experience losses (gains)	(521)	(1,237)	(521)	(1,237)	(521)	(1,237)
Pension liability (asset) at Fiscal EOY	740	837	740	837	740	837
Adjustment for "different year ends"	644	702	644	702	-	-
Pension liability (asset) at Fiscal EOY	1,385	1,539	1,385	1,539	740	837
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	1,208	1,385	1,208	1,385	1,208	740
Opening adjustment (accumulative)	-	-	(74)	-	(666)	-
Adjusted opening balance liability	1,208	1,385	1,134	1,385	542	740
Periodic pension expenditure	538	522	612	522	560	464
Less: Ontario contributions	(361)	(368)	(361)	(368)	(361)	(368)
Ending Fiscal pension liability	1,385	1,539	1,385	1,539	740	837
balance test	0	0	0	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. no adjustment related to unamortized contribution differences
3. Cumulative transfer is fully amortized by end of Fiscal 2015
4. Adjustment to non-controlled/non-consolidated agencies represents:
   - Offset to expense to reflect participation of other employers
   - Removal of year-end adjustment is offset (almost fully) by the same removal of year-end adjustment to the consolidated other agencies

OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions														
BOY discount rate	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%
Reconciliation - Obligation														
BOY DBO	15,133	15,557	7,567	7,779	7,567	7,779	7,567	7,779	7,567	7,779	7,211	7,413	7,211	7,413
Interest accrued on benefits	969	958	484	479	484	479	484	479	484	479	462	456	462	456
Total current period benefit cost (including past service)	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Less: benefits paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Experience loss/(gain)	(202)	(65)	(101)	(33)	(101)	(33)	(101)	(33)	(101)	(33)	(96)	(31)	(96)	(31)
Change in assumptions (basis)	124	610	62	305	62	305	62	305	62	305	59	291	59	291
EOY DBO (actuary)	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Reconciliation of Assets - MVA (based on actuary's letter)														
BOY, Market value of assets	17,481	18,399	8,741	9,200	8,741	9,200	8,741	9,200	8,741	9,200	8,330	8,767	8,330	8,767
Contributions - employees	241	259	121	130	121	130	121	130	121	130	115	123	115	123
Contributions - Ontario	214	219	107	109	107	109	107	109	107	109	102	104	102	104
Contributions - other participating employers	51	31	26	16	26	16	26	16	26	16	24	15	24	15
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Assets return	1,293	876	647	438	647	438	647	438	647	438	616	417	616	417
End of year, Market value of assets	18,399	18,904	9,200	9,452	9,200	9,452	9,200	9,452	9,200	9,452	8,767	9,008	8,767	9,008
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)														
BOY, MRVA	16,370	17,380	8,185	8,690	8,185	8,690	8,185	8,690	8,185	8,690	7,800	8,282	7,800	8,282
Contributions and transfers	506	509	253	255	253	255	253	255	253	255	241	243	241	243
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit payment	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Expected return on assets (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Actuarial asset gain/(loss), in excess of EROA	2,437	2,481	1,218	1,240	1,218	1,240	1,218	1,240	1,218	1,240	1,161	1,182	1,161	1,182
EOY, MVRA	17,380	18,415	8,690	9,208	8,690	9,208	8,690	9,208	8,690	9,208	8,282	8,775	8,282	8,775
Pension Expense														
Current service cost (gross), including past service	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Less employer contribution (consolidated agencies)													(27)	(24)
Less employee contributions (in respect of current service cost)	(241)	(259)			-	-	-	-	-	-				
Interest - obligation	969	958	484	479	484	479	484	479	484	479	461	456	461	456
Expected rate of return (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Amortization - (gains)/losses	51	(11)	26	(6)	26	(6)	26	(6)	26	(6)	24	(5)	24	(5)
Amortization of cumulative transfers	(11)	(11)	(6)	(6)	(6)	(6)	-	-	-	-	-	-	-	-
Amortization of contribution differences	-	-	(5)	(7)	-	-	-	-	-	-	-	-	-	-
Expense/(Income)	129	18	180	132	185	139	191	144	191	144	182	137	155	113

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)														
Accrued benefit obligation, opening balance	15,133		7,567		7,567		7,567		7,567		7,211		7,211	
Less: pension fund assets, opening balance	(16,370)		(8,185)		(8,185)		(8,185)		(8,185)		(7,800)		(7,800)	
Pension liability (surplus) - BOY	(1,237)		(619)		(619)		(619)		(619)		(589)		(589)	
Unamortized experience losses (gains)	(366)		(183)		(183)		(183)		(183)		(174)		(174)	
Pension liability (asset) at BOY	(1,603)		(802)		(802)		(802)		(802)		(764)		(764)	
Unamortized losses (gains) for cumulative transfers	35		17		17		-		-					
Adjustment for contributions (other employer)	508		254		254		254		-		-		-	
Unamortized difference in contributions (EE vs ON)	-		43		-		-		-		-		-	
Pension liability (asset) at BOY	(1,060)		(487)		(530)		(547)		(802)		(764)		(764)	
							-		-					
Opening balance adjustment (by layer)					**(43)**		**(17)**		**(254)**		**38**		**-**	
Pension Liability - Ending														
Accrued benefit obligation, closing balance	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Less: pension fund assets, closing balance	(17,380)	(18,415)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,282)	(8,775)	(8,282)	(8,775)
Pension deficit/(surplus) - EOY	(1,823)	(1,819)	(912)	(910)	(912)	(910)	(912)	(910)	(912)	(910)	(869)	(867)	(869)	(867)
Unamortized experience losses (gains)	96	(129)	48	(65)	48	(65)	48	(65)	48	(65)	46	(62)	46	(62)
Pension liability (asset) at EOY	(1,727)	(1,948)	(864)	(974)	(864)	(974)	(864)	(974)	(864)	(974)	(823)	(928)	(823)	(928)
Unamortized losses (gains) for cumulative transfers	24	12	12	6	12	6	-	-	-	-				
Adjustment for other employer contributions	559	591	280	295	280	295	280	295	-	-	-	-	-	-
Unamortized difference in contributions	-	-	52	65	-	-	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY	(1,145)	(1,345)	(521)	(607)	(573)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
			(520)	(607)										
Pension Liability - Continuity (fiscal year)														
Opening Fiscal pension liability	(1,060)	(1,145)	(487)	(520)	(487)	(572)	(487)	(584)	(487)	(864)	(487)	(823)	(487)	(823)
opening balance adjustment (write-offs)	-	-	-	-	(43)	-	(61)	-	(315)	-	(277)	-	(277)	-
Adjusted opening balance liability	(1,060)	(1,145)	(487)	(520)	(530)	(572)	(547)	(584)	(802)	(864)	(764)	(823)	(764)	(823)
Pension expenditure	129	18	180	132	185	139	191	144	191	144	182	137	155	113
Less: x% of contribution (in excess of ON contributions)					(14)	(20)	(14)	(20)	(39)	(36)	(27)	(24)	-	-
Less: ON contributions	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)
Ending Fiscal pension liability	(1,145)	(1,345)	(520)	(607)	(572)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
balance test	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a comparison between ON contributions and total employee contributions (which includes portion in respect of other employers)
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 47.7% to reflect participation of non-consolidated employers (consistent with HOOPP)
5. Reduce expense (similar to PSPP) by contributions made by consolidated employer (estimated)

RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 18, 2017 18:08:41
Attachment 1: image001.png
Attachment 2: CATTPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 3: PSPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 4: OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

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Hi Nadine,

Please find attached the comparative figures for PSPP, OPSEUPP and CATTPP related to the year-end adjustments discussed.

We will provide similar exhibits for OTPP and HOOPP tomorrow, along with more detail narrative on each of the proposed adjustments.

Let us know if you have any questions or if you would like to discuss.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Shayan Jafrani
Sent: Wednesday, May 17, 2017 3:25 PM
To: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic

<uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Hi Nadine,

Christina and I have been working through the adjusted balance sheet and expense figures for the pension plans, as discussed. We expect to have our analysis to you tomorrow.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Shayan Jafrani
Sent: Monday, May 08, 2017 9:14 AM
To: 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <Uros.Karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Hi Nadine,

Your changes noted. Regarding the year-end adjustments, we expect to have the figures by May 17th as per the project plan attached (from Christina's earlier e-mail). The focus this week will be to confirm the appropriate treatment for each plan.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, May 05, 2017 8:13 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Thanks Shayan.

The list looks fine, but just a couple of comments as noted below.

Hope you have a great weekend too (despite the rain).

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-05-17 7:56 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Uros Karadzic
Subject: FW: Weekly Status Update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Project plan related to year-end adjustment

2. Skeleton outline of year-end adjustment memo

3. Support on HOOPP related to indexation assumption for members who are assumed to take lump sum upon termination

In progress – next week

1. Meeting scheduled on May 10, 2017 related to asset ceiling

2. Meeting scheduled on May 10, 2017 related to ELHT (consideration outside of PS 3250/3255)

3. Year-end adjustment (per proposed project plan)

a. Accounting treatment related to non-controlled/non-consolidated

4. Review of draft ELHTs memo – OPCD

5. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY (hoping this can be done w.r.t. #1 above)

6. Research on other public plans as identified by EY– OPCD

Next week and after

1. Year-end adjustment: comparative figures, memo (possible to complete by mid-May?)

2. Excel tools update and provide OPCD with associated "audit checklist" (FYI - APFR team completing template developed based on checklist to document current year's activities)

3. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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image001.pdf

CATTPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	7,877,201	8,226,900	3,938,600	4,113,450	3,938,600	4,113,450
Interest accrued on benefits	488,149	492,684	244,074	246,342	244,074	246,342
Total current period benefit cost (including past service)	252,800	272,800	126,400	136,400	126,400	136,400
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Cost of plan amendments (ROM transfers)	-	14,331	-	7,166	-	7,166
Less: Benefits paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Experience loss/(gain)	-	3,800	-	1,900	-	1,900
Change in assumptions (basis)	(4,815)	363,516	(2,408)	181,758	(2,408)	181,758
EOY DBO (actuary)	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Reconciliation of Assets - MVA (based on actuary's letter)						
BOY, Market value of assets	7,934,500	8,563,100	3,967,250	4,281,550	3,967,250	4,281,550
Contributions - employees	206,066	214,491	103,033	107,246	103,033	107,246
Contributions - employer	206,066	215,495	103,033	107,748	103,033	107,748
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Assets return	602,903	665,144	301,451	332,572	301,451	332,572
End of year, Market value of assets	8,563,100	9,340,100	4,281,550	4,670,050	4,281,550	4,670,050
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY, MRVA	7,379,800	8,027,600	3,689,900	4,013,800	3,689,900	4,013,800
Contributions and transfers	412,132	429,987	206,066	214,993	206,066	214,993
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit payment	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Expected return on assets (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Actuarial asset gain/(loss), in excess of EROA	1,084,143	1,247,156	542,072	623,578	542,072	623,578
EOY, MVRA	8,027,600	8,901,600	4,013,800	4,450,800	4,013,800	4,450,800
Pension Expense						
Current service cost (gross), including past service	252,800	272,800	126,400	136,400	126,400	136,400
Less employee contributions (in respect of current service cost)	(206,066)	(214,491)			-	-
Interest - obligation	488,149	492,684	244,074	246,342	244,074	246,342
Expected rate of return (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Amortization - (gains)/loss	109,872	88,579	54,936	44,290	54,936	44,290
Amortization of contribution differences	-	-	(119)	(39)	-	-
Change in valuation allowance	-	-	-	14,255	-	13,753
Expense/(Income)	182,714	154,560	194,271	198,742	194,390	198,279

Comparative figures: CATTP
Ending Fiscal 2016

	Current				Proposed	
(employer contributes 126% of employee contributions)					Contribution differences	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	7,877,201		3,938,600		3,938,600	
Less: pension fund assets, opening balance	(7,379,800)		(3,689,900)		########	
Pension liability (surplus) - BOY	497,401		248,700		248,700	
Unamortized experience losses (gains)	(440,620)		(220,310)		(220,310)	
Pension liability (asset) at BOY	56,781		28,390		28,390	
Unamortized difference in contributions (EE vs ON)	-		158		-	
Pension liability (asset) at BOY	56,781		28,548		28,390	
Opening balance adjustment (by layer)					(158)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Less: pension fund assets, closing balance	(8,027,600)	(8,901,600)	(4,013,800)	########	########	########
Pension deficit/(surplus) - EOY	199,300	154,300	99,650	77,150	99,650	77,150
Unamortized experience losses (gains)	(165,871)	(181,806)	(82,935)	(90,903)	(82,935)	(90,903)
Pension liability (asset) at EOY	33,429	(27,506)	16,715	(13,753)	16,715	(13,753)
Unamortized difference in contributions	-	-	39	(502)	-	-
Pension liability (asset) at Fiscal EOY	33,429	(27,506)	16,754	(14,255)	16,715	(13,753)
Valuation allowance			-	14,255	-	13,753
Pension liability (asset) at Fiscal EOY, after valuation allowance			16,754	-	16,715	-
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	56,781	33,429	28,548	16,754	28,548	16,715
opening balance adjustment (write-offs)	-	-	-	-	(158)	-
Adjusted opening balance liability	56,781	33,429	28,548	16,754	28,390	16,715
Pension expenditure	182,714	154,560	194,271	198,742	194,390	198,279
Less: x% of contribution (in excess of ON contributions)					-	502
Less: ON contributions	(206,066)	(215,495)	(206,066)	(215,495)	(206,066)	(215,495)
Ending Fiscal pension liability	33,429	(27,506)	16,754	(0)	16,715	(0)
Balance test	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:
1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - contributions are exactly 50/50 ever since 2006. Current adjustment are for under contribution (under 50%) prior to 2006, which could be a result of contribution policy (e.g. contribution holiday) but should not be an accounting impact
3. No adjustment for cumulative transfer

PSPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	22,215	23,147	22,215	23,147	22,215	23,147
Interest accrued on benefits	1,375	1,373	1,375	1,373	1,375	1,373
Current service cost (in respect of current period's accrual)	586	615	586	615	586	615
Past service cost - employee	29	38	29	38	29	38
Past service cost - employer	5	5	5	5	5	5
Transfers	111	85	111	85	111	85
Less: benefits paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Experience loss/(gain)	62	915	62	915	62	915
Change in assumptions (basis)	(59)	-	(59)	-	(59)	-
EOY DBO	23,147	24,934	23,147	24,934	23,147	24,934
Reconciliation of Assets - MVA						
BOY, Market value of assets	22,223	23,075	22,223	23,075	22,223	23,075
Contributions - employees (in respect of current service accrual)	290	302	290	302	290	302
Contributions - Ontario (total, except past service)	361	368	361	368	361	368
Contributions - other employers	48	53	48	53	48	53
Contributions - past service (employees and employers)	33	42	33	42	33	42
Transfers	111	85	111	85	111	85
Benefit paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Assets return	1,184	1,385	1,184	1,385	1,184	1,385
EOY, Market value of assets	23,075	24,066	23,075	24,066	23,075	24,066
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY	20,435	21,886	20,435	21,886	20,435	21,886
Contributions and transfers	843	851	843	851	843	851
Benefit payment	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Expected return on assets (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Actuarial asset gain/(loss)	3,051	2,670	3,051	2,670	3,051	2,670
EOY MVRA	21,886	22,861	21,886	22,861	21,886	22,861
Pension Expense						
Current service cost (Gross)	586	615	586	615	586	615
Less employee contributions (in respect of current service cost)	(290)	(302)	(290)	(302)	(290)	(302)
Less other employer contributions	-	-	-	-	(48)	(53)
Past service cost (employer, not contributed by ON)	5	5	5	5	-	-
Interest - obligation	1,375	1,373	1,375	1,373	1,375	1,373
Expected rate of return (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Amortization - (gains)/loss	203	132	203	132	203	132
Amortization of unwinding cumulative transfer reported as CSC in historical year	(74)	-	-	-	-	-
Expense/(Income)	538	522	612	522	560	464
check against current workbook	538	522				

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	22,215		22,215		22,215	
Less: pension fund assets, opening balance	(20,435)		(20,435)		(20,435)	
Pension liability (asset) at BOY	1,780		1,780		1,780	
Unamortized experience losses (gains)	(1,238)		(1,238)		(1,238)	
Pension liability (asset) at BOY	542		542		542	
Adjustment for cumulative transfer	74		-		-	
Adjustment for different year ends	592		592		-	
Pension liability (asset) at BOY	1,208		1,134		542	
Opening balance adjustment (by layer)			(74)		(592)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	23,147	24,934	23,147	24,934	23,147	24,934
Less: pension fund assets, closing balance	(21,886)	(22,861)	(21,886)	(22,861)	(21,886)	(22,861)
Pension liability (asset) at Fiscal EOY	1,261	2,073	1,261	2,073	1,261	2,073
Unamortized experience losses (gains)	(521)	(1,237)	(521)	(1,237)	(521)	(1,237)
Pension liability (asset) at Fiscal EOY	740	837	740	837	740	837
Adjustment for "different year ends"	644	702	644	702	-	-
Pension liability (asset) at Fiscal EOY	1,385	1,539	1,385	1,539	740	837
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	1,208	1,385	1,208	1,385	1,208	740
Opening adjustment (accumulative)	-	-	(74)	-	(666)	-
Adjusted opening balance liability	1,208	1,385	1,134	1,385	542	740
Periodic pension expenditure	538	522	612	522	560	464
Less: Ontario contributions	(361)	(368)	(361)	(368)	(361)	(368)
Ending Fiscal pension liability	1,385	1,539	1,385	1,539	740	837
balance test	0	0	0	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. no adjustment related to unamortized contribution differences
3. Cumulative transfer is fully amortized by end of Fiscal 2015
4. Adjustment to non-controlled/non-consolidated agencies represents:
   - Offset to expense to reflect participation of other employers
   - Removal of year-end adjustment is offset (almost fully) by the same removal of year-end adjustment to the consolidated other agencies

OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions														
BOY discount rate	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%
Reconciliation - Obligation														
BOY DBO	15,133	15,557	7,567	7,779	7,567	7,779	7,567	7,779	7,567	7,779	7,211	7,413	7,211	7,413
Interest accrued on benefits	969	958	484	479	484	479	484	479	484	479	462	456	462	456
Total current period benefit cost (including past service)	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Less: benefits paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Experience loss/(gain)	(202)	(65)	(101)	(33)	(101)	(33)	(101)	(33)	(101)	(33)	(96)	(31)	(96)	(31)
Change in assumptions (basis)	124	610	62	305	62	305	62	305	62	305	59	291	59	291
EOY DBO (actuary)	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Reconciliation of Assets - MVA (based on actuary's letter)														
BOY, Market value of assets	17,481	18,399	8,741	9,200	8,741	9,200	8,741	9,200	8,741	9,200	8,330	8,767	8,330	8,767
Contributions - employees	241	259	121	130	121	130	121	130	121	130	115	123	115	123
Contributions - Ontario	214	219	107	109	107	109	107	109	107	109	102	104	102	104
Contributions - other participating employers	51	31	26	16	26	16	26	16	26	16	24	15	24	15
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Assets return	1,293	876	647	438	647	438	647	438	647	438	616	417	616	417
End of year, Market value of assets	18,399	18,904	9,200	9,452	9,200	9,452	9,200	9,452	9,200	9,452	8,767	9,008	8,767	9,008
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)														
BOY, MRVA	16,370	17,380	8,185	8,690	8,185	8,690	8,185	8,690	8,185	8,690	7,800	8,282	7,800	8,282
Contributions and transfers	506	509	253	255	253	255	253	255	253	255	241	243	241	243
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit payment	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Expected return on assets (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Actuarial asset gain/(loss), in excess of EROA	2,437	2,481	1,218	1,240	1,218	1,240	1,218	1,240	1,218	1,240	1,161	1,182	1,161	1,182
EOY, MVRA	17,380	18,415	8,690	9,208	8,690	9,208	8,690	9,208	8,690	9,208	8,282	8,775	8,282	8,775
Pension Expense														
Current service cost (gross), including past service	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Less employer contribution (consolidated agencies)													(27)	(24)
Less employee contributions (in respect of current service cost)	(241)	(259)			-	-	-	-	-	-				
Interest - obligation	969	958	484	479	484	479	484	479	484	479	461	456	461	456
Expected rate of return (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Amortization - (gains)/losses	51	(11)	26	(6)	26	(6)	26	(6)	26	(6)	24	(5)	24	(5)
Amortization of cumulative transfers	(11)	(11)	(6)	(6)	(6)	(6)	-	-	-	-	-	-	-	-
Amortization of contribution differences	-	-	(5)	(7)	-	-	-	-	-	-	-	-	-	-
Expense/(Income)	129	18	180	132	185	139	191	144	191	144	182	137	155	113

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)														
Accrued benefit obligation, opening balance	15,133		7,567		7,567		7,567		7,567		7,211		7,211	
Less: pension fund assets, opening balance	(16,370)		(8,185)		(8,185)		(8,185)		(8,185)		(7,800)		(7,800)	
Pension liability (surplus) - BOY	(1,237)		(619)		(619)		(619)		(619)		(589)		(589)	
Unamortized experience losses (gains)	(366)		(183)		(183)		(183)		(183)		(174)		(174)	
Pension liability (asset) at BOY	(1,603)		(802)		(802)		(802)		(802)		(764)		(764)	
Unamortized losses (gains) for cumulative transfers	35		17		17		-		-					
Adjustment for contributions (other employer)	508		254		254		254		-		-		-	
Unamortized difference in contributions (EE vs ON)	-		43		-		-		-		-		-	
Pension liability (asset) at BOY	(1,060)		(487)		(530)		(547)		(802)		(764)		(764)	
							-		-					
Opening balance adjustment (by layer)					**(43)**		**(17)**		**(254)**		**38**		**-**	
Pension Liability - Ending														
Accrued benefit obligation, closing balance	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Less: pension fund assets, closing balance	(17,380)	(18,415)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,282)	(8,775)	(8,282)	(8,775)
Pension deficit/(surplus) - EOY	(1,823)	(1,819)	(912)	(910)	(912)	(910)	(912)	(910)	(912)	(910)	(869)	(867)	(869)	(867)
Unamortized experience losses (gains)	96	(129)	48	(65)	48	(65)	48	(65)	48	(65)	46	(62)	46	(62)
Pension liability (asset) at EOY	(1,727)	(1,948)	(864)	(974)	(864)	(974)	(864)	(974)	(864)	(974)	(823)	(928)	(823)	(928)
Unamortized losses (gains) for cumulative transfers	24	12	12	6	12	6	-	-	-	-				
Adjustment for other employer contributions	559	591	280	295	280	295	280	295	-	-	-	-	-	-
Unamortized difference in contributions	-	-	52	65	-	-	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY	(1,145)	(1,345)	(521)	(607)	(573)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
			(520)	(607)										
Pension Liability - Continuity (fiscal year)														
Opening Fiscal pension liability	(1,060)	(1,145)	(487)	(520)	(487)	(572)	(487)	(584)	(487)	(864)	(487)	(823)	(487)	(823)
opening balance adjustment (write-offs)	-	-	-	-	(43)	-	(61)	-	(315)	-	(277)	-	(277)	-
Adjusted opening balance liability	(1,060)	(1,145)	(487)	(520)	(530)	(572)	(547)	(584)	(802)	(864)	(764)	(823)	(764)	(823)
Pension expenditure	129	18	180	132	185	139	191	144	191	144	182	137	155	113
Less: x% of contribution (in excess of ON contributions)					(14)	(20)	(14)	(20)	(39)	(36)	(27)	(24)	-	-
Less: ON contributions	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)
Ending Fiscal pension liability	(1,145)	(1,345)	(520)	(607)	(572)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
balance test	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a comparison between ON contributions and total employee contributions (which includes portion in respect of other employers)
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 47.7% to reflect participation of non-consolidated employers (consistent with HOOPP)
5. Reduce expense (similar to PSPP) by contributions made by consolidated employer (estimated)

RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Thursday, May 04, 2017 16:01:40
Attachment 1: image001.png

Hi Nadine,

We are not aware of any outstanding items related to the asset ceiling work at the moment. Our previous documents were issued in draft versions for your team to review. We plan to finalize the memo subsequent to your team's review so that we can incorporate any changes/comments you may have.

If this is different from your expectation, please advise.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, May 04, 2017 3:46 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: Weekly Status Update

Hi Christina.

Can you please provide additional details w.r.t. the status of the asset ceiling work on OTPP and OPSEUPP, as well as an ETA. We have a status meeting with the OAG tomorrow, so it would be good to know.

Thanks in advance.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: April 28, 2017 4:16 PM
To: Petsche, Nadine (TBS)
Cc: Shayan Jafrani; Uros Karadzic
Subject: RE: Weekly Status Update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. n/a

In progress – next week

1. "regroup on pension items" meeting scheduled on May 2, 2017, items include:

a. Analysis related to balance sheet adjustment

b. Summary of accounting treatment by type of plans (to be provided by EY)

2. Review of draft ELHTs memo – OPCD

3. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

4. Research on other public plans as identified by EY– OPCD

5. Continue to assist with the balance sheet adjustment, as needed – EY & OPCD

Next week and after

1. Excel tools update and provide OPCD with associated "audit checklist"

2. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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image001.pdf

RE_ Weekly Status Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly Status Update
Date: Friday, April 28, 2017 16:15:40
Attachment 1: @

This message has been archived. View the original item
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=201705306153124~201704282015430000~Z~9074452B3A87119A0D4BD7EAB3384F01View the original item

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we’ve missed something or if you would prefer to prio

Attachments:

image001.png (7 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=201705306153124~201704282015430000~Z~9074452B3A87119A0D4BD7EAB3384F01&AttachmentId=1image001.png

RE_ Weekly update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly update
Date: Monday, May 29, 2017 16:55:14
Attachment 1: image001.png
Attachment 2: Briefing Note - ELHTs (May 12 2017)_For EY Review.docx

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Hi Nadine,

For ELHTs, we do not believe further edits are required to the “briefing note on TBS letterhead” (attached) after reviewing the AG’s response letter. Let us know if you require anything from us to close off this item.

For “SERP/SRA reporting”, we are referring to the non-registered supplemental plans. Given the size of these plans, we put them as low priorities. However, we have identified potential issues related to the reporting of these plans (e.g. cost method used, setup of the PSSP spreadsheet). We are happy to assist with refining/improving existing models so that they are better align with PSAB requirements.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, May 27, 2017 9:40 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>

Subject: RE: Weekly update

Thanks Shayan.

Please see my comments below. Hope you all have a great weekend too!

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-26-17 7:33 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Christina Chan
Subject: Weekly update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Meeting to discuss proposed year-end adjustments and comparative figures

2. Summary of impact related to proposed year-end adjustments exhibits (We are still awaiting feedback from the OAG on our direction, and in the meantime we will plan to meet with Cindy to review the results).

In progress – next week

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions on proposed year-end adjustments (see above)

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Review of draft ELHTs memo – can this be closed now or is anything further required? (Please confirm that no further edits required as result of OAG memo – see attached. If not, then we can consider the matter closed.)

4. Research on other public plans as identified by EY– OPCD (OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)

Next week and after

1. Support related to excel tools update and provide OPCD with associated "audit checklist" *(OPCD APFR team completing template developed based on EY checklist to document current year's activities)*

2. SERP/SRAs reporting (please remind me of these acronyms)

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Briefing Note - ELHTs (May 12 2017)_For EY Review.pdf

Information Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting Branch

Accounting Treatment - Employee Life and Health Trusts

Issue

To determine the accounting treatment related to the provision of benefits from the Employee Life and Health Trusts ("ELHTs") under public sector accounting standards.

Background

Historically, health, life and dental benefits were provided to employees in Ontario's educator sector through a multitude of individual plans administered separately by Ontario School Boards. To improve the cost-efficiency and delivery of benefits, individual benefit plans are now consolidated into six Employee Life and Health Trusts[1], each covering a certain group of employees. Each ELHT is established to meet the definition of an ELHT under the Income Tax Act Sc. 144.1. Benefits are provided through a joint governance structure between the bargaining/employee groups, school board trustees associations and the Government of Ontario under the ELHTs.

The ELHTs are intended to provide benefits to employees during their employment years. There are also separate retiree provisions intended to provide access to benefits for retirees. Funds will be provided to the Trusts by the School Boards in accordance to negotiated agreement terms and will not be variable during the term of the applicable term, and will be expected to manage the allotted pool of funds to administering health related payments to beneficiaries. It is understood that any funding obligations for the Province for prescribed retirees, active members or members on long-term disability continues under the terms of the negotiated labour agreements (i.e. not variable based on actual experience for the period). See Appendix A for the different member groups and their respective benefit entitlements.

Accounting treatment

Paragraphs 011 – 012 of PSAB 3250 (see Appendix B) discuss the classification of benefit plans as either Defined Benefit ("DB") or Defined Contribution ("DC"). Further, in accordance with 3250.014, a government would determine its obligation for the defined benefit component of the plan as a defined benefit plan and the defined contribution component of the plan as a defined contribution plan.

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[1] OECTA, ETFO, AEFO, OSSTF Trust Agreements have been formally signed; CUPE and PVP/Non-union are to be finalized.

Considering the different provisions applicable to member groups and PSAB 3250.011 – 3250.012, the benefits provided through the ELHTs have been assessed as including defined benefit provisions in respect of covered retiree groups. Active member benefits do not fall in the scope of PSAB 3250/3255. Specifically:

- *Active*: Benefits/costs relating to current active members do not fall under the scope of PS 3250 (Retirement Benefits) or PS 3255 Retirement Benefits (Post-employment benefits, compensated absences and termination benefits). The scope of these sections cover benefits payable in retirement, after employment but before retirement, or compensated absences or termination benefits. Costs relating to providing benefits to active members during employment would be expensed annually in amounts equal to the fixed contribution. Further, as current active members are not eligible for subsidized benefits upon retirement (i.e. they pay for the entire cost of the post-retirement coverage without any cost to the employer), there is also no post-retirement obligation. To the extent that members on long-term disability are also eligible to receive benefits from the ELHT, a defined benefit obligation may need to be recognized under PS3255 in respect of expected future contributions over the anticipated period of long-term disability in respect of disabled employees.

- "*Pre-August 2013 Retirees*: The provisions relating to certain members who retired prior to August 31, 2013 would be classified as DB provisions as the boards are at risk with respect to the amount of benefits these employees will receive. These risks include the possibility of higher/lower than expected claims, or greater/less than expected longevity. We understand that the school boards have historically reported defined benefit obligations in respect of the ongoing commitment to subsidize retiree benefits for members in this group and will continue to do so subsequent to the transition to the ELHTs. This is appropriate as the ELHTs would be reimbursed by the boards for any contribution requirement to make up for the deficit in providing the coverage for these members.

- "*Post-August 2013 Retirees*: By contrast, there is no cost to the school boards relating to members retiring after August 31, 2013. The entire cost is borne by retirees and the school boards are not required to make any additional contributions in the future in the event of any shortfall. School board contributions are not subject to any actuarial risk. Rather, all risks are borne by the retirees. In the event that funds are insufficient to pay for benefits, the trust agreements outline measures to address those deficiencies. The measures include the application of reserves, increases to member contributions and a reduction in benefits. None of the measures require any additional contributions from the school boards.

Therefore, there is a defined benefit obligation only in relation to the benefit entitlement for

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the subsidies provided to certain members retired prior to August 31, 2013. In addition, there may be a defined benefit obligation in respect of members on long-term disability to the extent that the ELHT covers such members. A comparison with Shared Risk Pension Plans has been considered (see Appendix C) and there is no cost for school boards for members retiring after August 31, 2013 and therefore the boards would not record a post-retirement obligation.

It was also considered whether the establishment of the ELHTs might create additional liabilities for the Province under Section PS 3200 Liabilities. The characteristics of a liability are included in paragraph PS 3200.05 (see Appendix D). Costs relating to active employees are paid to the Trusts in the current period in accordance with the agreements. A liability requires a transaction or event obligating the Province to have already occurred. There are no additional costs to be paid by the Province for active employees for which a transaction or event has occurred obligating the Province. Therefore, it was determined that the nature of the arrangements with the Trusts would not, under existing labour agreements, create any incremental liabilities for the government. However, it was noted that the status of any on-going labour negotiations at future fiscal year-ends would need to be considered in determining whether the government had demonstrably committed to fund health-related benefits which are retroactively applicable.

Otherwise, the School Boards' reported liabilities at March 31st would only relate to current amounts owed to the trusts based on the agreements. As liabilities for employees on LTD and pre-August 2013 retirees are already reported on the School Boards' books, the School Board's books would also reflect an appropriate draw down for estimated in-year costs associated with these groups (i.e. not reported as expenses in the period).

Conclusion

Based on a review of the Trust agreements and Letters of Agreement for the ELHTs, and Sections PS 3200, 3250 and 3255 of the PSA Handbook, the Province should account for the benefits in the ELHTs as follows:

- In accordance with PS 3255.02, a defined benefit obligation should continue to be recorded for the subsidies provided to certain members retired prior to August 31, 2013;
- In accordance with PS 3255.02, a defined benefit obligation should also continue to be recorded for members on long-term disability;
- Benefits/costs relating to current active members do not fall under the scope of PS 3250 or PS 3255. The school board's liability only relates to current amounts owed to the trusts based on the agreements. These amounts would be paid in the current period. Therefore there is no liability to be recorded under PS 3200.05 by the Province. If subsequent labour negotiations result in higher funding requirements, increased expenses would be reported in the future; and
- There is no cost to the school boards and Province relating to members retiring after August 31, 2013. The entire cost is borne by retirees. Therefore there is no

obligation to be recorded by the Province.

Appendix A – Member groups

The three groups of members with different benefit entitlements under the ELHTs are:

- *"Active":* *approximately 211,000 members*
- "Pre-August 2013 Retirees"[2]: approximately 5,700 members
- "Post-August 2013 Retirees"[3]: approximately: 1,400+ members

For current Active employees, the contributions by the boards to the ELHTs are fixed and negotiated during bargaining. Annual contribution amounts required from the boards per full-time employee are pre-determined for the period covered by collective bargaining agreements. Upon retirement, active members may be eligible for retiree benefits at full cost and they are not eligible for any cost subsidization (i.e. provisions for Post-August 2013 Retirees).

Certain members who retired prior to August 31, 2013 are eligible for a partial or full subsidization of benefit costs from the board, based on prior arrangements with their employer. The members are eligible to participate in the ELHTs until age 65 (with the exception of a small group who are eligible for lifetime coverage).

All members retiring after August 31, 2013 are eligible to participate in the ELHT through a Voluntary Plan and Separate Account. However, they are responsible for the entire cost of benefits. They are not eligible for any cost subsidization.

According to the ELHT Trust Agreements Article 6, "the Trustees may establish any number of Separate Accounts within the Fund. The assets in each Separate Account shall be held as segregated funds and used for the provision of Benefits, in accordance with the terms of a Plan, to a discrete and identifiable group of Participating Employees". Based on the benefit entitlements described above, a Separate Account is expected to be established for the Active members and a Separate Account is established for the Pre-August 2013 Retirees. Therefore, there is no cross-subsidy. For example, retiree costs are not cross-subsidized by premiums paid in respect of Active employees.

The Trust agreement state that any surpluses in a Separate Account may be used to increase Claims Fluctuations Reserve ("CFR"), enhance benefits, or reduce employee contributions. Conversely, any deficiencies in the trust may require the use of the CFR, amendment to benefit (reduction), or an increase to employee contribution levels.

For the Pre-August 2013 Retirees group, it is our understanding that if there is a funding deficiencies in the Separate Account for this group, the school board will be required to contribute and reimburse the Trust to make up the funding shortfall ("chargeback").

[2] Members retiring prior to 31 August 2013

[3] Members retiring after 31 August 2013

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Appendix B – Public Sector Accounting Board ("PSAB") 3250 Retirement Benefits (applicable excerpts)

.11 Two types of benefit plans are addressed in this Section — defined benefit plans and defined contribution plans. A defined benefit plan is one that specifies either the benefits to be received by employees after retirement or the method for determining those benefits. Generally, the amount and value of the benefits to be paid depend on a number of factors and events. These include how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation and retirement age. When a government provides benefits under a defined benefit plan, it is at risk with respect to the amount of the benefit that each employee will receive (actuarial risk) and with respect to the investment returns on any assets set aside to pay for the cost of these benefits (investment risk).

.12 When a government provides benefits under a defined contribution plan, it does not assume the actuarial and investment risks inherent in a defined benefit plan. A defined contribution plan (or money purchase plan) is one in which a government's contributions in respect of services rendered by employees are specified. The government is required by the plan to make a specific fixed contribution each period. If that contribution is made, no additional government contributions are required now or in the future for the related service. The employees are at risk. This is generally because the amount of the benefit that will be payable to an employee is dependent upon the funds accumulated for each employee's account and the investment earnings on the accumulated funds.

.13 Because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of a particular plan makes it a defined benefit or a defined contribution plan.

. 014 In some circumstances, a benefit plan may include both defined benefit and defined contribution promises. The plan, for example, may guarantee a basic defined retirement benefit and state that additional benefits, such as inflation protection, will be provided on a defined contribution basis. In such circumstances, a government would determine its obligation for the defined benefit component of the plan as a defined benefit plan and the defined contribution component of the plan as a defined contribution plan. Once the type(s) of promise is identified, the accounting and reporting principles in this Section would be followed accordingly.

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Appendix – Public Sector Accounting Board ("PSAB") 3255 Post-Employment Benefits (applicable excerpts)

Purpose and scope

.1 This Section establishes standards on how to account for and report obligations for post-employment benefits, compensated absences and termination benefits in government financial statements.

.2 This Section applies to post-employment benefits, compensated absences and termination benefits earned by employees and expected to be provided to them when they are no longer providing active service either on a temporary or permanent basis. For the purposes of this Section:

- *(a) Post-employment benefits are expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include long- and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counselling, and continuation of benefits such as health care benefits and life insurance.*
- *(b) Compensated absences are benefits for employee absences for which employees will be paid. These benefits include parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.*
- *(c) Termination benefits include the following:*
  - *a. Contractual termination benefits are benefits required to be provided to employees under the existing terms of a benefit arrangement when a specific event occurs that results in the downsizing and termination of a group of employees.*
  - *b. Special termination benefits are benefits that are not contractual termination benefits and that are offered to employees for a short period of time, normally not exceeding twelve months, in exchange for employees' voluntary or involuntary termination of employment.*

.3 The glossary in RETIREMENT BENEFITS, Section PS 3250, provides definitions for other relevant terms.

.4 This Section does not apply to short-term employee benefits, which would be accounted for under the general provisions for accruing liabilities. This accounting is generally straightforward because no actuarial assumptions are required and the liabilities are measured on an undiscounted basis.

.5 Examples of such short-term employee benefits are:

- *(a) Salaries, wages, bonuses, fringe benefits and similar items a government provides in the current reporting period or within twelve months thereafter, in exchange for services rendered by employees in the current reporting period; and*
- *(b) Occasional sick days and vacation days that do not vest or accumulate beyond twelve months after the current reporting period.*

Post-employment benefits, compensated absences and termination benefits are liabilities of a government. Accounting for all benefit plans is important because many governments have accumulated significant related liabilities. The fundamental accounting task is to determine the amount of the liability for these benefits and to what periods to attribute the costs.

.07 These standards are consistent with those established in RETIREMENT BENEFITS, Section PS 3250. The standards set out in that Section are appropriate for accounting for and disclosing post-employment benefits, compensated absences and termination benefits of a government. For example, a government providing these types of benefits through a defined contribution plan, multiemployer plan or joint defined benefit plan would refer to the guidance set out in Section PS 3250. This Section sets out those areas where
the accounting and reporting are different from Section PS 3250.

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Appendix C – Comparison with Shared Risk Pension Plans

In recent years, a number of Canadian provinces have adopted "Shared Risk Pension Plan" legislation. Shared Risk Pension Plans (SRPPs) provide benefits under a defined benefit formula, while putting cost constraints on employer contributions. Employer and employee contributions are often restricted within a band and benefits may be subject to reductions depending on the funded level.

In general, Shared Risk Pension Plans have been viewed as defined benefit plans. Risks are shared by the employer and employees, with the employer usually being subject to some level of actuarial and market risks. There may, however, be instances where DC accounting could be possible. This would be the case when no risk is retained by the employer, i.e. contributions are fixed in all scenarios. As there are many variations of Shared Risk Pension Plans, careful judgment is required to determine the appropriate accounting treatment in each case.

We have compared the key characteristics of the ELHTs established by the Ontario school boards to those of Shared Risk Pension Plans. We have not considered the provisions relating to Pre- August 2013 Retirees, as these are clearly DB provisions under PS 3250/3255.

When comparing the benefits for the Active members under the ELHT with the SRPPS, there are a number of important differences to be considered but the following two are most significant:

- *As SRPPs provide post-retirement benefits, they are within the scope of PS3250; however, as demonstrated in the previous section, the benefits provided for the Active members under ELHTs do not fall under the scope of PS3250.*

- *For SRPPs, the employer is subject to some level of actuarial risks and market risk as future contributions may be increased to pay for past deficiencies. Under ELHTs, the school boards are not subject to any risks: (a) contributions are fixed (as required by a Central Collective Agreement or any applicable Participation Agreement); (b) no additional contributions will be required for the related past service regardless of future actuarial or market experience; (c) the contributions required by the school boards are not dependent on the funding position of the Separate Account. Rather, employee's contributions (or benefits paid) may increase or decrease based on the surpluses/deficiencies of the Separate Accounts.*

Further, there is no cost (and therefore, no post-retirement benefits) for members retiring after August 31, 2013 under the ELHTs. For these reasons, we would not expect the same accounting treatment to be applied for the SRPPs and ELHTs.

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Appendix D – Public Sector Accounting Board ("PSAB") 3200 Liabilities (applicable excerpts)

.05 Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

(a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

(b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and

(c) The transactions or events obligating the government have already occurred.

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RE_ Weekly update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Weekly update
Date: Monday, May 29, 2017 16:55:14
Attachment 1: image001.png
Attachment 2: Briefing Note - ELHTs (May 12 2017)_For EY Review.docx

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Hi Nadine,

For ELHTs, we do not believe further edits are required to the “briefing note on TBS letterhead” (attached) after reviewing the AG’s response letter. Let us know if you require anything from us to close off this item.

For “SERP/SRA reporting”, we are referring to the non-registered supplemental plans. Given the size of these plans, we put them as low priorities. However, we have identified potential issues related to the reporting of these plans (e.g. cost method used, setup of the PSSP spreadsheet). We are happy to assist with refining/improving existing models so that they are better align with PSAB requirements.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Saturday, May 27, 2017 9:40 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>

Subject: RE: Weekly update

Thanks Shayan.

Please see my comments below. Hope you all have a great weekend too!

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-26-17 7:33 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Christina Chan
Subject: Weekly update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Meeting to discuss proposed year-end adjustments and comparative figures

2. Summary of impact related to proposed year-end adjustments exhibits (We are still awaiting feedback from the OAG on our direction, and in the meantime we will plan to meet with Cindy to review the results).

In progress – next week

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions on proposed year-end adjustments (see above)

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Review of draft ELHTs memo – can this be closed now or is anything further required? (Please confirm that no further edits required as result of OAG memo – see attached. If not, then we can consider the matter closed.)

4. Research on other public plans as identified by EY– OPCD (OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)

Next week and after

1. Support related to excel tools update and provide OPCD with associated "audit checklist" *(OPCD APFR team completing template developed based on EY checklist to document current year's activities)*

2. SERP/SRAs reporting (please remind me of these acronyms)

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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Briefing Note - ELHTs (May 12 2017)_For EY Review.pdf

Information Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting Branch

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The ELHTs are intended to provide benefits to employees during their employment years. There are also separate retiree provisions intended to provide access to benefits for retirees. Funds will be provided to the Trusts by the School Boards in accordance to negotiated agreement terms and will not be variable during the term of the applicable term, and will be expected to manage the allotted pool of funds to administering health related payments to beneficiaries. It is understood that any funding obligations for the Province for prescribed retirees, active members or members on long-term disability continues under the terms of the negotiated labour agreements (i.e. not variable based on actual experience for the period). See Appendix A for the different member groups and their respective benefit entitlements.

Accounting treatment

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- "*Pre-August 2013 Retirees*: The provisions relating to certain members who retired prior to August 31, 2013 would be classified as DB provisions as the boards are at risk with respect to the amount of benefits these employees will receive. These risks include the possibility of higher/lower than expected claims, or greater/less than expected longevity. We understand that the school boards have historically reported defined benefit obligations in respect of the ongoing commitment to subsidize retiree benefits for members in this group and will continue to do so subsequent to the transition to the ELHTs. This is appropriate as the ELHTs would be reimbursed by the boards for any contribution requirement to make up for the deficit in providing the coverage for these members.

- "*Post-August 2013 Retirees*: By contrast, there is no cost to the school boards relating to members retiring after August 31, 2013. The entire cost is borne by retirees and the school boards are not required to make any additional contributions in the future in the event of any shortfall. School board contributions are not subject to any actuarial risk. Rather, all risks are borne by the retirees. In the event that funds are insufficient to pay for benefits, the trust agreements outline measures to address those deficiencies. The measures include the application of reserves, increases to member contributions and a reduction in benefits. None of the measures require any additional contributions from the school boards.

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Conclusion

Based on a review of the Trust agreements and Letters of Agreement for the ELHTs, and Sections PS 3200, 3250 and 3255 of the PSA Handbook, the Province should account for the benefits in the ELHTs as follows:

- In accordance with PS 3255.02, a defined benefit obligation should continue to be recorded for the subsidies provided to certain members retired prior to August 31, 2013;
- In accordance with PS 3255.02, a defined benefit obligation should also continue to be recorded for members on long-term disability;
- Benefits/costs relating to current active members do not fall under the scope of PS 3250 or PS 3255. The school board's liability only relates to current amounts owed to the trusts based on the agreements. These amounts would be paid in the current period. Therefore there is no liability to be recorded under PS 3200.05 by the Province. If subsequent labour negotiations result in higher funding requirements, increased expenses would be reported in the future; and
- There is no cost to the school boards and Province relating to members retiring after August 31, 2013. The entire cost is borne by retirees. Therefore there is no

obligation to be recorded by the Province.

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The three groups of members with different benefit entitlements under the ELHTs are:

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- "Pre-August 2013 Retirees"[2]: approximately 5,700 members
- "Post-August 2013 Retirees"[3]: approximately: 1,400+ members

For current Active employees, the contributions by the boards to the ELHTs are fixed and negotiated during bargaining. Annual contribution amounts required from the boards per full-time employee are pre-determined for the period covered by collective bargaining agreements. Upon retirement, active members may be eligible for retiree benefits at full cost and they are not eligible for any cost subsidization (i.e. provisions for Post-August 2013 Retirees).

Certain members who retired prior to August 31, 2013 are eligible for a partial or full subsidization of benefit costs from the board, based on prior arrangements with their employer. The members are eligible to participate in the ELHTs until age 65 (with the exception of a small group who are eligible for lifetime coverage).

All members retiring after August 31, 2013 are eligible to participate in the ELHT through a Voluntary Plan and Separate Account. However, they are responsible for the entire cost of benefits. They are not eligible for any cost subsidization.

According to the ELHT Trust Agreements Article 6, "the Trustees may establish any number of Separate Accounts within the Fund. The assets in each Separate Account shall be held as segregated funds and used for the provision of Benefits, in accordance with the terms of a Plan, to a discrete and identifiable group of Participating Employees". Based on the benefit entitlements described above, a Separate Account is expected to be established for the Active members and a Separate Account is established for the Pre-August 2013 Retirees. Therefore, there is no cross-subsidy. For example, retiree costs are not cross-subsidized by premiums paid in respect of Active employees.

The Trust agreement state that any surpluses in a Separate Account may be used to increase Claims Fluctuations Reserve ("CFR"), enhance benefits, or reduce employee contributions. Conversely, any deficiencies in the trust may require the use of the CFR, amendment to benefit (reduction), or an increase to employee contribution levels.

For the Pre-August 2013 Retirees group, it is our understanding that if there is a funding deficiencies in the Separate Account for this group, the school board will be required to contribute and reimburse the Trust to make up the funding shortfall ("chargeback").

[2] Members retiring prior to 31 August 2013

[3] Members retiring after 31 August 2013

DRAFT

Appendix B – Public Sector Accounting Board ("PSAB") 3250 Retirement Benefits (applicable excerpts)

.11 Two types of benefit plans are addressed in this Section — defined benefit plans and defined contribution plans. A defined benefit plan is one that specifies either the benefits to be received by employees after retirement or the method for determining those benefits. Generally, the amount and value of the benefits to be paid depend on a number of factors and events. These include how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation and retirement age. When a government provides benefits under a defined benefit plan, it is at risk with respect to the amount of the benefit that each employee will receive (actuarial risk) and with respect to the investment returns on any assets set aside to pay for the cost of these benefits (investment risk).

.12 When a government provides benefits under a defined contribution plan, it does not assume the actuarial and investment risks inherent in a defined benefit plan. A defined contribution plan (or money purchase plan) is one in which a government's contributions in respect of services rendered by employees are specified. The government is required by the plan to make a specific fixed contribution each period. If that contribution is made, no additional government contributions are required now or in the future for the related service. The employees are at risk. This is generally because the amount of the benefit that will be payable to an employee is dependent upon the funds accumulated for each employee's account and the investment earnings on the accumulated funds.

.13 Because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of a particular plan makes it a defined benefit or a defined contribution plan.

. 014 In some circumstances, a benefit plan may include both defined benefit and defined contribution promises. The plan, for example, may guarantee a basic defined retirement benefit and state that additional benefits, such as inflation protection, will be provided on a defined contribution basis. In such circumstances, a government would determine its obligation for the defined benefit component of the plan as a defined benefit plan and the defined contribution component of the plan as a defined contribution plan. Once the type(s) of promise is identified, the accounting and reporting principles in this Section would be followed accordingly.

DRAFT

Appendix – Public Sector Accounting Board ("PSAB") 3255 Post-Employment Benefits (applicable excerpts)

Purpose and scope

.1 This Section establishes standards on how to account for and report obligations for post-employment benefits, compensated absences and termination benefits in government financial statements.

.2 This Section applies to post-employment benefits, compensated absences and termination benefits earned by employees and expected to be provided to them when they are no longer providing active service either on a temporary or permanent basis. For the purposes of this Section:

- *(a) Post-employment benefits are expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include long- and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counselling, and continuation of benefits such as health care benefits and life insurance.*
- *(b) Compensated absences are benefits for employee absences for which employees will be paid. These benefits include parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.*
- *(c) Termination benefits include the following:*
  - *a. Contractual termination benefits are benefits required to be provided to employees under the existing terms of a benefit arrangement when a specific event occurs that results in the downsizing and termination of a group of employees.*
  - *b. Special termination benefits are benefits that are not contractual termination benefits and that are offered to employees for a short period of time, normally not exceeding twelve months, in exchange for employees' voluntary or involuntary termination of employment.*

.3 The glossary in RETIREMENT BENEFITS, Section PS 3250, provides definitions for other relevant terms.

.4 This Section does not apply to short-term employee benefits, which would be accounted for under the general provisions for accruing liabilities. This accounting is generally straightforward because no actuarial assumptions are required and the liabilities are measured on an undiscounted basis.

.5 Examples of such short-term employee benefits are:

- *(a) Salaries, wages, bonuses, fringe benefits and similar items a government provides in the current reporting period or within twelve months thereafter, in exchange for services rendered by employees in the current reporting period; and*
- *(b) Occasional sick days and vacation days that do not vest or accumulate beyond twelve months after the current reporting period.*

Post-employment benefits, compensated absences and termination benefits are liabilities of a government. Accounting for all benefit plans is important because many governments have accumulated significant related liabilities. The fundamental accounting task is to determine the amount of the liability for these benefits and to what periods to attribute the costs.

.07 These standards are consistent with those established in RETIREMENT BENEFITS, Section PS 3250. The standards set out in that Section are appropriate for accounting for and disclosing post-employment benefits, compensated absences and termination benefits of a government. For example, a government providing these types of benefits through a defined contribution plan, multiemployer plan or joint defined benefit plan would refer to the guidance set out in Section PS 3250. This Section sets out those areas where
the accounting and reporting are different from Section PS 3250.

DRAFT

Appendix C – Comparison with Shared Risk Pension Plans

In recent years, a number of Canadian provinces have adopted "Shared Risk Pension Plan" legislation. Shared Risk Pension Plans (SRPPs) provide benefits under a defined benefit formula, while putting cost constraints on employer contributions. Employer and employee contributions are often restricted within a band and benefits may be subject to reductions depending on the funded level.

In general, Shared Risk Pension Plans have been viewed as defined benefit plans. Risks are shared by the employer and employees, with the employer usually being subject to some level of actuarial and market risks. There may, however, be instances where DC accounting could be possible. This would be the case when no risk is retained by the employer, i.e. contributions are fixed in all scenarios. As there are many variations of Shared Risk Pension Plans, careful judgment is required to determine the appropriate accounting treatment in each case.

We have compared the key characteristics of the ELHTs established by the Ontario school boards to those of Shared Risk Pension Plans. We have not considered the provisions relating to Pre- August 2013 Retirees, as these are clearly DB provisions under PS 3250/3255.

When comparing the benefits for the Active members under the ELHT with the SRPPS, there are a number of important differences to be considered but the following two are most significant:

- *As SRPPs provide post-retirement benefits, they are within the scope of PS3250; however, as demonstrated in the previous section, the benefits provided for the Active members under ELHTs do not fall under the scope of PS3250.*

- *For SRPPs, the employer is subject to some level of actuarial risks and market risk as future contributions may be increased to pay for past deficiencies. Under ELHTs, the school boards are not subject to any risks: (a) contributions are fixed (as required by a Central Collective Agreement or any applicable Participation Agreement); (b) no additional contributions will be required for the related past service regardless of future actuarial or market experience; (c) the contributions required by the school boards are not dependent on the funding position of the Separate Account. Rather, employee's contributions (or benefits paid) may increase or decrease based on the surpluses/deficiencies of the Separate Accounts.*

Further, there is no cost (and therefore, no post-retirement benefits) for members retiring after August 31, 2013 under the ELHTs. For these reasons, we would not expect the same accounting treatment to be applied for the SRPPs and ELHTs.

DRAFT

Appendix D – Public Sector Accounting Board ("PSAB") 3200 Liabilities (applicable excerpts)

.05 Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

(a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

(b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and

(c) The transactions or events obligating the government have already occurred.

DRAFT

RE_ Weekly update.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Weekly update
Date: Saturday, May 27, 2017 09:40:19
Attachment 1: ELHTs (OAG position memo)
Attachment 2: image001.png

Thanks Shayan.

Please see my comments below. Hope you all have a great weekend too!

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May-26-17 7:33 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Christina Chan
Subject: Weekly update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Meeting to discuss proposed year-end adjustments and comparative figures

2. Summary of impact related to proposed year-end adjustments exhibits (We are still awaiting feedback from the OAG on our direction, and in the meantime we will plan to meet with Cindy to review the results).

In progress – next week

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions on proposed year-end adjustments (see above)

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Review of draft ELHTs memo – can this be closed now or is anything further required? (Please confirm that no further edits required as result of OAG memo – see attached. If not, then we can consider the matter closed.)

4. Research on other public plans as identified by EY– OPCD (OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)

Next week and after

1. Support related to excel tools update and provide OPCD with associated "audit checklist" *(OPCD APFR team completing template developed based on EY checklist to document current year's activities)*

2. SERP/SRAs reporting (please remind me of these acronyms)

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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ELHTs (OAG position memo).pdf

From: Petsche, Nadine (TBS) []
To: shayan.jafrani@ca.ey.com [shayan.jafrani@ca.ey.com]
CC: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
Subject: ELHTs (OAG position memo)
Date: Tuesday, May 16, 2017 10:37:30
Attachment 1: Untitled.pdf

Shayan,

We received the attached memo from the OAG regarding accounting for ELHTs. Appears to agree with our position.

Thanks.

Nadine

image001.pdf

RE_ Year-end contribution adjustments..rtf

From: Fong, Pauline (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: RE: Year-end contribution adjustments.
Date: Monday, April 10, 2017 11:29:16
Attachment 1: OTPP questions relating to contribution differencesv2.docx

---

Hi Shayan,

Attached are the responses to you queries with the exception of the last one. Ingrid is following up with the Board on the last questions and hopefully will have a response to your shortly.

Pauline

-----Original Message-----
From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April-10-17 10:17 AM
To: Fong, Pauline (TBS)
Cc: Christina Chan; Patel, Bharat (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Petsche, Nadine (TBS); Li, Wendy (TBS)
Subject: RE: Year-end contribution adjustments.

Hi Pauline,

Apologies for the delay on this. Please find our questions attached relating to OTPP.

We are available this afternoon (after 2:00pm) and also most of the day tomorrow if you would like to set up a call.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com Thank you for considering the environmental impact of printing e-mails.

-----Original Message-----
From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, April 10, 2017 8:18 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Li, Wendy (TBS) <Wendy.Li@ontario.ca>
Subject: Re: Year-end contribution adjustments.

Hi Shayan,

I haven't received any follow up questions on this matter as of yet from your team. I understand both you and Christina have be busy working on the asset ceiling test for Nadine however if we could spend time on the year end adjustments, unamortized difference in contributions this week it would be greatly appreciated as OPCD will be meeting with the auditors this Thursday to do some preliminary discussions on this matter.

Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Shayan Jafrani
Sent: Wednesday, April 5, 2017 3:12 PM
To: Fong, Pauline (TBS)
Subject: Year-end contribution adjustments.

Hi Pauline,

We are continuing to look through the contribution adjustments for the Province's pension plans.

Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

[cid:image003.png@01D20EAD.E8264940]

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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OTPP questions relating to contribution differencesv2.pdf

OTPP

Q1) Market value of assets at 31 December 2016 are equal to $175,561M. Does this figure include any contributions receivable? If so, can you provide amounts and expected contribution dates?

On page 45 of the consolidated financial statements from the 2016 Annual Report of Ontario Teachers' Pension Plan, you can see that that net asset available for benefits of $175,570 (audited figure for 2016) which is about $9M off from the draft of $175,561. The net assets available for benefits include $3,273M of Receivable from the Province of Ontario (note 3).

Note 3: "The receivable as at December 31, 2016, from the Province of Ontario consists of $1,635 million, which was received in January 2017, and an estimated $1,638 million to be received with interest in January 2016…"

Province paid 2015 Employment Service contributions January 2, 2017 of $1,634,961,821 (you should have this working paper as part of your files).

Q2) Is the province reflecting any contribution receivable by OTPP after year-end as a payable elsewhere on the Province's books?

No. The province is not reflecting any contribution payable to the board, as the 2016 service employer contribution invoice will not be sent to the ministry until the fall of 2017.

I.e. 2015 Employment service payment due January 3, 2017 (and paid in January), invoice was not received by ministry until November 2016.

Q3) The following table provides 2016 contributions from the letter from OTPP:

Members current service	1,619
Members optional credit	34
Sub-total members contributions	1,653
Province current service	1,596
Province special payments	0
Province optional credit	31
Province interest	36
Sub-total Province contributions	1,663
Other employers	34
Transfers from other pension plans	13
Total	3,363

The following table shows the calculation of Ontario's under-contribution for 2016 from OPCD's spreadsheet:

Ontario contribution - fiscal year	1,635
Less: Ontario special payments for foregone CPI - fiscal year	1
Less: employee contributions - calendar year	1,653
Less: other employers' contributions - calendar year	34
Ontario over (under) contribution	*(53)*

Can we reconcile the Ontario contribution of $1,635 above from the $1,663 provided by OTPP? What periods do these contributions relate to?

2014 Service Accrual (received from the board January 2016)	$1,598
2015 Service Accrual (received from the board January 2017)	$1,635
2016 estimated service Accrual (not yet billed to province)	$1,638
Less: estimated service accrual for 2014 by board	($1,598)
Less: estimated service accrual for 2015 by board	($1,610)
	$1,663

Note the 1,635 fiscal year contributions by the Province relates to 2015 Service.

Explanation from the board:

"For 2016, $1.663 = $1.598 (cash received in January 2016 in respect of 2014) + $1.635 + $ 1.638 (amounts o/s at 1.1.2017 to be received in January 2017 and January 2018 in respect of calendar years 2015 and 2016) - $1.598 - $1.610 (amounts o/s at 1.1.2016 to be received in January 2016 and January 2017 in respect of calendar years 2014 and 2015). The $1.610 amount held o/s at 1.1.2016 in respect of 2015 was an estimate to be received with interest in January) whereas the $1.635 held outstanding at 1.1.2017 in respect of 2015 was the actual."

Q4) Please confirm that employee contributions of $1,653 includes contributions made by employees of "other employers".

We have sent the request to the board and waiting for a response.

RE_ Year-end contribution adjustments..rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: RE: Year-end contribution adjustments.
Date: Tuesday, April 11, 2017 09:19:55
Attachment 1: image001.png

Thanks so much for the update Shayan.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April-11-17 9:19 AM
To: Petsche, Nadine (TBS); Christina Chan
Cc: Fong, Pauline (TBS)
Subject: RE: Year-end contribution adjustments.

Hi Nadine.

We are focussing on these adjustments now. We have spent a fair bit of time understanding how these amounts have developed and have scheduled a call to share our views with Pauline later this morning.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, April 10, 2017 10:44 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: RE: Year-end contribution adjustments.

Shayan/Christina,

In terms of relative priority, given that we have a meeting with the auditors this Thursday on the year-end adjustments, it would be appreciated if you could focus your attention on the matter(s) noted by Pauline below.

Thanks.

Nadine

From: Fong, Pauline (TBS)
Sent: April-10-17 8:18 AM
To: Shayan Jafrani
Cc: Christina Chan; Patel, Bharat (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Petsche, Nadine (TBS); Li, Wendy (TBS)
Subject: Re: Year-end contribution adjustments.

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Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Shayan Jafrani

Sent: Wednesday, April 5, 2017 3:12 PM

To: Fong, Pauline (TBS)

Subject: Year-end contribution adjustments.

Hi Pauline,

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Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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image001.pdf

RE_ Year-end contribution adjustments..rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: RE: Year-end contribution adjustments.
Date: Monday, April 10, 2017 12:49:11
Attachment 1: OPSEUPP questions relating to contribution differences.docx
Attachment 2: PSPP questions relating to contribution differences.docx

---

Hi Pauline,

Unfortunately our availability before 4pm is limited today. Would you be available for a call for 9am-10am, or after 11:30am tomorrow?

I've attached the questionnaires for both PSPP and OPSEUPP. They are similar to the one for OTPP (e.g. understanding how receivable, if any, has been reflected), but will also require some additional insight from your team related to the contributions by other agencies.

Regards,
Christina
Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

-----Original Message-----
From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, April 10, 2017 12:14 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Li, Wendy (TBS) <Wendy.Li@ontario.ca>
Subject: RE: Year-end contribution adjustments.

I have to leave by then. Can we touch base earlier this afternoon or first thing tomorrow morning. Is Christina working on OSPEU and PSPP at the same time?

-----Original Message-----
From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April-10-17 12:12 PM
To: Fong, Pauline (TBS)
Cc: Christina Chan; Patel, Bharat (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Petsche, Nadine (TBS); Li, Wendy (TBS)
Subject: RE: Year-end contribution adjustments.

Thank you Pauline.

This is very helpful. Can we have a call at 4pm?

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com Thank you for considering the environmental impact of printing e-mails.

-----Original Message-----
From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, April 10, 2017 11:29 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Li, Wendy (TBS) <Wendy.Li@ontario.ca>
Subject: RE: Year-end contribution adjustments.

Hi Shayan,

Attached are the responses to you queries with the exception of the last one. Ingrid is following up with the Board on the last questions and hopefully will have a response to your shortly.

Pauline

-----Original Message-----
From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: April-10-17 10:17 AM
To: Fong, Pauline (TBS)
Cc: Christina Chan; Patel, Bharat (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Petsche, Nadine (TBS); Li, Wendy (TBS)
Subject: RE: Year-end contribution adjustments.

Hi Pauline,

Apologies for the delay on this. Please find our questions attached relating to OTPP.

We are available this afternoon (after 2:00pm) and also most of the day tomorrow if you would like to set up a call.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com Thank you for considering the environmental impact of printing e-mails.

-----Original Message-----
From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, April 10, 2017 8:18 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Li, Wendy (TBS) <Wendy.Li@ontario.ca>
Subject: Re: Year-end contribution adjustments.

Hi Shayan,

I haven't received any follow up questions on this matter as of yet from your team. I understand both you and Christina have be busy working on the asset ceiling test for Nadine however if we could spend time on the year end adjustments, unamortized difference in contributions this week it would be greatly appreciated as OPCD will be meeting with the auditors this Thursday to do some preliminary discussions on this matter.

Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Shayan Jafrani
Sent: Wednesday, April 5, 2017 3:12 PM
To: Fong, Pauline (TBS)
Subject: Year-end contribution adjustments.

Hi Pauline,

We are continuing to look through the contribution adjustments for the Province's pension plans.

Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

[cid:image003.png@01D20EAD.E8264940]

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
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OPSEUPP questions relating to contribution differences.pdf

OPSEUPP

Q1) Market value of assets at 31 December 2016 are equal to $18,904M. Does this figure include any contributions receivable? If so, can you provide amounts and expected contribution dates?

Q2) Is the province reflecting any contribution receivable by OPSEUPP after year-end as a payable elsewhere on the Province's books?

Q3) based on the letter, $250M employer contributions were made in 2016. The Ontario's contribution for the fiscal year was $219M.

The following table shows the calculation of Ontario's under-contribution for 2016 from OPCD's spreadsheet:

Ontario contribution - fiscal year	219
Less: employee contributions - calendar year	259
Ontario over (under) contribution	*(40)*

Can we reconcile the Ontario contribution of $219M above from the $250M? What periods do these contributions relate to? What portion is in respect of other agencies (consolidated, and non-consolidated)?

Q4) Would you background on the balance sheet adjustment related to "cumulative transfer from other Plans in 2005, of $136M?

PSPP questions relating to contribution differences.pdf

PSPP

Q1) Market value of assets at 31 December 2016 are equal to $24,066M. Does this figure include any contributions receivable? If so, can you provide amounts and expected contribution dates?

Q2) Is the province reflecting any contribution receivable by PSPP after year-end as a payable elsewhere on the Province's books?

Q3) based on the letter, $426M employer contributions were made in 2016 (including special payments, past service, additional current service). The Ontario's contribution for the fiscal year was $368M.

Can we reconcile the Ontario contribution of $368M above from the $426M? What periods do these contributions relate to? What portion is in respect of other agencies (consolidated, and non-consolidated)?

Q4) Would you background on the balance sheet adjustment related to "cumulative transfer from other Plans in 2005, of $739M?

RE_ Year-end contribution adjustments..rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: RE: Year-end contribution adjustments.
Date: Monday, April 10, 2017 22:43:46
Attachment 1: image001.png

Shayan/Christina,

In terms of relative priority, given that we have a meeting with the auditors this Thursday on the year-end adjustments, it would be appreciated if you could focus your attention on the matter(s) noted by Pauline below.

Thanks.

Nadine

From: Fong, Pauline (TBS)
Sent: April-10-17 8:18 AM
To: Shayan Jafrani
Cc: Christina Chan; Patel, Bharat (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Petsche, Nadine (TBS); Li, Wendy (TBS)
Subject: Re: Year-end contribution adjustments.

Hi Shayan,

I haven't received any follow up questions on this matter as of yet from your team. I understand both you and Christina have be busy working on the asset ceiling test for Nadine however if we could spend time on the year end adjustments, unamortized difference in contributions this week it would be greatly appreciated as OPCD will be meeting with the auditors this Thursday to do some preliminary discussions on this matter.

Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Shayan Jafrani

Sent: Wednesday, April 5, 2017 3:12 PM

To: Fong, Pauline (TBS)

Subject: Year-end contribution adjustments.

Hi Pauline,

We are continuing to look through the contribution adjustments for the Province's pension plans.

Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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image001.pdf

RE_ Year-end contribution adjustments..rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: RE: Year-end contribution adjustments.
Date: Monday, April 10, 2017 10:17:29
Attachment 1: OTPP questions relating to contribution differences.docx

---

Hi Pauline,

Apologies for the delay on this. Please find our questions attached relating to OTPP.

We are available this afternoon (after 2:00pm) and also most of the day tomorrow if you would like to set up a call.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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-----Original Message-----
From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Monday, April 10, 2017 8:18 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Li, Wendy (TBS) <Wendy.Li@ontario.ca>
Subject: Re: Year-end contribution adjustments.

Hi Shayan,

I haven't received any follow up questions on this matter as of yet from your team. I understand both you and Christina have be busy working on the asset ceiling test for Nadine however if we could spend time on the year end adjustments, unamortized difference in contributions this week it would be greatly appreciated as OPCD will be meeting with the auditors this Thursday to do some preliminary discussions on this matter.

Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Shayan Jafrani
Sent: Wednesday, April 5, 2017 3:12 PM
To: Fong, Pauline (TBS)
Subject: Year-end contribution adjustments.

Hi Pauline,

We are continuing to look through the contribution adjustments for the Province's pension plans.

Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
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OTPP questions relating to contribution differences.pdf

OTPP

Q1) Market value of assets at 31 December 2016 are equal to $175,561M. Does this figure include any contributions receivable? If so, can you provide amounts and expected contribution dates?

Q2) Is the province reflecting any contribution receivable by OTPP after year-end as a payable elsewhere on the Province's books?

Q3) The following table provides 2016 contributions from the letter from OTPP:

Members current service	1,619
Members optional credit	34
Sub-total members contributions	1,653
Province current service	1,596
Province special payments	0
Province optional credit	31
Province interest	36
Sub-total Province contributions	1,663
Other employers	34
Transfers from other pension plans	13
Total	3,363

The following table shows the calculation of Ontario's under-contribution for 2016 from OPCD's spreadsheet:

Ontario contribution - fiscal year	1,635
Less: Ontario special payments for foregone CPI - fiscal year	1
Less: employee contributions - calendar year	1,653
Less: other employers' contributions - calendar year	34
Ontario over (under) contribution	*(53)*

Can we reconcile the Ontario contribution of $1,635 above from the $1,663 provided by OTPP? What periods do these contributions relate to?

Q4) Please confirm that employee contributions of $1,653 includes contributions made by employees of "other employers".

RE_ Your email of Tuesday.rtf

From: Petsche, Nadine (TBS) []
To: Murray Gold (mgold@kmlaw.ca) [mgold@kmlaw.ca]
Subject: RE: Your email of Tuesday
Date: Sunday, March 26, 2017 09:59:11
Attachment 1: image001.png

Good morning Murray.

I just wanted to let you know that I have advised Cindy of your firm's retainer arrangements and I am awaiting her response. I will update you as I receive further information.

Best regards,

Nadine

From: Petsche, Nadine (TBS)
Sent: March-23-17 10:39 PM
To: Murray Gold (mgold@kmlaw.ca)
Subject: FW: Your email of Tuesday

Thanks Murray.

This is helpful information. I will touch base with Cindy Veinot tomorrow and get back to you.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 10:35 PM
To: Petsche, Nadine (TBS)
Subject: Re: Your email of Tuesday

Well, that would be my failure with LinkedIn. I apologize for that.

But I would be happy to help with this work.

Our expert panel work is complete, but we have a Retainer agreement with TBS and I could do that work under the Retainer if that works for you.

In this case, I would like to work with a Senior Associate at the Firm, Lesa MacDonald, and would need the consent of TBS for her to work on the project with me.

As well, we'd likely want to talk to other plans, or perhaps sponsors, and tell them of our work as we sought information from them. That would involve disclosing the identity of our client and the nature of our work, and for this as well we would need your consent.

I hope this makes sense to you, and would look forward to working with you on this task.

Best regards,

Murray

http://www.kmlaw.ca/

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 23 March 2017 21:22, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca> wrote:

Thanks Murray. I've been busy working on other 'fires' over the past couple of days. I'll check my linked in now.

On a personal note, it was great meeting you again. We were very fortunate to have had the benefit of such a talented and expert group of Panel members.

Thanks again for your contribution.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 9:18 PM
To: Petsche, Nadine (TBS)
Subject: Your email of

Hi Nadine,

I hope all is well with you. I also hope that the Expert Panel Reports were useful to you. It was a real pleasure to assist with this project.

I wanted to make sure that you had received my email in response to yours of Tuesday? I don't usually use LinkedIn, so I wanted to check that my response to your email did come through.

Thanks Nadine.

Murray

http://www.kmlaw.ca/

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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image001.pdf

KOSKIE
MINSKY

JUSTICE MATTERS

RE_ Your email of Tuesday.rtf

From: Petsche, Nadine (TBS) []
To: Murray Gold (mgold@kmlaw.ca) [mgold@kmlaw.ca]
Subject: RE: Your email of Tuesday
Date: Wednesday, March 29, 2017 13:34:02
Attachment 1: image001.png

Hi Murray.

As an update on my discussion with Cindy, she was appreciative of your offer, but advises that we aren't in a position to engage on this file right now. We will need to do some additional info gathering and internal stakeholdering over the coming weeks before a decision can be made.

Again, thanks for sharing your information. It will be valuable to help inform next steps.

Best regards,

Nadine

From: Petsche, Nadine (TBS)
Sent: March 23, 2017 10:39 PM
To: Murray Gold (mgold@kmlaw.ca)
Subject: FW: Your email of Tuesday

Thanks Murray.

This is helpful information. I will touch base with Cindy Veinot tomorrow and get back to you.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 10:35 PM
To: Petsche, Nadine (TBS)
Subject: Re: Your email of Tuesday

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In this case, I would like to work with a Senior Associate at the Firm, Lesa MacDonald, and would need the consent of TBS for her to work on the project with me.

As well, we'd likely want to talk to other plans, or perhaps sponsors, and tell them of our work as we sought information from them. That would involve disclosing the identity of our client and the nature of our work, and for this as well we would need your consent.

I hope this makes sense to you, and would look forward to working with you on this task.

Best regards,

Murray

http://www.kmlaw.ca/

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Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 23 March 2017 21:22, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca> wrote:

Thanks Murray. I've been busy working on other 'fires' over the past couple of days. I'll check my linked in now.

On a personal note, it was great meeting you again. We were very fortunate to have had the benefit of such a talented and expert group of Panel members.

Thanks again for your contribution.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 9:18 PM
To: Petsche, Nadine (TBS)
Subject: Your email of

Hi Nadine,

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I wanted to make sure that you had received my email in response to yours of Tuesday? I don't usually use LinkedIn, so I wanted to check that my response to your email did come through.

Thanks Nadine.

Murray

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Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
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image001.pdf

KOSKIE
MINSKY

JUSTICE MATTERS

RE_ year-end adjustments_ comparative figures and narrative.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Stretovitch, Ana (TBS) [Ana.Stretovitch@ontario.ca]
Subject: RE: year-end adjustments: comparative figures and narrative
Date: Tuesday, May 23, 2017 15:00:05
Attachment 1: image001.jpg

Hi Nadine,

Sounds great! Shayan and I are available any time after 12:30pm tomorrow.

On a related note, we are working on the draft of the report for your review for tomorrow, as per our proposed year-end adjustment project plan. However, we plan to complete the draft after our meeting. This will enable us to reflect OTB's decisions related to the proposed adjustments, as well as how these adjustments are to be reflected.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

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Sent: Tuesday, May 23, 2017 2:27 PM
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Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Stretovitch, Ana (TBS) <Ana.Stretovitch@ontario.ca>
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Nadine

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Sent: May 19, 2017 6:05 PM
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Cc: Uros Karadzic; Shayan Jafrani
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Have a great long weekend!

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EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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image001.pdf

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Subject: RE: year-end adjustments: comparative figures and narrative
Date: Tuesday, May 23, 2017 15:40:31
Attachment 1: image001.jpg

Thanks Christina. Ana will provide additional details re: meeting location and timing. With regards to the draft report, we are still waiting to hear back from the OAG on our proposed direction.

N

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: May 23, 2017 3:00 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani; Fong, Pauline (TBS); Ma, Patricia (TBS); Stretovitch, Ana (TBS)
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Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

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Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Stretovitch, Ana (TBS) <Ana.Stretovitch@ontario.ca>
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image001.pdf

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Subject: RE: year-end adjustments: comparative figures and narrative
Date: Tuesday, May 23, 2017 14:27:13
Attachment 1: image001.jpg

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Re_ URGENT -- PLEASE SIGN AND RETURN ASAP.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: URGENT -- PLEASE SIGN AND RETURN ASAP
Date: Monday, September 19, 2016 19:33:08

Hi Nadine,

I have signed the SOW. I will scan it back to you when I return to the office tomorrow.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/19/2016 05:53 PM
Subject: URGENT -- PLEASE SIGN AND RETURN ASAP

Hi Lucy.
Attached is the revised SOW (track changes and clean signed version), dated September 16, 2016. Subject to any concerns or further edits, please sign and return copy at your earliest convenience.
Thanks.
Shyrose[attachment "PWC SOW Pensions Accounting Opinion 20160915 clean v2 to Lucy.docx" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "Scanned from a Xerox multifunction device.pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Updated memo - version 6 - NOW WITH ATTACHMENTS - SORRY.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]; Hewitt, Myra (MOECC) [Myra.Hewitt@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Updated memo - version 6 - NOW WITH ATTACHMENTS - SORRY
Date: Friday, November 25, 2016 14:58:22
Attachment 1: Cap and Trade accounting implications - memorandum to file v6 November 25 Tracked changes.docx
Attachment 2: Cap and Trade accounting implications - memorandum to file v6 November 25.docx

---

I apologize... It's Friday afternoon... Here are the actual attachments

lUCY

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: Lucy Durocher/CA/ABAS/PwC
To: Ian.Provis@ontario.ca, Nadine.Petsche@ontario.ca
Cc: Michael Hawtin/CA/ABAS/PwC@Americas-CA, Myra.hewitt@ontario.ca
Date: 11/25/2016 01:57 PM
Subject: Updated memo - version 6!

Hi Ian/Nadine,

Based on some of the legal comments raised in the meeting regarding the updates to the holding limit regulations, use of the word "contract", and certain references, and in addition to clarify the insubstantiveness of the "financial settlement date", I have updated the memo.

Please note that the tracked changes version for your reference is to Version 5 which is privileged and confidential. Therefore I have copied Myra on this e-mail as well to maintain privilege.

I hope this should address the comments and concerns that were raised in the meeting.

Please let me know if you need further assistance in preparing/reviewing materials for discussions with the AG.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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Cap and Trade accounting implications - memorandum to file v6 November 25 Tracked changes.pdf

Cap and trade accounting implications memorandum to file – proposed outline

1. Executive summary

2. Background and outline of cap and trade legislation and regulations [NTD – *MOECC to provide comments on accuracy of background terminology*]

The *Climate Change Mitigation and Low-Carbon Economic Act, 2016* (the "Act") was recently enacted that establishes, amongst other things, a framework for a cap and trade program for the Province of Ontario (the "Province" or "Ontario"). Two regulations, Ontario regulation 144.16 and Ontario regulation 143.16 (together "the Regulations") have been passed under the Act.

Only registered participants to the program (mandatory participants, voluntary participants and market participants) can purchase, hold, sell or trade emission allowances (EAs). Mandatory participants are those that are mandated to participate in the program. Voluntary participants are those that are not mandatory participants but choose to participate in the program for a compliance period. (Voluntary participants may opt out of future compliance periods if they do not meet the criteria to be a mandatory participant for that period). Together mandatory and voluntary participants are referred to as "capped participants" or "capped emitters". Market participants are those that do not have compliance obligations but choose to participate in the program so they can hold, sell and trade EAs.

EAs can be obtained in the following ways:

- Purchased at auctions at the auction price.
- Distribution as a free allowance (capped participants only).
- Acquired from other participants in a market trade.

EAs are held in holding accounts that are maintained in the "CITTS" system, which records participant accounts and trades between participants. CITSS is a web-based tool that facilitates participation in the cap and trade program and is administered by the Western Climate Initiative, Inc (WCI Inc) on behalf of participating jurisdictions. Market trades are reported to the MOECC and the MOECC monitors the participant's accounts for compliance with regulations, such as holding levels are within holding limits. If holding limits are exceeded and not remedied within 5 days, the Minister of the Environment and Climate Change (the "Minister") has the ability to remove the excess allowances ~~for no compensation that could then be re-sold at future auctions.~~. Currently proposed updates to the Regulations would require that the amounts in excess of the holding limits be sold at auction and the proceeds of that sale to be remitted back to the participant. However, our understanding is that the systems should not allow sales over the individual limits to be processed so examples of this should be very limited in practice.

Auction process: In accordance with the Regulations there are four auctions a year. EAs are sold at auction classified by "vintage". The Regulations set out how many EAs are created for each vintage and how many EAs of each vintage will be available at each auction, after the distribution of free EAs. The vintage of an EA determines which compliance period the EA can be submitted for. For example, in 2017 the auctions will be for the "2017"

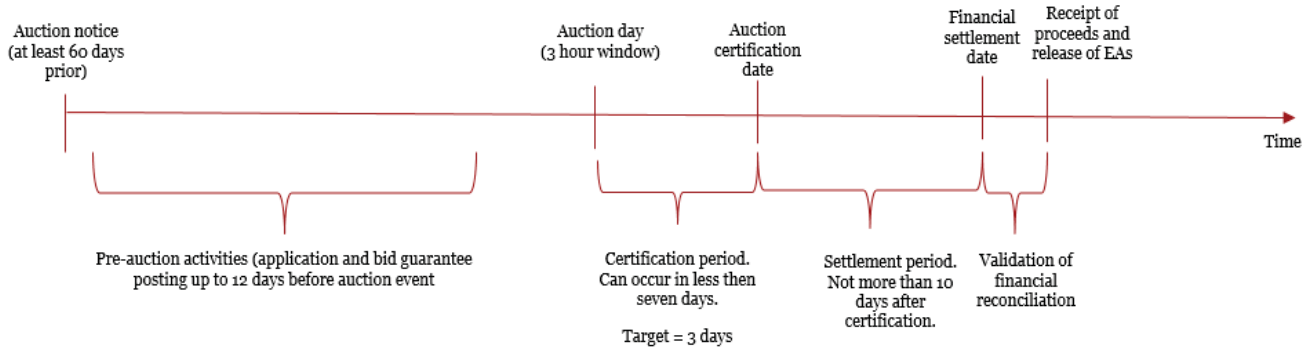
vintage and some for the "2020 vintage". More than one "vintage" may be sold in any one auction. The first auction will be held March 2017. There is a floor price for each auction. Not all the allowances available at a particular auction may be sold, in which case unsold allowances may be offered at a future auction under some circumstances. 5% of EAs are held back as a strategic reserve that may be sold at a later date for a higher value, not through the auction process. Only capped emitters may purchase from the reserve. The strategic reserve accumulates over time.

Prior to the auction registered participants must post a bid guarantee. This may be in the form of an irrevocable letter of credit (LOC), letter of guarantee (LOG) or cash, both of which are held in escrow by Deutsche Bank (DB) in the participant's sub-account under the jurisdiction's Escrow account. The Province's escrow account is in the name of WCI, Inc for the benefit of the Ontario Minister of the Environment and Climate Change. The bid guarantee may be posted up to 60 days before the auction, and must exceed the total amount of bids that will be submitted by the participant in the auction.

At the auction the participants place bids for the number of EAs they will purchase at any price point. At the end of the three-hour auction window the auction administrator runs the auction algorithm through a predetermined auction settlement calculation to provide the auction result report indicating the set of successful participants and the number of allowances they won at the auction settlement price.

After the auction, the Province reviews the results for compliance with the regulatory requirements over the auction process and to obtain the required internal jurisdiction approvals. These steps include reviewing the auction results provided by the auction platform, analyzing bid data in detail and reviewing and accepting the auction report submitted by the market monitor (a third party contractor called Monitoring Analytics). When the results of the auction are confirmed (the "certification date") the results are published on the jurisdiction's website, invoices made available to participants and the process of settlement begins. If a participant is successful in the auction then the participant is invoiced for the amounts due for the EAs purchased. If the participant submitted a cash bid guarantee this cash amount is used to settle the invoices by the amounts being transferred from the participant's sub-account into Ontario's escrow settlement account. If an LOC or LOG was used, the participant can pay separately within 7 days into their sub-account, which is then transferred to Ontario's escrow settlement account and the LOC is dissolved or returned. Alternatively if the participant does not submit cash payment within 7 days the invoice is settled by calling on the LOC or LOG. Once all the payments have been received from participants and transferred to Ontario's escrow settlement accounting and Ontario's staff have confirmed that the amount in the escrow account match payments due from auction participants, then the escrowed amounts are transferred to the GGRA bank account and the EAs are transferred to the respective participant CITSS accounts.

Auction timeline illustration



Free allowances

Capped emitters may receive free allowances. To receive free allowances the participant must apply each year. The amounts of these are determined by the Minister using formulas applied to the entity specific situation of the participant and are expected to diminish over time as transition to the cap and trade program is completed and inter-provincial "leakage" declines (leakage is where carbon producers move economic activities to a jurisdiction with no or low carbon pricing). Once issued, these EAs are identical to those sold at auction and may be held or traded by participants.

Emissions Compliance

The program operates within 3-year compliance periods (with the first period being a 4-year period). The first compliance period runs from January 1, 2017 – December 31, 2020. EAs are linked to a specific compliance period. For example, EAs with 2021-2023 vintages cannot be used to meet normal emissions obligations under the program for the 2017-2020 compliance period (although they can be used to settle increased compliance obligations). However, EAs from earlier vintages can be carried forward to meet obligations in future compliance periods. EAs do not expire. Participants may purchase EAs from other participants in market trades to be able to meet their obligations. Market trades are negotiated between participants and are then reported to the MOECC, who ensures that the agreed upon EAs or credits are transferred between the participants CITSS accounts. The number of EAs issued for the compliance period is capped by regulation. Therefore if total emissions from all participants are significantly lower than the cap, it should be easy for participants to obtain the necessary EAs in the marketplace at an inexpensive price. Unused EAs for the compliance period can be carried forward and used in future compliance periods. If the total emissions from all participants exceed the cap then there will not be sufficient EAs available for all participants to meet their compliance obligations and the price of any available EAs will increase. The market mechanism allows those participants who can most cheaply reduce their emissions an incentive to do so in order to either sell excess EAs to other participants at a higher price or to save the need to purchase a high priced EA to meet their obligations.

At the end of the compliance period mandatory and voluntary participants report their attributed carbon emissions (greenhouse gas emissions must be quantified, reported and verified) for the compliance period and ensure they have transferred sufficient EAs or credits (see below) from their holding accounts into their compliance accounts. At the compliance "true-up" deadline (by November 2021 for the first compliance period), EAs and offset credits (see below) are removed in a number equal to the participant's obligations under the Regulations (1 EA per 1 tonne of emissions). If a participant does not have sufficient EAs in their account at the true-up date then there is a shortfall. In addition to the EAs required to fulfil the shortfall, the obligation increases on a 3-1 basis; for each EA required to cover the shortfall the participant is required to acquire and submit an additional 3 EAs (the "increased compliance obligation"). This increased compliance obligation may be settled with EAs from future vintages (e.g. 2021 vintages may be used to settle the increased compliance obligation for the 2017-2020 period, however, they cannot be used to settle the original compliance obligation or shortfall).

Due to the increased compliance obligation mechanism if a participant does not expect to have sufficient EAs in their compliance accounts at the true-up deadline there is an incentive for participants to either reduce their emissions over the compliance period or to purchase additional EAs (of vintages valid for the compliance period) in the market prior to the true-up deadline; the market price of which would be expected to increase due to demand exceeding supply.

The EAs that are remitted to the MOECC for a compliance period are retired. They are not re-sold. The exception to this is EAs that are remitted as part of the increased compliance obligation may be re-sold at auction. The purpose of the exception is so that the overall number of available EAs for future compliance periods is not reduced because of the failure of participants to comply at the true-up date.

A participant has a certain period of time (30 days after a notice of a shortfall is issued) to acquire and remit sufficient EAs to meet their compliance obligation, including additional compliance obligations for shortfalls. If they fail to remedy the shortfall, the Director can issue an order that the outstanding obligation be settled in cash to the Ministry of Finance, based on the settlement price from the most recent auction.

The removal of EAs from a participant's account is without payment to the participant. Specifically Section 70 (3) of the Act states that "No amount is payable by the Crown with respect to any action taken by the Minister or Director under this Act, or by any person acting on their behalf, including any action relating to the removal of emission allowances and credits from a participant's cap and trade accounts".

Credits and offsets

Other than EAs, entities may also obtain "early reduction credits" or "offset credits" in certain circumstances. These credits are also tracked by participant and can be used in place of EAs to settle a compliance obligation. Credits can also be sold or purchased by participants on the market. There are limits on how much of a compliance obligation can be settled with credits as opposed to EAs. As emissions can be settled by either EAs or credits and offsets, the creation of credits or offsets essentially increases the total "cap" amount of emissions under the cap and trade program for the compliance period.

Linking to the Western Climate Initiative (WCI)

It is anticipated that Ontario will link to the WCI in 2018. The WCI currently includes Quebec and California. When linked to the WCI, there will be one market for EAs – all participants from participating jurisdictions can buy, sell, hold and trade EAs with other participants. There is one auction process for all participating jurisdictions, with proceeds from the auction being allocated on a pro-rata basis. For example, each jurisdiction determines the number of EAs that they will put up for auction in that vintage based on their cap for the compliance period. This results in a total amount of EAs available of which, say 30% are part of the Ontario emissions cap, 15% for Quebec and 55% for California. The proceeds of the auction would be split 30:15:55 between the participating jurisdictions, regardless of which participants purchase the EAs. If not all the EAs are sold, the sales are attributed on these same rations and unsold EAs from the jurisdiction may be sold at future auctions under certain conditions. EAs are not attributed back to a jurisdiction of issuance and can be used to settle a compliance obligation in any of the participating jurisdictions. For example, an Ontario participant must ensure there are an adequate number of EAs or credits in their compliance account to meet their compliance obligation based on their emissions. It does not matter whether they purchased the EAs at auction or from a California or Quebec participant. The effect is that Ontario participants may produce emissions that exceed the Ontario cap for any compliance period, but this excess would be offset by reductions in Quebec or California below their caps, thus reducing emissions overall, and in the jurisdiction where the reduction is the cheapest (most efficient). There is no mechanism by which Ontario transfers or receives cash, financial assets or EAs between jurisdictions. There is no requirement to redeem EAs issued in other jurisdictions by issuing cash or other "Ontario" EAs as all EAs are interchangeable once issued.

Termination of the program

The program does not have a termination date. There is nothing in the current legislation that outlines how the cap and trade program might be terminated. The program could only be terminated through a change in the legislation. We are not aware of any terms in the arrangements with the WCI that would specify how a withdrawal from the WCI might be undertaken.

Greenhouse Gas Reduction Account

The Act establishes an account with the Public Accounts of Ontario called the Greenhouse Gas Reduction Account (GGRA). Other than limited exceptions, proceeds from the distribution of EAs are included in this account. Amounts of fees, penalties and the settlement of increased compliance obligations in cash are also included in the GGRA. The funds in the GGRA may be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gases. Such uses include the research and development of new technologies or processes, innovation, education and training, and informing the public. The amounts in the GGRA may also be used to fund costs of administration and enforcement of the Act. Annually, the Minister will issue a public notice regarding the evaluation of initiatives funded by the GGRA. In addition an annual report will be prepared describing the activities of the GGRA. Eligible costs that were incurred by the Crown on or after November 1, 2015 may be reimbursed from the GGRA, even if they were incurred prior to the Act coming into force.

Federal actions to reduce carbon emissions

In October 2016 the federal government announced that Canadian provinces that do not have a carbon pricing mechanism will be subject to a federal benchmark "floor price" for carbon in 2018. Ontario's cap and trade program means that it will not be subject to the federal carbon floor price as the Ontario targets are in excess of the targets imposed by the federal government. As such, actions by the federal government are not expected to have an impact on Ontario's cap and trade program. This must be monitored as subsequent federal actions and/or changes to Ontario's cap and trade program in response to the federal government actions may have accounting impacts.

3. What is the nature of EAs

Relevant guidance - See Appendix C for details.

PS 3450, Financial Instruments ("PS 3450") (effective for years on or after April 1, 2019)

PS 3510, Tax revenue ("PS 3510") (for definition of exchange and non-exchange transactions)

PSAS Revenue Statement of Principles ("Revenue SOP") (non-authoritative due process document)

IPSASB staff paper "Emissions Trading Schemes" Agenda Item 14 March 2016.

Preliminary position:

The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.

Analysis:

In order to determine the appropriate accounting for EAs it is important to understand what they are and what they are not.

An EA is separately identifiable and is a permit (a non-exclusive, non-expiring right) that allows the holder to settle the legislative compliance obligation that arises from producing one ton of emissions. This is subtly different from a "quotas" (for example a milk or fishing quota) that gives a holder the right to produce a certain level of product that the producer can then sell for economic benefit, because the ultimate benefit of the EA to the participant is the permission to avoid a fine or payment that would otherwise be required for non-compliance with the Act[1].

Is it a financial instrument?

Current PSAS does not define financial instruments. However, PS 3450 (effective in 2019) define financial instruments as "any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity". An EA is clearly not an equity instrument, and so it will only meet the definition of a financial instrument if it creates a financial liability to one party (and a financial asset to another). A financial liability is defined in PS 3450 as any liabilities that are contractual obligations (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government. A financial instrument by definition a contract, although PS 3450 does not define "contract" for its purposes. It could be argued that EAs are statutory instruments created by legislation and issued in a unilateral transaction (see "is it similar to a "tax" on emissions?") in which case an EA could never be a financial instrument. For purposes of this analysis an EA ~~is~~could be considered to be a contract in the broadest sense between the holder and the Province as both parties know their respective rights and obligations that arise from holding and issuing EAs~~.~~ as these are laid out by legislation and enforceable under it.

[1] This is consistent with the conclusions of Mr. Stephen Morris QC in hearing a case regarding the EU ETS system and the nature of European Union Allowances in Armstrong DLW GmbH v Winnington Networks Ltd (2012).

An EA does not create an obligation for any party to pay cash or other financial assets. The province has no contractual requirement to pay cash to redeem an EA and is never required to exchange an EA for another financial asset under any circumstances. (The province may accept cash payment in lieu of EAs for an increased compliance obligation at its discretion). Similarly, once they are the holder of an EA they are not obligated to pay cash or other financial assets to another party under the terms of the individual EA. A participant may be obligated to obtain the necessary number of EAs to meet their compliance obligations under the cap and trade program, to reduce their emissions accordingly, or in some cases to pay an increased compliance obligation in cash, these are obligations that arise through the act of emitting pollutants and not an obligation that is incurred through holding an EA. Rather holding an EA permits the participant to avoid an outflow of cash otherwise payable.

Is it similar to a currency?

Governments are unique in that they have the power to issue currency as legal tender. By analogy the EAs could be viewed as similar to a form of "currency" – a medium of exchange - that must be accepted by the government to settle compliance obligations. Compliance obligations only exist through government legislation, and the government also provides the means by which to settle those obligations (EAs). The maintenance of EAs in circulation is required by Cap and Trade regulation. The issuance of EAs at auction could be an issuance of this "currency" for cash. The distribution of EAs could be similarly a distribution of currency for no consideration (similar to a government grant). EAs can be traded like a currency (with a varying exchange rate to Canadian dollars depending on the market price). This is the position taken by certain governments in accounting for their Emissions Trading Systems such as New Zealand (See Appendix A). The arguments that the EAs are a form of "currency" have some merits. However unlike currency, the EAs in circulation are retired after they are submitted for a compliance obligation and not recirculated. In addition the amount of EAs in circulation is planned to decline over time as emissions are reduced. These caps may also be influenced by external parties such as the Federal Government setting emissions reduction targets that must also be complied with. Further, once Ontario is linked to the WCI it is not the only jurisdiction issuing EAs in circulation that can be used to comply with an Ontario emissions obligation. This means that Ontario could accept back "currency" in excess of that which it issued, or equally never receive back "currency" that it has issued. These factors mean that unlike a currency in circulation, Ontario does not control the EA supply that can be used to settle the compliance obligations. However, for completeness Appendix B considers how the circulation in currency model could be applied to the Ontario cap and trade system.

Is it similar to a "tax" on emissions?

While the mechanics of a cap and trade system are different than a carbon tax, the policy objectives are the same - a price is put on pollution with the purpose of reducing pollution. The primary purpose of the cap and trade system is to reduce emissions and any revenues earned from the sale of EAs is incidental and similar to revenues obtained from taxing other undesired behaviours (such as taxes on alcohol or cigarettes).

The cap and trade legislation requires mandatory participants to purchase EAs in order to settle a legislative obligation to the extent that the participant's emissions exceed their allowance of freely distributed EAs. Under this approach any amounts received, regardless of the timing of those receipts, are considered to be a non-reciprocal transaction as the participants did not have to pay these amounts prior to the implementation of the cap and trade legislation, therefore these costs to the participants are created by legislation in respect of their emissions.

It is the act of emitting in excess of "free" EAs that creates an obligation of participants to pay for a certain amount of EAs. While Participants must obtain EAs in order to meet their compliance obligations which are created by legislation and initially EAs are only available from the Province, it is not the act of auctioning the EAs itself that gives rise to a right to the revenues as there is no legislative requirement that forces a participant to purchase an EA prior to them creating emissions that must be settled through EAs. Further, once linked to the WCI there is no legislative requirement that the participant purchase an EA from the Province.

If the scheme is considered to be in substance like a tax, it would be appropriate that the recognition of revenue would be accounted for in accordance with PS 3510. This would result in "revenue received in advance" for EAs that are sold, and something similar to a "tax concession" for participants that receive free EAs. There would be no

accounting recognition for EAs. If the scheme was considered to be another form of unilateral transaction created by the constitutional rights of the Province then it is relevant to consider the proposed guidance in the Revenue SOP. Although not authoritive until a standard is approved, the proposals indicate that revenue for unilateral transactions is recognized when the Authority to collect the revenue exists and the event that gives a right to those revenues has occurred. Paragraph .114 of the SOP states "The past event is specific to the nature of the transaction and the legal authority that gives the public sector entity a right to the revenue. The desired effect is that the past event should be readily identifiable and consistent, both over time and amongst those jurisdictions with similar sources of unilateral revenue. In TAX REVENUE, Section PS 3510, the equivalent concept is the taxable event". It is considered that the event that gives rise to a right to the revenue is the participant's emissions and not solely the auction of EAs.

The key determination to support this view is whether the sale of EAs is an exchange transaction or a non-exchange transaction as those terms are defined in PS 3510. It might be argued that the Province has not given up anything by issuing the EAs regardless of whether they sell the EAs in an auction or freely distribute them because the EAs do not cost anything to create and are to be used only to settle obligations created by the cap and trade regulations. Therefore any amounts received are non-reciprocal.

However, the sale at auction seems to meet the definition of an "exchange transaction" because one entity (the auction participant) receives assets (the EAs – which are assets from the perspective of the participant and assets to the Province immediately prior to the auction) and directly gives approximately equal value in the form of cash to another entity (the Province) as the amount of cash paid for an EA equates to the fair value of the EAs. This is supported by the following facts

- The province has delivered an asset in exchange for cash. The EAs are assets/economic resources prior to the sale as they are held-for-sale inventory assets prior to the auction (see also Section 4 (a) below).
- Purchasers of EAs have obtained an asset in exchange for cash. Purchasers can include market participants and unlike mandatory or voluntary participants, market participants are not subject to compliance obligations. They are purchasing the EAs because EAs are a resource that can be sold or traded on the marketplace. Mandatory and Voluntary participant also do not have to keep their EAs but can sell and trade them on the market speculatively. Participants recognize EAs as assets in their financial statements (typically as intangible assets under IFRS).
- The participant purchases EAs by giving up cash that is approximately equal in value to the EA as, by definition, the "fair value" of an EA is what a market participant is prepared to pay in an unforced transaction, and the auction process is a mechanism to assist in identifying the fair value of the EAs.
- The Province's right to payment from a participant arises from the auction process and not solely from legislation. If no EAs are purchased at auction the Province has no right to payment. The province has an obligation to deliver the EA to a participant's CITSS account as part of the auction process.
- Once Ontario has linked with the WCI, then mandatory and voluntary participants who create emissions in Ontario could obtain some or all their EAs from California, Quebec or other market participants. There is no direct link between the amount of Ontario-based emissions and the amount of proceeds obtained by the Province; emissions in Ontario could exceed (or be less than) the number of EAs issued by Ontario. Therefore the characterization as a tax on emissions does not hold as there is no consistent basis on which this "tax" is calculated.
- The program is not created under tax legislation and is not legally a tax.

Is it a "good or service" and if so, of what nature?

The analysis in the above section supports the sale of EAs as being an exchange transaction. This is consistent with the proposed definitions of "exchange transactions" and "unilateral transactions" in the Revenue SOP. Because of the exchange nature of the auctions as the EAs can be considered to be a good or service that is provided in exchange for consideration, rather than a receipt of payment without a direct transfer of economic resources to the payor. For example, for any auction there may be no participants or not all EAs may be sold. In these cases, some EAs are not transferred to participants and there are no inflows to the Province or inflows are less than expected.

Prior to pollution pricing mechanisms the ability to emit pollution was a "free good". There was no cost to companies from emitting pollution - rather the costs were born by society as a whole. The cap and trade legislation forces companies to internalize the costs of pollution, thus turning a "free good" into a "good" that has a price. The price of being able to emit pollution is the cost of obtaining an EA i.e. a permit to settle the compliance obligation.

From the perspective of the participant, the EA is a "good or service". Accounting standards do not clearly define the difference between a "good" or a "service". Often it is evident. Goods are usually understood to be tangible items for which physical possession can be transferred. Services are usually understood to be actions that benefit the recipient that are consumed as the service is provided. Other examples of "goods and services" that are less clear are:

- Stand ready obligations, such as standby charges levied to have good or service providers ready to act
- Rights to use tangible or intangible assets, such as leases or licences for intellectual property
- Options to purchase future goods and services (for example, gift cards or future discounts)
- Providing a decision (for example, fees to apply for a driver's licence and its issuance to a qualifying driver)

(see "Revenue" Statement of Principles issued by PSAB, August 2013)

An EA does not fit neatly into any of these categories. It is intangible (it does not have physical form). It is not a right to use an existing asset (tangible or intangible) of the Province as the right relates to an action of the participant (emissions). As the participant can transfer the EA to other participants, it is clear that the issuance of an EA is not provide a benefit to the recipient that is consumed as it is delivered. The EA does not give a participant the right to future goods or services to be provided by the Province, nor does it represent that the province is on "stand-by" to deliver future goods and services as there is no transfer of further goods and services when the EA is remitted in settlement of a compliance obligation.

As an EA is tradeable and can be transferred or sold to other participants it is most similar to a "good", albeit one in intangible form. If a participant receives a good from the Province in a transaction then the Province must be delivering a good. Therefore although the province creates the EA and the use value of the EA is dependent on the Province's own legislation regarding compliance obligations it makes sense to apply symmetry between participants and the Province in respect of the determination of nature of the EAs.

4. Identification of assets relating to the cap and trade program as sponsoring government

Summary of relevant guidance – See Appendix C

PS 1000, Financial statement concepts ("PS 1000")

PS 1200, Financial statement presentation ("PS 1200")/PS 1201, Financial statement presentation, effective April 1, 2019 ("PS 1201")

PS 3210, Assets, effective April 1, 2017 ("PS 3210")

PS 3450, Financial instruments, effective April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to assets under Public Sector Accounting Standards.

a) On creation of free and auctioned EAs: EAs that are created by the government, including EAs held in the strategic reserve, are inventories held-for-sale. EAs that have been remitted to the government as payment for increased compliance obligations ~~or because of breaches of holding limits~~ and are available for re-sale at auctions are also inventories held-for-sale.

   Inventories held-for-sale are measured at cost. Newly created EAs do not cost anything to create and are measured at a nominal amount. EAs that are returned to the government and not retired due to increased compliance obligations ~~or breaches of holding limits~~ will be measured at the cost to re-acquire them (also a nominal amount).

   Note that as it is expected that these amounts will be nominal this preliminary position has not material impact on the Public Accounts.

b) Escrow proceeds held for auctions: Escrow proceeds received for bid guarantees are not recorded by the Province prior to the transfer of funds into the Province's escrow settlement account.

   After auction certification cash from successful bidders is transferred to the Province's escrow settlement account, resulting in recognition of an asset (cash in Escrow). A corresponding amount is recognized as deferred revenue until the contract[2] is settled by the transfer of EAs to the participants (see section 6 below). On settlement EAs held in inventory are removed from inventory and included in Cost of Sales, although these are expected to be at nominal amounts and so this entry would not be material.

c) Period between the auction certification date and the delivery date of the EAs: From the date of the contract between the Province and the successful bidder and the settlement of the contract by delivery of EAs there is no derivative instrument required to be recognized.

d) EAs in circulation: EAs in circulation or the right to receive back EAs in circulation as emissions are produced by participants are not recognized as assets, whether sold at auction or issued as free allowances.

e) Failure of participant to pay increased compliance obligation: The right to demand payment in lieu of EAs for an increased compliance obligation is recognized after the time period that a participant has to rectify the shortfall by remitting EAs as expired, e.g. on the deadline specified in a notice issued under Section 14 (8) of the participant's outstanding obligations.

The above can be summarized in the following journal entries:

On creation of EAs or receipt of EAs that can be re-sold:

Dr Inventory held-for-sale (expected to be nil cost)

Cr Cash (expected to be nil cost)

[2] Please refer to analysis of "Escrow proceeds held for auctions" for explanation of the use of the word "contract" in this memorandum.

On distribution of "free" EAs to capped emitters (see section 6 - included here for completeness of entries)

Dr Expense (expected to be nil as at cost of inventory)

Cr Inventory held-for-sale (expected to be nil cost)

As payment from successful bidders is received and placed into Ontario Settlement account:

Dr Cash (in Escrow)

Cr Deferred Revenue

On date of receipt of proceeds to GGRA and transfer of EAs to participant CITSS accounts:

Dr Deferred revenue

Cr Revenue

Dr Cash (GGRA account)

Cr Cash (in Escrow)

As emissions are made by participants

No journal entry required

On receipt of EAs for the current compliance period in respect of compliance obligations or increased compliance obligations:

No journal entry required

On receipt of any EAs of future vintages settled in respect of a 3 for 1 compliance obligation:

Dr Inventory held for sale (expected to be nil cost)

Cr Revenue (expected to be nil cost)

On expiration of deadline for rectifying increased compliance shortfall by remitting EAs:

Dr Receivable

Cr Revenue

Analysis

a) <u>On creation of free and auctioned EAs</u>:

EAs are "goods" created to be sold or distributed to participants (see analysis in section 3 above). The sales occur on a regular basis and generate revenues in the ordinary course of running the cap and trade program. PS 1200.048 notes that inventories for sale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. The EAs therefore meet the definition of inventories held-for-sale as they are held for sale in the ordinary course and the revenues can be used to finance future operations. Despite being intangible in nature these could be given accounting recognition as an asset. Consistent with current policies of the Province, inventories held-for-sale are measured at the lower of cost or recoverable amount. PSAS does not provide further guidance on what is included in "cost" for inventory. Following the guidance for tangible capital assets that are constructed would result in only direct costs of creation and directly attributable overhead costs being

included. The definition of "cost" for inventories in under other frameworks such as IFRS or ASPE includes both direct costs and a systematic allocation of fixed and variable production overheads. As the EAs are intangible in nature it is not expected that any production overheads would be incurred. General overheads (such as general management) are not allocated to inventory.

EAs that are returned to the government and not retired due to increased compliance obligations ~~or breaches of holding limits~~ are measured at their cost, which is expected to be a nominal amount as no cash or other financial asset is paid to acquire them, and no liability is derecognized in respect of the receipt of these (see Section 4 on recognition of liabilities).

Alternative positions considered and rejected: EAs are intangible (without a physical substance) in nature and many participant's accounting framework include them as intangible assets. As the EAs are internally generated and intangible there is an alternative view that they should not be recognized on the books of the Province prior to sale, given the lack of a PSAS definition of what is included the reference to "Intangible Assets" in PS 1000.58. This view is an acceptable view under PSAS, but was ultimately rejected as the preliminary position because the intent of creating the EAs is for re-sale and not for use as a capital asset that is used in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other assets. The rationale for scoping out "intangible assets" in PS 1000.58 is because there is no recognition and measurement criteria for intangibles. However there is guidance on how to account for inventories held-for-sale, which can be applied. The selected approach of treating EAs as inventory held-for-sale may create an additional accountability of the number of EAs created and provide an opportunity for additional disclosures in the financial statements that would enhance transparency. As the cost is always expected to be nil or nominal because of the nature of the EAs, the accounting for EAs on creation is expected to be immaterial to the financial statements.

b) Escrow proceeds held for auctions:

An asset is recognized by the province as cash is transferred to the Province's escrow settlement account. Prior to the auction process, the Province does not control the cash or LOC/LOGs held in the participant's escrow sub-account and therefore cannot recognize them as assets. The proceeds are held by a third party in a sub-account that identifies the participant and legal title and control is not with the Province. The Province does not control whether or how much a participant bids and therefore if their bids are successful. Only successful bids give the Province any rights to the escrow proceeds. Instead the participant controls whether the escrow proceeds will be used to purchase EAs or will be returned to the entity. If no auction occurs for any reason then the Province does not have any right to the escrowed cash amounts in the sub-account. ~~After consulting with legal counsel from Ministry of Finance and Treasury Board, it has been determined that at~~It is the view of the Province that the point in time when money is deposited into Ontario's escrow account, that money is "public money" within meaning of the Financial Administration Act (see subsection 1 (3) of that Act) in that it "belongs" to Ontario. Therefore prior to this point, funds (such as those in the participant's sub-accounts) are not considered to belong to Ontario and should not be recognized as an asset. Further if DB fails to make payment to the Province because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for ~~the FSA's~~DB's error[3]. As the agreements between DB and the Province are still under negotiation, the

[3] ~~Legal position outlined in "Report back on WCI Inc Auction process" Submission to Treasury Board/Management Board of Cabinet, August, 2016.~~

final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

On the auction date participants place their bids and indicate what amounts they stand ready to transact at. However, until auction certification date the Province has not accepted the bids and therefore there is no contract for the sale and purchase of EAs on the auction date. This occurs only on the certification date because the certification process is considered to be substantive. Certification is considered substantive because the Province reviews the results, analyses the bid data in detail and reviews and accepts the auction report. The jurisdiction could reject the auction report if the auction has not proceeded in accordance with regulatory requirements and internal jurisdiction approvals must be obtained. Auction results are not fully published until certification has been completed and therefore the participants do not know if they are successful until certification. Based on this analysis there are no additional accounting implications of the auction date.

Once certification has occurred there is a "contract" between a successful bid participant and the Province and the settlement process begins. Legally speaking, the Province is not obligated to issue an EA under legislation until the participant has paid the auction price, and therefore there is no legal obligations of the Province until payment is received. This would suggest that there is no "contract" until some point in the financial settlement process when proceeds are received into Ontario's escrow account. However, for purposes of this analysis the word "contract" is used consistent with the accounting definition found in IFRS 15 IFRS 15 is an appropriate source of GAAP consistent with reference to IFRS 15 for revenue recognition purposes – see Section 6), whereby an arrangement is a contract when both parties have approved the arrangement (in writing or in accordance with customary business practices); the entity can identify each party's rights and payment terms regarding the goods and services to be transferred, there is commercial substance and it is probable that the entity will collect the consideration in exchange for the goods and services (IFRS 15.9). Further uses of the word "contract in this memorandum refers to the accounting sense.

Once cash has been transferred from participant's sub-account to the Province's escrow account it is an asset of the Province. It is held for the Province's benefit, notwithstanding that it is not transferred to the Province's own GGRA bank account until the validation of the financial reconciliation, which is considered to be only a matter of time. Therefore during the settlement process, as cash payments are received from participants and deposited into the jurisdiction's escrow account or an LOC/LOG is drawn upon and deposited these would be recognized as cash (in escrow) by the Province. As the EAs have not been delivered to the participant the corresponding side of the entry would be to deferred revenue (see Section 6 below). Any cash recognized for successful bid participants would not be considered to be restricted cash as it is not required to be returned to the bidder and is not externally restricted.

Amounts receivable from participants (i.e. those bid guarantees covered by LOC/LOGs) would not be recognized as an asset of the Province prior to settlement of the LOC/LOG and cash being deposited in the Province's escrow settlement account. While there is a contract between the participant and the province neither party has executed on the contract prior to cash being received into Escrow, and therefore it remains an executory contract until one party performs by paying consideration or delivering the goods. As there is no amount receivable (as the Province will never deliver the EAs prior to cash being received) there is no need to consider any provision for impairment of those receivables.

Note that the cash held in escrow will usually be classified as cash because it is expected to meet the definition of cash and cash equivalents in PS Section 1200.97. The time that the cash is expected to be in the Ontario Settlement account is not more than 20 days, therefore the escrow cash is a "short term highly liquid" amount of cash that is subject to an insignificant risk of changes in value. PSAS considers that anything less than three months might be "short term". However, if there were significant concerns about the amount and timing of cash transfers from the settlement account to the GGRA bank account, for example because of concerns about the Escrow Agent's financial stability, the definition of

"cash and cash equivalents" might not be met. In this case the amounts would be recorded as a receivable from the Escrow Agent and the need for a valuation allowance would be considered.

By settlement date all the cash proceeds from the auction would be transferred from the participant's sub-accounts and deposited into the Province's Escrow account. On the settlement date, the Escrowed cash is transferred to the Province's GGRA bank account which would result in a reclassification of the restricted cash to "cash" as the GGRA account is only internally restricted. (See Section 6 for the discussion on the GGRA account restrictions and other revenue implications at settlement date.)

Alternative positions considered and rejected:

It was considered whether an asset should be recognized by the province when cash is received into a participant's escrow "sub-account" - which is a sub-account of the Province's escrow account - and only released upon the completion and settlement of the auction, which is under the control of the Minister through the certification and settlement process. For example, the province requires participants to place bid guarantees and can control whether an auction goes ahead and therefore when the proceeds are released back to unsuccessful bidders. A bidder cannot retract their posted financial assurance until after an auction has gone ahead.

Therefore any escrowed cash amounts could be considered similar to customer deposits received in advance that should be recognized on the Province's balance sheet, offset by a liability to return those deposits, which will be settled either through a refund of the cash in escrow or through the deposit of EAs in the participant's CITSS account. This view was rejected as based on legal assessment the Province does not own or control the participant's cash in Escrow and has no rights to it prior to the auction process.

Trade date accounting: An alternative view is that recognition of the sale of the EAs should be on a "trade-date" accounting basis. See Section 6 on revenue recognition for discussion on accounting for the sale of the EAs on the trade date and why this view was ultimately rejected. The implications for asset recognition under trade date accounting is that, as the sale is recognized on the trade date not the settlement date, a receivable for the entire proceeds of the auctioned EAs would be recognized on the trade date. Receivables recognized would be subject to impairment considerations, although the bid guarantees would mean a valuation allowance would not be required.

Under trade date accounting it would be determined on what the date is there a fixed price commitment which is the date at which a receivable is recognized. If the certification process is considered to be a substantive process that is undertaken by the Province then there would not be a fixed price commitment until the certification date. If the certification process is not considered to be substantive and the Province is committed to the amounts, prices and bid participants that are shown by the auction algorithm and auction report then this would indicate the auction date is the trade date. As trade date accounting has been rejected this issue has not been considered further.

Auction date as contract date: An alternative view to certification date as the contract date between the Province and the participant for the sale of EAs is that there is a contract on the auction date. This view would indicate that the certification process is not substantive and is a matter of course with changes or rejection of the initial auction algorithm results expected to be rare. It might also be argued that while the participant does not know whether they have been successful or not, the Province has run the auction algorithm and does know who the successful bidder are and at what price, and therefore from the Province's perspective there is a contract. This view was ultimately rejected on the basis that the auction certification process is considered to be substantive to ensure the successful bids are legitimate and do not exceed holding limits. Note that based on the preliminary revenue

conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

Settlement period/financial settlement date as contract date: As noted above, legally there is no obligation of the Province to deliver EAs until cash has been received. Therefore it could be argued that there is no contract until the cash is received during the settlement period. It should be noted that the financial settlement date itself is merely the date by which all cash will be received under the escrow process. It is not substantive for accounting purposes in that it does not reflect when the cash is received into the Ontario Escrow Settlement account, nor when it is transferred into the GGRA. This view was rejected for accounting purposes because both parties have a good understanding of the auction processes and arrangements to be able to determine their respective rights and obligations and payments terms under the program prior to this point. Note that based on the preliminary revenue conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

c) Recognition of a derivative

When the province adopts PS 3450 it will need to consider whether the arrangement creates a derivative that needs to be recognized for the contract that exists from the certification date to the settlement of the contract by delivery of EAs date. The contract is a fixed price contract as the Province has agreed to sell a specified number of EAs for the specified price to the successful bid participant. While EAs are financial assets for the purposes of PS 1200/PS1201 it could be argued that they are "non-financial items" because they are inventories held for sale (not in scope of PS 3450) and are not contractual rights to receive cash. PS 3450 scopes out contracts to buy non-financial items from being derivatives when they are made in accordance with the entities normal sale or usage requirements and when those contracts cannot be settled net in cash or another financial instrument. Auction contracts to buy and sell EAs cannot be settled net – they can only be settled gross by exchanging cash for the EAs. Therefore no derivative will be recognized in respect of the contract.

Alternative positions considered and rejected:

No alternative views considered on the basis that EAs are not financial assets for purposes of PS 3450 as discussed below in "EAs in circulation".

d) EAs in circulation:

Once sold EAs in circulation do not represent assets to the Province. The EAs are economic resources as participants ascribe value to them. It may also be argued that the Province controls EAs as it can deny or regulate access to EAs by participants through regulation (PS 3210.16). However, the Province will not obtain any economic future benefits from the existence of EAs in circulation. PS 3210.12 distinguishes between the benefit the public receives and the economic benefit that a public sector entity receives through provision of goods or services, increase in cash inflows or reduction in cash outflow; only the latter resulting in future economic benefits that give rise to an asset. While the Province has a right to receive EAs in the future to settle compliance obligations, those EAs are retired after receipt and never result in an inflow of cash (or reduction in cash outflows) for the Province. Under certain circumstances EAs may be received that are not retired, for example those received as part of a 3 for 1 increased compliance obligation. However, when the EAs are issued the Province cannot expect that any participants will be subject to the 3 for 1 increased compliance obligation and in

fact the objective of the cap and trade program is to incentivize participants to purchase their required EAs on the market or reduce emissions and so to avoid the burden of the 3 for 1 increased compliance obligation. Therefore the Province has no basis for expecting future benefits in the form of EAs that will not be retired and can be resold. The EAs do not enhance the government's provision of goods or services as the EAs do not, by themselves, reduce emissions. While EAs exist to further a policy objective of the Province, the benefits of the policy (reduced climate change impact and lower pollution) is a benefit to the Province of Ontario as a whole, not specifically to the government of Ontario.

Alternative positions considered and rejected: An alternative view would be recognize EAs in circulation as an asset based on the Province's right to receive the EAs as a participant emits. This is symmetrical with the participant's accounting for an emission obligation as they emit. However, while the Province arguably has a right to receive an EA due to a past event (the emissions) that the Province controls (through the cap and trade legislation) once returned the EAs do not have future service potential or the ability to generate future economic benefits as they are retired immediately.

Any recognition of a right to receive an EA that is created when a participant emits over time must create revenue as the corresponding credit, as there is no liability that is created by the right to receive an EA. This then results in a write-off to expense when the EA is actually received back. This expense would not reflect the economic substance as it implies that the Province is "better off" financially when emissions are produced despite there being no inflow of economic benefits due to emissions, and "worse off" when EAs are remitted for the pollution, despite there bring no outflow of economic resources (expense) for the Province at the point the EAs are returned and written off. For these reasons this view would not result in a fair presentation.

This alternative view is more consistent when there is a corresponding view that the Province has a liability for EAs in circulation (similar to currency in circulation) and therefore the receipt of the EAs does represent a future economic benefit because it results in the extinguishment of a recognized liability by the Province. This view was rejected because liability accounting for EAs in circulation is rejected as noted in Section 5 below and Appendix B.

It was also considered whether the right to receive EAs gives future economic benefits because the EAs are recognized as assets by participants under their accounting frameworks (e.g. IFRS) and therefore the Province has a right to recall an asset. However this view was rejected because while EAs are assets for participants as they can be used to reduce a recognized obligation, they are not assets for the Province as they do not give the Province access to future economic benefits through the provision of goods or services, future cash inflows or reduction of future cash outflows for the reasons noted above. The only exception is when EAs for a future compliance period are received as part of the 3 for 1 increased compliance obligation as these may be re-sold in the future. However for these EAs, the Province does not control how many EAs may be received back that can be re-sold or how many of these are for a future compliance period and so the asset criteria of control cannot be met in respect of this right to receive EAs for increased compliance obligations. Any recognition of an asset for the right to receive back applied to all EAs would result in a write-off to expense when EAs are remitted for a regular compliance obligation and then retired. This expense would not reflect the economic substance as there has been no outflow of economic resources by the Province at the point the EAs are returned and is therefore not a fair presentation.

e) Failure of participant to pay increased compliance obligation:

An increase compliance obligation is similar to a fine or penalty in that it increases the incentive for a capped participant to obtain enough EA "permits" during the compliance period or the participant

must obtain a greater number of permits at a greater cost. However, while the compliance obligation is increased for the participant, the Province does not recognize a right to receive cash for increased compliance obligations until the expiry of the notice period because prior to this point participants, not the Province, control whether they have sufficient EAs to meet their compliance obligations or increased compliance obligations as they can purchase additional EAs on the market at the market price. EAs do not enhance or create expected economic future benefits for the government for the reasons noted in part (d) above in that they are resources that are controlled, but do not lead to future economic benefits for the Province. As participants can settle their obligations with EAs (including those from a future compliance period and after Ontario is linked, those issued by another jurisdiction of the WCI) there is no asset of the Province until a participant has not settled with EAs and under legislation the Province has a right to demand cash as settlement of the compliance obligation (i.e. to levy a cash penalty for non-compliance with the program). The right to demand cash represents a right to future economic benefits (cash flows) and is an asset, regardless of how the Province ultimately agrees to settle the obligation with the participant.

Measurement of the receivable: There is no specific guidance in PSAS on the recognition of receivables of fines or penalties as they are scoped out of PS 3510, *Tax revenues.* However, it would be consistent with PS 3510 and other standard to recognize the receivable at the amount expected to be received at the time of initial recognition. This would take into account the *expected* settlement of the receivable. For example, some or part of the amount might be settled by a reduction in the free allowances that would otherwise be due to a participant in future years. Settlement in this manner does not result in a direct inflow of economic benefits for the Province as the cost of creating free EAs for distribution is nominal (the benefits are indirect in that more EAs would be available for auction sale) and so would reduce the amount expected to be received.

Alternative positions considered and rejected: It was considered whether the ultimate right for the Province to demand cash in settlement of an increased compliance obligation indicated that the EAs in circulation give rise to future economic benefits because the right to receive EAs *might* ultimately end up being settled in cash. However, this view was rejected as it is only when a participant has chosen not settled with EAs that the Province has a right to demand cash as settlement of the compliance obligation. Therefore there can be no further expected future benefits to be obtained for the Province prior to this point.

5. Identification of liabilities relating to the cap and trade program (excluding deferred revenue) as sponsoring government

Relevant guidance – See Appendix C

PS 1000, Financial statement concepts (“PS 1000”)

PS 3200, Liabilities (“PS 3200”)

PS 3300, Contingent liabilities (“PS 3300”)

PS 3310, Loan guarantees (“PS 3310”)

PS 3410, Government Transfers (“PS 3410”)

PS 3450, Financial instruments, effective from April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to liabilities under Public Sector Accounting Standards.

a) Financial liabilities: There are no attributes of the cap and trade program that result in financial liabilities for the Province.

b) Other liabilities: There are no attributes of the cap and trade program that result in another type of liability for the Province.

c) Loan guarantees and contingent liabilities: There is no exposure for the Province in respect of Participant's cash financial assurance held in escrow in the participant's sub- accounts.

Analysis

a) Financial liabilities: As noted in the analysis in part 3 above and Appendix B the EAs themselves are not financial instruments and therefore do not create a financial liability, as once the EAs are issued and in circulation there is no contractual obligation of the Province to redeem them for cash or any other financial asset, or exchange them for other financial instruments. For example, if EAs are not required to be remitted by a participant for a compliance period it can be rolled forward for use in a future compliance period, rather than being redeemed for cash or another EA.

After Ontario links with the WCI it was considered if there is an obligation of Ontario to exchange Ontario EAs for those of other jurisdictions, or accept other EAs in lieu of Ontario EAs on terms that might be unfavourable to the Province. No such obligation appears to exist as there is one market for all jurisdictions in the WCI and once issued there is no way to determine whether an EA is an "Ontario" EA or that of another jurisdiction as all EAs are contractually identical. If a market participant has purchased an EA that was issued as an allocation from California or Quebec and redeems it for an Ontario compliance obligation this does not create any obligation for Ontario to "settle" or return that EA to the originating jurisdiction.

It was considered whether there is any contractual obligation to repurchase the issued EAs or return the purchase price of auctioned EAs in contingent circumstances, such as the termination of the cap and trade program or bankruptcy of a participant. Based on the legislation and regulations there are no terms of the EAs that permit the participant to "put back" the EA to the Province, or require the Province to recall EAs for cash. Rather, Section 70 (3) of the Act specifically notes that the Crown is not obligated to make any payments in respect of retired or removed EAs. The current legislation does not foresee any mechanisms to terminate the program and therefore no current contractual obligation to redeem EAs exists under the terms of the EAs. If the program were to be terminated in the future the settlement of outstanding EAs would be the subject of future legislation and therefore no past event has yet occurred that creates an obligation in the event of termination.

Alternative positions considered and rejected: New Zealand has adopted an accounting policy of accounting for EAs in circulation similar to "currency in circulation", also known as the "Emission Notes" approach. Whether the EAs can be considered similar to "currency in circulation has been considered in Section 3 above". Whether this view would result in a financial liability being recognized by the Province for EAs in circulation is explored further in Appendix B.

b) Other liabilities: There is no liability under PS 3200 for the future issuance of EAs that are predominantly sold through the auction process as these are reciprocal transactions at the market price. The requirement to issue EAs at an auction price does not result in an outflow of economic benefits to the Province, because the Province receives fair value at the time of issuance.

In respect of the EAs that are given away as free allowances, there could be considered to be a constructive obligation to transfer "goods" (being the free EAs) in total or to specific participants. The delivery of free EAs is a transition mechanism and is non-reciprocal (as opposed to the sale of EAs which is a reciprocal transaction). The transfer of EAs is not technically in scope of PS 3410 because EAs are neither monetary assets (as they are not claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangements – PS 3410 GLOSSARY) nor are they tangible capital assets as they are not tangible in nature. However the principles in PS 3410 can be applied to determine whether there is an obligation to deliver free EAs. Under PS 3410 a transferring government has a liability (and expense) for a transfer when the transfer is authorized and all eligibility criteria have been met. The ability to receive free EAs is dependent on the participant registering each year to be eligible to receive the EAs. To the extent that that a capped emitter has registered to get free EAs and the number of EAs that it will receive can be determined under the regulations without continuing discretion from the MOECC to adjust the number then there should be a liability and expense amount recognized for the obligation to issue free EAs. It is noted however, that PS 3410 does not provide guidance on measurement of that liability and expense. As the obligation is to be settled only in the delivery of the free EAs, the best estimate of the amount to settle the obligation by the Province is the cost of the EAs, which is a nominal amount. Therefore, the obligation cannot be material at any time.

After the issue of free EAs or auction of other EAs, there is no legal or constructive or obligation to make payments or otherwise have an outflow of economic benefits in respect of issued EAs. As the cap and trade program is new, there have been no past practices established by which the Province settles outstanding EAs in cash or by transfer of other economic resources. There are no exchange mechanisms to exchange some EAs for others or to settle them in cash outlined in legislation.

Alternative positions considered and rejected:

It was considered whether the Act creates a broader obligation of the Province to reduce greenhouse gas emissions in Ontario in a manner that requires the outflow of economic benefits. Aside from the administration of the cap and trade system, the Act does not require specific actions to be taken by the Province that would result in an outflow of future economic benefits that the Province does not have the discretion to avoid. The question of whether the responsibility to spend auction proceeds on initiatives that are reasonably likely to reduce or support the reduction of greenhouse gases creates a liability as discussed in Section 6 below.

It was also considered if there is an obligation of the Province to run the Cap and Trade Program pursuant to legislation and if this creates a liability for the costs of running the program. Under the government's own legislation the Province is responsible for managing the ETS, which will require an outflow of resources in the form of administration costs, including the costs of administering EA issuance, emissions monitoring and compliance settlement activities at the end of the compliance period. There is also a past event that gives rise to this obligation being the enactment of the ETS legislation. However, as the cap and trade program is pursuant to the Province's own legislation there is still discretion to avoid the future outflows through the ability to change the legislation. The federal government has recently announced plans that mean provinces must come up with some form of carbon pricing scheme or else a federal carbon price will be imposed. Currently there is no indication

that the federal government is requiring that Ontario continue with its cap and trade program as that program could be replaced with other carbon pricing mechanisms or could be removed and Ontario become subject to any future federal scheme. As such there is no third party that means Ontario has little or no realistic alternative but to continue with the Cap and Trade Program. Indeed, the actions of the federal government indicate that Ontario could stop its own program at its discretion and rely on any federal scheme to achieve carbon reductions.

Loan guarantees and contingent liabilities: It was considered whether the Province has an implied loan guarantee or contingent liability in respect of Participant's cash financial assurance, and whether the Province has the obligation to ensure the amounts are returned to participants if the auction does not run or they are not successful, even in cases of insolvency or error on the part of DB. Based on a legal analysis the Province does not appear to have exposure for loan guarantees or contingent liabilities to the extent that participants have submitted cash bid guarantees in participant's Escrow accounts as there is recourse under both the indemnification clause of the DB contract and required insurance (depending on the nature of the error). Further, if the DB fails to make payment to a participating jurisdiction because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for DB's error.

Alternative positions considered and rejected: No alternative views considered, based on the understanding of the specific arrangements regarding the escrow accounts. The final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

6. Revenue recognition under the cap and trade program as sponsoring government

Revenue recognition on sale and distribution of EAs

Relevant guidance - See Appendix C for details.

PS 1000, Financial statement concepts ("PS 1000")

PS 1150, Generally accepted accounting principles ("PS 1150")

PS 3410, Government transfers ("PS 3410")

Other GAAP accounting frameworks including IFRS 15, *Revenue from contracts with customers* ("IFRS 15")

PSAB Revenue – Statement of Principles ("Revenue SOP")

Preliminary position: Revenue is recognized for the sale of EAs on the date of delivery of the EAs as this is when the performance obligation is settled by the Province. No revenue is recognized on the distribution of free EAs for no consideration.

Analysis:

The following analysis follows from the preliminary position in Section 3 on the nature of EAs – *The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.* Given the nature of the EAs as

intangible goods it is appropriate to consider revenue recognition requirements for exchange transactions. PSAS does not have a specific standard on revenue from exchange transactions. Therefore other sources of GAAP and consideration of the conceptual framework must be applied to develop an accounting policy.

a) What is the performance obligation for the sale of EAs? A performance obligation is defined in IFRS 15 a promise in a contract with a customer to transfer a distinct good or service (or bundle of distinct goods or services) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. This is similar to the proposed definition of performance obligation in the Revenue SOP which defines a performance obligation as an "enforceable promise to provide goods or services to a payor as a result of exchange transactions". The following analysis has applied the IFRS concept, as permitted under PS 1150.

   In both IFRS 15 and the Revenue SOP, performance obligations are identified by reference to a contract – which is an agreement that creates enforceable rights and obligations. A contract does not have to be a formal written bilateral agreement, as long as both parties have an understanding of each party's respective enforceable rights and obligations. In this situation the good or service is the EA that is credited to a participant as a result of the auction process or strategic reserve sale. As discussed in Section 4 above, the auction certification date is the date that a contract is considered to exist.

   Each EA is "distinct" in that the customer (purchaser) can benefit from each EA individually by selling, trading or using those EAs as the customer sees fit, including using those EAs to sell to other participants in the WCI or to settle compliance obligations in other WCI jurisdictions (once linked), and does not need other goods or services to benefit from the EA and the EA is not combined with other goods and services. A purchaser can only purchase an EA if they are a registered participant, however, becoming a registered participant is available to voluntary participants and market participants and therefore is considered to be readily available to all customers. (See IFRS 15.27 in Appendix C for definition of "distinct goods and services")

   Based on the above analysis, a contract is created when a participant successfully bids at auction as confirmed in the auction certification process. The Province has distinct performance obligations to deliver each EA to each successful bidder under these contracts.

   Alternative positions considered and rejected: It was considered whether the item delivered to participants in the exchange transaction was a program of carbon (greenhouse gas) reduction rather than the delivery of an EA itself. This was rejected because the individual participants may or may not benefit from a reduction in carbon in Ontario and may or may not benefit in proportion to the cost of the EAs. Further, when Ontario links with the WCI, the participants may not even be located in Ontario. While the province may have promised the public of Ontario and other parties that they will reduce carbon emissions in Ontario to meet emissions targets, this should be separately analysed as to whether it has created a constructive obligation for Ontario to take actions and incur costs to meet this promise (See analysis in 5 (b) above). This is separate from the obligation in the exchange transaction with participants in respect of the purchase of EAs.

   It was also considered whether the performance obligations to participants is both to issue the EA in the auction process, and also a stand-ready promise to redeem the EA in the future to settle a compliance obligation. In other words an EA is an intangible "right" that has been issued that province is obligated to redeem. Under this view, some or all of the proceeds from the auction would not be earned as revenue until the Province redeems the EA. This view was rejected because the obligation to redeem the EA as settlement of a participant's compliance obligation is an obligation that arises when a participant emits pollution and does not arise from the sale of the EAs. For example, Ontario sells 10,000,000 EAs in a compliance period. However total emissions from Ontario participants are only 100,000 tonnes. Ontario does not have an obligation to redeem all of the 10,000,000 EAs that were sold. Rather, Ontario accepts the 100,000 EAs that are submitted by the participants who emitted the 100,000 tonnes of emissions as settlement of their compliance obligations.

Therefore Ontario has no obligation to redeem an EA that arises from the original exchange transaction and therefore there is no performance obligation that exists once the EAs have been sold. Similarly, when Ontario has linked to the WCI as Ontario is only obliged to take back EAs in respect of emissions from Ontario participants. There is no obligation to take back EAs sold to participants in other jurisdictions or to market participants, and likewise there is an obligation to redeem EAs submitted by Ontario participants, even when these were purchased from another WCI jurisdiction or another participant.

It was also considered whether the Province has an obligation to continue to provide the cap and trade program and/or a marketplace where participants can buy and sell EAs, on the basis that participants purchasing EAs are doing so on the understanding that they will be able to buy and sell EAs as well as to remit them for compliance obligations (if necessary). For example, if the termination of the cap and trade program would result in an obligation of the Province to return the sale proceeds to the holders of EAs that had been sold at auction this could indicate that there is an ongoing performance obligation that has not been fulfilled as the amounts must be refunded in the event of termination of the program. Under the Act, the Director establishes one or more accounts for registered participants for the purpose of allowing the participant to purchase, sell, trade and otherwise deal with emission allowances and credits. However, these are established and maintained in accordance with regulation for any registered participants, regardless of whether they purchase EAs in the auction process. Therefore the responsibility of creating and maintaining these accounts is a requirement and responsibility to registered participants under the Act and not a performance obligation to the purchasers or holders of EAs. The Act permits the trading of EAs between registered participants, but it does not create a provincially controlled market place for these trades. Registered participants may have an *expectation* of the Province continuing the cap and trade program and may make decisions based on this expectation, but this expectation exists in all registered participants including those that receive free allowances, rather than being a performance obligation that arises from the exchange transaction that is the sale of EAs. Section 5 (b) above discusses whether there is a general liability of the Province to continue the cap and trade program. Finally, it is noted that there is no legislative provisions for the termination of the program and there are no contractual provisions embedded in the EAs that give the participants the right to receive cash in respect of outstanding EAs upon termination of the program. As such, there is no evidence of a written or implied contractual performance obligation to continue the program that is part of the sale of EA exchange transaction.

b) <u>When is the performance obligation satisfied?</u> There are a number of models used in practice for determining when a performance obligation is satisfied. Under IFRS 15 the performance obligations are satisfied as control of the good or service passes to the customer, regardless of whether the performance obligation is a good or a service. Under other standards such as ASPE Section 3400, *Revenue* or IAS 18, *Revenue* there are different criteria for “goods” or “services” and generally revenue is recognized as risks and rewards of ownership are transferred (for goods) or services are provided (for services). Both would be acceptable ways to approach the timing of revenue recognition for exchange transactions under current public sector accounting standards. However, the Revenue SOP proposes a “control” model similar to IFRS 15, so this approach has been applied in the analysis. Under IFRS 15 an “over time” approach is permitted only in specific circumstances (see IFRS 15.35 in Appendix A). In the case of the EAs the customer does not simultaneously receive and consume the benefits of the EA, the EAs do not create or enhance an asset that the customer controls and there is no additional asset that does not have an alternative use that is created by the province to fulfil the contract. Therefore the performance obligation will be satisfied at a point in time.

IFRS 15 provides indicators of when a point-in-time obligation has been satisfied. These are also included in the Revenue SOP and have been considered in this analysis. See IFRS 15.38 in Appendix C. The indicators have been assessed as follows:

Indicator	Auction day	Auction Certification date	Financial Settlement date	Receipt of proceeds and delivery of EAs
Present right to payment	Possible – there is a right to payment from successful bidders but it has not been confirmed who these are.	Yes. Under the contract payment must be received prior to delivery of EAs	N/A payment must be received before this date	N/A payment must be received before this date
Legal title to the asset	Legally EAs are not "property" under the legislation and therefore the concept of legal title does not technically apply to EAs.			However, EAs can only be traded or used after they have been credited to the participant's account. This occurs only on this date.
The entity has transferred physical possession of the asset	This indicator is not entirely relevant as EAs do not have physical form.			However the record of a participant's EAs is maintained in the CITSS account and so the right to use an EA is confirmed only upon this date.
The customer has accepted the asset	There are no customer acceptance clauses. This indicates is not relevant.			
The customer has significant risks and rewards of ownership of the asset. Specifically:				
- Using the EA to settle a compliance obligation (permit to settle a compliance obligation)	No. The EAs cannot be transferred from a participant's holding account to its compliance account to settle an obligation until it has been credited to the holding account.			Yes. Once credited to a holding account a participant can use the EA to settle a compliance obligation.
- Benefiting or suffering from the fluctuations in the market price of EAs	Possibly – the price that the customer pays is set by the auction process. However the customer does not yet know what price that is or how many EAs will be obtained. Any	Yes – From this date the participant knows how many EAs they have and for what price. Any changes in EA value after this date will be obtained or absorbed by the customer if they	N/A already met	N/A already met

	changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	choose to sell.		

Based on the balance of the indicators above it can be concluded that there is most support for recognizing revenue on a "point in time" basis on the date when the EAs are transferred to the participant. As part of this it was considered that the nature of the EAs is ultimately as a permit to settle compliance obligations and therefore this element of risks and rewards was weighted more heavily.

Alternatives considered and rejected:

Auction date/Certification date/financial settlement date: See table above for analysis.

Trade date accounting: It was also considered whether "trade date accounting", as required by PS 3450 for regular way purchases and sales, could be applied to the purchase and sale of EAs. Trade date accounting is accepted for financial instruments to avoid having to recognize a derivative that be created for the period of time between when the fixed price commitment is entered into and it is settled because of the presence of an underlying variable that is not specific to either party. "Regular way" purchases and sales are those that are settled in the regular settlement cycle required for that particular investment. The time of that settlement varies depending on the type of instrument and jurisdiction. There could be an argument that the period between certification date and financial settlement date is the regular settlement cycle required for EAs, and therefore trade date accounting could be applied, which would result in the recognition of revenue (gains) on the sale of the EA on the trade date and not on the settlement date when the EA is actually transferred. However, this view was rejected for the following reasons:

- EAs are not sold through a "recognized exchange or securities market" but through the Province's auction process. While there is anticipated to be a market that develops for trades of EAs it will not be a "recognized exchange" under the Ontario Securities Act.
- As the sale is not on a "recognized exchange or securities market" there is not a customary period to settlement date (e.g. three days for equities, two days for forex swaps). Rather the period between the certification date and final settlement can vary depending on how long it takes for participants to provide cash, the LOCs/LOGs to be drawn upon and the final reconciliation to be approved. Further if the "trade date was considered to be the auction date and not the certification date this would extend the period further and make it more variable as the certification period can vary from 3 – 7 days.
- Trade date accounting is an exception to the usual rules of recognition for executory contracts and/or derivatives. As an exception it should not be extended by analogy to other situations such as EAs which are out of scope of PS 3450 as they are classified as inventories held for sale.

c) What are the implications of free allowances? Free allowances are not sold in an exchange transaction but are distributed in a non-exchange transaction, similar to a government transfer. As noted in Section 5 above, the distribution of EAs are technically not in scope of PS 3410, Government Transfers as they are not tangible capital assets or monetary assets. Further PS 3410 does not provide guidance on the measurement of a government transfer. However, the distribution of EAs to participants is similar to a government grant given that EAs are considered "goods" for which control is transferred at a point in time. This indicates that there is an outflow of economic benefits to participants. Typically under PSAS expenses incurred that are a result of

derecognition of assets are measured at the difference between the carrying amount of the asset and the consideration received (in this case nil). The carrying amount of the EAs is at cost; expected to be a nominal amount. This is an acceptable policy under PSAS and consistent with PS 1000.60 (See Appendix C).

Alternatives considered and rejected:

An alternative to measuring the free EAs at cost is to measure them at fair value at the date of distribution being the opportunity cost of the economic resources foregone by not selling the EAs at auction. This policy also appears to be supportable by PS 1000.60 which indicates transactions can be measured at the "fair value ascribed to them when they took place". However this alternative is not proposed because the expense from recognizing the EAs at fair value would be necessarily offset by a gain as the carrying amount of the EAs is nominal. This gain (revenue) does not seem to meet the definition of revenues under the Conceptual framework as there is no inflow of economic benefits to the government from issuing free EAs to participants. Therefore this alternative was rejected as it results in a gross up in the statement of operations that is not a fair presentation of the economic activities of the Province in respect of the issuance of free EAs.

Restrictions on Greenhouse Gas Reduction Account

Relevant guidance – See Appendix C for details

PS 3100, Restricted assets and revenues

PSG-4, Funds and reserves

Preliminary position: The requirement to place the auction proceeds into a Greenhouse Gas Reduction Account is an internal restriction and does not lead to a liability on the statement of financial position.

Analysis:

The legislative requirement to establish the GGRA within the Public Accounts and record the proceeds from the distribution of EAs is found only in the Act, which is legislation of the Province and not of another government. There are no other agreements with other governments or other external parties that restrict the use of the proceeds from the distribution of EAs. Therefore, there are considered to be no external restrictions and the requirements of PS 3100.11 to defer revenue until the resources are spent on the purpose or purpose specified do not apply.

Instead, the GGRA is an internally established reserve of the Province. The reserve is supported by assets that have been formally designated by the Province for specific uses and therefore meet the definition of "designated assets" in PS 3100, as this designation could be readily changed by amending the Act. Disclosure of designated assets may occur in the notes to the financial statements, but cannot occur on the statement of financial position. Similarly, PSG-4 permits reserves supported by designated assets to be disclosed in the notes, but not in the statement of financial position.

Alternative positions considered and rejected: It was considered whether there was an implied external restriction on the proceeds from the auction process, as when the participants purchase EAs they know that, by legislation, the funds are to be placed in the GGRA and spent on eligible programs. This view was rejected because the participants are purchasing the EAs in an exchange transaction (See discussion on "Sale of EAs as exchange or non-exchange transactions above). If the Province were to change the legislation regarding the use of the auction proceeds, the participants would still continue to purchase the EAs that they require or choose to purchase to meet their compliance obligations or to trade in the marketplace. As such, there is no evidence that the participants intend for there to be an external restriction on the proceeds.

It was also considered whether Ontario's commitments to other governments and parties, such as commitments to the WCI, create external restrictions on the use of auction proceeds for specific greenhouse gas reduction purposes. No external restrictions have been noted.

7. Financial statement presentation and disclosure considerations

- Financial statement disclosure consideration
- Other disclosures outside of the financial statements

8. Accounting for Emission Allowances held by government organizations

- Organizations that are consolidated into the Province's financial statements (hospitals, colleges etc.)
- GBEs that are accounted for using the modified equity method (IFRS) and prepare stand-alone financial statements under US GAAP

9. Anticipated fiscal impact over planning horizon

- Impact on balanced budget legislation

10. Implementation risks and audit considerations

Appendix A – Comparison to other select jurisdictions

	Quebec *Applies Canadian Public Sector Accounting Standards*	New Zealand[4] *Applies International Public Sector Accounting Standards*
Similarities and differences to Ontario	Quebec's cap and trade program substantially the same design as Ontario, as it is intended that Ontario will link into the WCI within the first compliance period	Similarities: Entities must provide New Zealand Units (NZUs) (not cash) to the government based on total emissions. NZUs can be traded between entities. Differences: New Zealand (NZ) had an obligation to the United Nations to keep emissions within the prescribed cap. NZUs are interchangeable with International Assigned Amount Units (AAUs) and New Zealand has an obligation to hold a quantity of international units equal to 90% of its AAU allocation. These units can be used to settle the New Zealand Government's Kyoto obligation. There is no hard domestic cap. International units can be used to settle emissions obligations. If the amount of NZUs are not sufficient for New Zealand to meet its international obligations the government must purchase more AAUs. For every NZU the government stands ready to swap it into an AAU (or equivalent international unit)
Asset recognition	None.	a) Creation of NZUs as "currency" results in inventory prior to issuance b) As Participants emit NZ has a "right to receive" the NZUs, created by legislation. The emissions are similar to a "taxable event"

[4] Information regarding the New Zealand ETS taken from the IPSASB paper "Emissions Trading Schemes" Agenda Item 14, March 2016 and "The Emissions Trading Scheme – Summary information for public entities and auditors"

Liability recognition	None. Although linked to the WCI, there is no cash changing hands with California, therefore no obligations/additional transactions that arise from a combined market.	When issued an NZU is an obligation, similar to "currency in circulation" that represents the obligation to redeem the NZU for their emissions value. NZUs are exchangeable for AAUs and an AAU or equivalent unit can be surrendered instead of an NZU, emphasizing that NZUs are a "medium of exchange" for settling the obligations. The liability is measured by reference to the cash received. For an grant of NZUs it would be nil. For NZUs issued for cash it is measured at the cash amount received. At the end of the compliance period the liability is settled by the return of NZUs (or other acceptable units) recorded under the "right to receive NZUs" asset. There are no assets or liabilities at the end of the compliance period.
Accounting for free allowances	Not recognized in the public accounts as revenue/expense.	Revenue is recognized when the "right to receive" NZUs is recognized – i.e. as the emissions are created by participants. Cash received from sale of NZUs is used to measure the liability representing the obligation to redeem NZUs and is not recognized as a revenue directly.
Accounting for sold/auctioned allowances	Revenue recognized immediately on sale/auction. Rationale was that sold rights are in scope of "unilateral rights" in the Revenue Statement of Principles and therefore result in immediate revenue recognition as government has sole authority to grant the right under constitutional powers and the past event (the auction) has occurred. No further obligations of the government. The revenues are non-refundable. Currently unknown whether recognized on auction date/certification date/settlement date/delivery date. Note that based on auction dates for WCI this is unlikely an issue for the Province of Quebec.	

Appendix B – Currency in circulation model

If the currency in circulation model is applies, as has been applied in New Zealand, the following analysis would be relevant for consideration. It is noted that the results are similar in respect of revenue recognition and liability recognition as for the "exchange transaction model".

The accounting for currency in circulation is not dealt with specifically in PSAS, however central banks typically recognized a liability for currency in circulation when it is issued as the central bank has an obligation to take back or issue notes and coins from banks with an offset to the bank's reserve liability with the central bank – in other words currency in circulation is exchangeable by holders into a different form of financial asset/ financial liability from the perspective of the central bank. In July 2016 IPSASB released a consultation paper on "Public Sector Specific Financial Instruments" that includes a discussion of currency in circulation[5]. This consultation paper lays out the critical questions to the application of this model. It is noted that the consultation paper considers the issuance of currency in circulation for its face value to be an "exchange transaction".

1. Is there a liability created?
2. What are the revenue implications?

Is there a liability created?

The consultation paper analyses the circumstances under which a liability may be created for currency in circulation by reference to the conceptual Framework. The analysis below considered the factors in the Consultation Paper in reference to the PSAS definition of a liability in PS 1000 and Section 3200 (Note that the IPSASB definition of a liability contains similar concepts to the PSAS definition in PS 1000 and PS 3200 although the words used are different).

- A past event has occurred when the EAs are issued, whether distributed for free or sold for cash.
- The issuance of a currency will embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation when there are legally enforceable obligations of the issuing government. For example, laws requiring the government to exchange damaged currency for new currency, hold collateral for the amount in circulation or establish explicit claims against the assets of the government for the currency in circulation. Where these legal obligations exist to redeem currency there is likely to be an outflow of resources required to discharge the obligation.
- If there are not legally enforceable obligations, the issuance of currency may still be a liability if the government has indicated they will accept certain responsibilities, have raised a valid expectation in others

[5] https://www.ifac.org/system/files/publications/files/IPSASB-Consultation-Paper-Public-Sector-Financial-Instruments.pdf

and have little or no alternative to avoid an outflow of economic resources. It may be less clear whether there will be an outflow of economic resources to settle these obligations, but a past practice of settling them (e.g. redeeming for cash) may create a valid expectation that will be settled by an outflow of economic resources.

There are a number of aspects that indicate the Ontario issued EAs do not meet the definition of a liability (and are not similar to the New Zealand Units):

- When they are remitted to the Province they are retired and not re-sold into circulation (with some limited exceptions)
- EAs issued in Ontario do not require the Province to exchange the EA into any other unit that is in turn can be sold by the Province for cash or used to settle a Provincial obligation, and does not require the Province to exchange an EA for cash. Ontario is not obligated to:
    - Hold collateral for amounts of EAs in circulation
    - Exchange EAs for "new" EAs
    - Honour any claims against other assets of the Province through the redemption of EAs
- In the absence of any legal obligation to redeem EAs for cash or another claim on an asset there is also no constructive obligation created by past practice of such claims/redemptions.
- This contrasts with the New Zealand system where New Zealand has an government Kyoto obligation to settle with international units and the government stands ready to exchange New Zealand Units into Assigned Amount Units (AAUs) or equivalent international unit. This may be on terms that are unfavourable or result in the requirement for New Zealand to pay cash to obtain the necessary AAUs for exchange.

Based on an analysis of the cap and trade program applied by Ontario the obligation to repatriate or redeem the EAs does not result in an outflow or sacrifice of future economic benefits as there are no circumstances when the Province must pay cash or other financial assets to settle the obligation to take back EAs for a participant's compliance obligation. Therefore the presentation of an obligation to redeem EAs would not reflect the substance of the arrangements, as the terms of the EAs do not meet the definition of a liability.

What are the revenue implications?

The consultation paper goes on to discuss whether, if no present obligation exists upon the issuance of currency in circulation if and when would revenue be recognized. Similar to IPSASB, under PSAS revenue is an increase in net financial position of the entity. (IPSASB also has the concept of ownership contributions, which are not relevant in this situation). The Consultation paper paragraph 3.43 notes that "when the issuance of currency does not satisfy the definition of a liability in the Conceptual Framework and recognition criteria, it should be recognized as revenue". This indicates that the test for a currency in circulation model is whether any attributes of the issuance of the EAs create a liability, and if not, any proceeds received from their issuance would be immediately credited to revenue as an inflow of economic resources to the government.

Appendix C – Technical guidance

Definition and nature of Assets

The definition of an "Asset" is currently set out in PS 1000.35.

1000.35 Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

PS 3210, *Assets* is effective from April 1, 2017, which expands on this definition. In light of the timing and multi-year nature of the cap and trade program PS 3210 is considered relevant.

PS 3210 defines assets as "economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained". Assets have three essential characteristics:

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

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

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

(PS 3210.03-.04 and PS 1000.36)

Assets may be classified as financial assets or non-financial assets. A financial asset is an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations (PS 1000.39). Examples of financial assets include cash, receivables and inventories held-for-sale. A non-financial asset is an asset that is acquired, constructed or developed and does not normally provide resources to discharge existing liabilities, but instead is normally employed to deliver government services, consumed in the normal course of operations and is not for sale in the normal course of operations (PS 1000.42). Examples of non-financial assets include tangible capital assets, supplies inventory or prepaid expenses.

Inventories are not specifically defined under PSAS, although PS 1200.48 provides guidance that Inventories for resale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. Other frameworks such as IFRS define inventories as assets that are held-for-sale in the ordinary course of business, used in the process or production for sales in the ordinary course of business or are consumed in the production process or rendering of services. This definition is consistent with the PSAS terminology of inventories held-for-sale and inventories held for consumption or use (consumed in the production process or rendering of services).

Intangible assets may meet the definition of an asset under PS 1000 and PS 3210. However, in the absence of appropriate public sector recognition and measurement criteria for intangible assets, no intangible assets are recognized in government financial statements (PS 1000.58). There is no definition provided for "intangible asset" in PSAS, although PS 4230 (applicable only to NPOs) does define Intangible Properties as "capital assets that lack physical substance". Other frameworks such as IFRS define Intangible Assets more broadly as "an identifiable non-monetary asset without physical substance".

Measurement of Assets

There is no specific guidance in PSAS on the initial recognition amounts for inventories. PS 1000.60 notes that generally financial statements are prepared on the "historical cost basis" being the cash or cash equivalents paid or received or the fair value ascribed to them when [the transactions] took place. Inventories held-for-sale are financial assets. Subsequent to initial recognition inventories are measured at their recoverable amount, net of any valuation allowance (PS 1200.049).

Definition and nature of liability

The definition of a "Liability" is currently set out in PS 1000.44-.45 and PS 3200, *Liabilities* which expands on this definition.

PS 3200 defines liabilities as "present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits". Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event or on demand;

c) The transactions or events obligating the government have already occurred.

(PS 3200.05)

PS 3200 states that discretion can be removed by an entity's own actions when this creates a constructive obligation to others. For a constructive obligation to exist the government must accept responsibility for the obligation, create a valid expectation among others and have no realistic obligation but to settle the obligation. This can arise from past practice, established policies, cabinet minutes, orders-in-council, ministerial orders, approved plans, ministerial letters and legislation.

PS 3200 states that the obligation to sacrifice economic benefits must be to a third party, and that entity exists at the financial statement date. The timing of the sacrifice of economic benefits must also be specified.

PS 3450 includes a definition of financial liabilities as "contractual obligations to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government". While PS 3450, *Financial instruments* is not mandatorily effective for the Province until fiscal 2020, given the long term nature of the cap and trade program, it has been considered in the analysis. Under PS 3450 there is no guidance on initial measurement of financial liabilities – typically transaction price is used, although fair value may be appropriate in some circumstances. Subsequently, financial liabilities are measured at amortized cost, unless they are eligible to be designated at fair value.

PSAS also contains guidance on loan guarantees (PS 3310), which are a form of contingent liability (PS 3300). Loan guarantees, as with other contingent liabilities, are accounted for as a liability when a loss is likely and the amount can be reasonably estimated.

Measurement of Liabilities

There is no general measurement guidance for liabilities in PS 3200, although specific standards specify measurement bases to be used. Other standards such as PS 3250, Retirement benefits and PS 3260, Liability for contaminated sites use a measurement model of the best estimate of the "cost" or cash outflows to settle the liability (discounted where appropriate). It is also noted that PS 1000.60 includes the following guidance:

PS 1000.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.

(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

PS 3410 Government Transfers - Scope

04 Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase / sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

.05 This Section does not deal with:

(a) transfers made through a tax system that are authorized through tax legislation;

(b) grants in lieu of taxes;

(c) settlements of lawsuits or other types of legal compensation provided by governments;

(d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments; and

(e) transfers of non-monetary assets other than tangible capital assets. Examples of transfers of non-monetary assets that are excluded from the scope of the Section are: transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures. 4

(footnote 4 - In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements)

PS 3410 Government Transfers - Expense (and liability) recognition

.12 A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Exchange transactions and non-exchange transactions

PS 3510.07 – (a) *Exchange transactions* are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(b) *Non-exchange transactions* are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

PSAS Revenue Statement of Principles –

.026 "Exchange transactions are transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor"

.032 "Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue".

Definition of revenue

PS 1000.46 - "Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period." Revenues are distinguished from gains because gains arise from peripheral or incidental transactions and events affecting a government.

Revenue recognition

PS 1000.59 - "Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting.... Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied."

PS 1150 - When there is no primary source of PSAS that addresses an issue a government uses professional judgement to develop an appropriate accounting policy that is consistent with the primary sources of GAAP and PS 1000. Additional sources can be referred to which include pronouncements of other standard setters (such as IPSASB, GASB, FASAB in the public sector or FASB, IASB or AcSB for private sector equivalents). Exposure drafts and other due process documents may also be considered, although care should be taken when using such documents as they may change before finalization.

The table below various approaches to revenue recognition taken by other standard setters and the pronouncements that could be taken into account in developing an accounting policy.

Source	Standard reference	Revenue recognition model for sale of goods
Public sector standard setters		
IPSASB	IPSAS 9 – Revenue from exchange transactions	As risks and rewards are transferred; no continuing managerial involvement or control; revenue can be reliably measured; probable economic benefit will flow; costs incurred can be measured reliably.
GASB	Principles covered in 1600, Basis of accounting. Some specific issues covered in other standards.	Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.
PSAB	Statement of principles, Revenue (Exposure draft, standard not finalized)	Revenue is recognized as a performance obligation is satisfied. Based on principles of IFRS 15.
Private sector standard setters		
IASB	IAS 18	Same as IPSAS 9
	IFRS 15 (effective 2018)	Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services
FASB	ASC 605	As risks and rewards are transferred; no continuing managerial involvement or control; reasonable assurance of the measurement of consideration. Specifically, there must be persuasive evidence of an arrangement, delivery has occurred or services have been rendered and the sellers price is fixed or determinable
	ASC 606 (effective 2018)	Same as IFRS 15
AcSB – Part II (ASPE)	Section 3400, Revenue	Same as ASC 605

IFRS 15.27 - A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

IFRS 15.35 - An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

IFRS 15. 38 - If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset — if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset — legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs B64–B76, B77–B78 and B79–B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The customer has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset — the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs B83–B86.

Restricted assets and designated assets

PS 3100 applies to funds and reserves that are externally restricted, PSG-4 applies to funds and reserves that are not externally restricted.

PSG-4.3 - .4 - Some funds and reserves are supported by assets. These may meet the definition of designated assets set out in PS 3100.04 (c). PS 3100.30 requires that when a government chooses to provide information about designated assets it does so in the notes and not on the statement of financial position.

PSG- 4.7 - "Therefore, when a government chooses to provide information about any funds or reserve, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations."

PS 3100.04 (a) - "External restrictions are stipulations imposed by an agreement with an external party, or through legislation of another government that specify the purpose or purposes for which resources are to be used."

PS 3100.11 - "Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified."

PS 3100.27-.28 - Designated assets – "...Assets may be designated for a specific purpose as a result of government legislation, by-law or resolution that limits the use of assets to specified purposes. Designated assets are distinct from restricted assets. Unlike restricted assets, governments can readily change the legislation, by-law or resolution and use the designated assets for another purpose if the need arises...."

IPSASB discussions

The International Public Sector Accounting Board (IPSASB) debated a paper in March 2016 that outlined a number of different accounting options that could be applied to various emissions trading schemes including conceptual considerations for and against each model. To date the IPSASB has not concluded on an appropriate model for accounting for emissions trading schemes such as Ontario's cap and trade scheme. The various approaches outlined in the paper were considered in developing the preliminary positions of this memorandum. The proposed approach for Ontario is most closely aligned with "Approach 2" of the paper, altered where necessary to account the specifics of the Ontario cap and trade system and the application within the PSAS Framework.

This paper can be found at: http://www.ipsasb.org/system/files/meetings/files/Agenda-item-14.pdf

Cap and Trade accounting implications - memorandum to file v6 November 25.pdf

Cap and trade accounting implications memorandum to file – proposed outline

1. Executive summary

2. Background and outline of cap and trade legislation and regulations [NTD – *MOECC to provide comments on accuracy of background terminology*]

The *Climate Change Mitigation and Low-Carbon Economic Act, 2016* (the "Act") was recently enacted that establishes, amongst other things, a framework for a cap and trade program for the Province of Ontario (the "Province" or "Ontario"). Two regulations, Ontario regulation 144.16 and Ontario regulation 143.16 (together "the Regulations") have been passed under the Act.

Only registered participants to the program (mandatory participants, voluntary participants and market participants) can purchase, hold, sell or trade emission allowances (EAs). Mandatory participants are those that are mandated to participate in the program. Voluntary participants are those that are not mandatory participants but choose to participate in the program for a compliance period. (Voluntary participants may opt out of future compliance periods if they do not meet the criteria to be a mandatory participant for that period). Together mandatory and voluntary participants are referred to as "capped participants" or "capped emitters". Market participants are those that do not have compliance obligations but choose to participate in the program so they can hold, sell and trade EAs.

EAs can be obtained in the following ways:

- Purchased at auctions at the auction price.
- Distribution as a free allowance (capped participants only).
- Acquired from other participants in a market trade.

EAs are held in holding accounts that are maintained in the "CITTS" system, which records participant accounts and trades between participants. CITSS is a web-based tool that facilitates participation in the cap and trade program and is administered by the Western Climate Initiative, Inc (WCI Inc) on behalf of participating jurisdictions. Market trades are reported to the MOECC and the MOECC monitors the participant's accounts for compliance with regulations, such as holding levels are within holding limits. If holding limits are exceeded and not remedied within 5 days, the Minister of the Environment and Climate Change (the "Minister") has the ability to remove the excess allowances. Currently proposed updates to the Regulations would require that the amounts in excess of the holding limits be sold at auction and the proceeds of that sale to be remitted back to the participant. However, our understanding is that the systems should not allow sales over the individual limits to be processed so examples of this should be very limited in practice.

Auction process: In accordance with the Regulations there are four auctions a year. EAs are sold at auction classified by "vintage". The Regulations set out how many EAs are created for each vintage and how many EAs of each vintage will be available at each auction, after the distribution of free EAs. The vintage of an EA determines which compliance period the EA can be submitted for. For example, in 2017 the auctions will be for the "2017" vintage and some for the "2020 vintage". More than one "vintage" may be sold in any one auction. The first auction

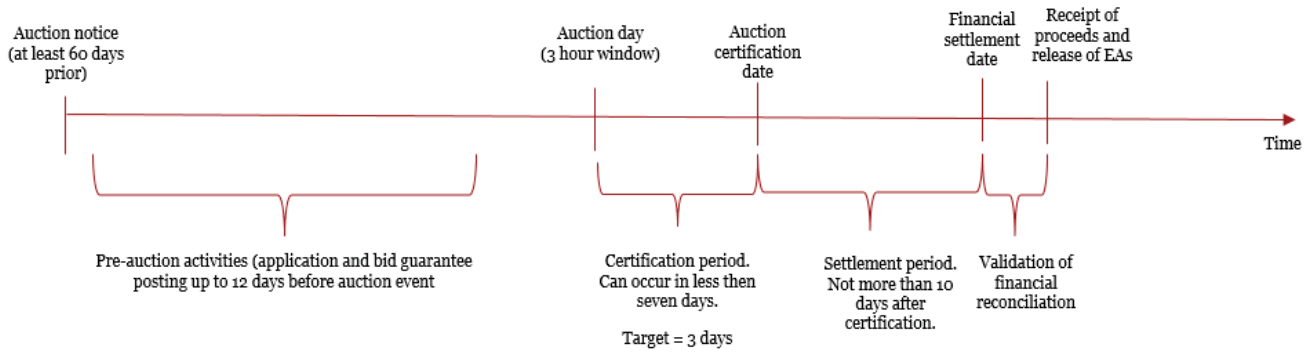
will be held March 2017. There is a floor price for each auction. Not all the allowances available at a particular auction may be sold, in which case unsold allowances may be offered at a future auction under some circumstances. 5% of EAs are held back as a strategic reserve that may be sold at a later date for a higher value, not through the auction process. Only capped emitters may purchase from the reserve. The strategic reserve accumulates over time.

Prior to the auction registered participants must post a bid guarantee. This may be in the form of an irrevocable letter of credit (LOC), letter of guarantee (LOG) or cash, both of which are held in escrow by Deutsche Bank (DB) in the participant's sub-account under the jurisdiction's Escrow account. The Province's escrow account is in the name of WCI, Inc for the benefit of the Ontario Minister of the Environment and Climate Change. The bid guarantee may be posted up to 60 days before the auction, and must exceed the total amount of bids that will be submitted by the participant in the auction.

At the auction the participants place bids for the number of EAs they will purchase at any price point. At the end of the three-hour auction window the auction administrator runs the auction algorithm through a predetermined auction settlement calculation to provide the auction result report indicating the set of successful participants and the number of allowances they won at the auction settlement price.

After the auction, the Province reviews the results for compliance with the regulatory requirements over the auction process and to obtain the required internal jurisdiction approvals. These steps include reviewing the auction results provided by the auction platform, analyzing bid data in detail and reviewing and accepting the auction report submitted by the market monitor (a third party contractor called Monitoring Analytics). When the results of the auction are confirmed (the "certification date") the results are published on the jurisdiction's website, invoices made available to participants and the process of settlement begins. If a participant is successful in the auction then the participant is invoiced for the amounts due for the EAs purchased. If the participant submitted a cash bid guarantee this cash amount is used to settle the invoices by the amounts being transferred from the participant's sub-account into Ontario's escrow settlement account. If an LOC or LOG was used, the participant can pay separately within 7 days into their sub-account, which is then transferred to Ontario's escrow settlement account and the LOC is dissolved or returned. Alternatively if the participant does not submit cash payment within 7 days the invoice is settled by calling on the LOC or LOG. Once all the payments have been received from participants and transferred to Ontario's escrow settlement accounting and Ontario's staff have confirmed that the amount in the escrow account match payments due from auction participants, then the escrowed amounts are transferred to the GGRA bank account and the EAs are transferred to the respective participant CITSS accounts.

Auction timeline illustration



Free allowances

Capped emitters may receive free allowances. To receive free allowances the participant must apply each year. The amounts of these are determined by the Minister using formulas applied to the entity specific situation of the participant and are expected to diminish over time as transition to the cap and trade program is completed and inter-provincial "leakage" declines (leakage is where carbon producers move economic activities to a jurisdiction with no or low carbon pricing). Once issued, these EAs are identical to those sold at auction and may be held or traded by participants.

Emissions Compliance

The program operates within 3-year compliance periods (with the first period being a 4-year period). The first compliance period runs from January 1, 2017 – December 31, 2020. EAs are linked to a specific compliance period. For example, EAs with 2021-2023 vintages cannot be used to meet normal emissions obligations under the program for the 2017-2020 compliance period (although they can be used to settle increased compliance obligations). However, EAs from earlier vintages can be carried forward to meet obligations in future compliance periods. EAs do not expire. Participants may purchase EAs from other participants in market trades to be able to meet their obligations. Market trades are negotiated between participants and are then reported to the MOECC, who ensures that the agreed upon EAs or credits are transferred between the participants CITSS accounts. The number of EAs issued for the compliance period is capped by regulation. Therefore if total emissions from all participants are significantly lower than the cap, it should be easy for participants to obtain the necessary EAs in the marketplace at an inexpensive price. Unused EAs for the compliance period can be carried forward and used in future compliance periods. If the total emissions from all participants exceed the cap then there will not be sufficient EAs available for all participants to meet their compliance obligations and the price of any available EAs will increase. The market mechanism allows those participants who can most cheaply reduce their emissions an incentive to do so in order to either sell excess EAs to other participants at a higher price or to save the need to purchase a high priced EA to meet their obligations.

At the end of the compliance period mandatory and voluntary participants report their attributed carbon emissions (greenhouse gas emissions must be quantified, reported and verified) for the compliance period and ensure they have transferred sufficient EAs or credits (see below) from their holding accounts into their compliance accounts. At the compliance "true-up" deadline (by November 2021 for the first compliance period), EAs and offset credits (see below) are removed in a number equal to the participant's obligations under the Regulations (1 EA per 1 tonne of emissions). If a participant does not have sufficient EAs in their account at the true-up date then there is a shortfall. In addition to the EAs required to fulfil the shortfall, the obligation increases on a 3-1 basis; for each EA required to cover the shortfall the participant is required to acquire and submit an additional 3 EAs (the "increased compliance obligation"). This increased compliance obligation may be settled with EAs from future vintages (e.g. 2021 vintages may be used to settle the increased compliance obligation for the 2017-2020 period, however, they cannot be used to settle the original compliance obligation or shortfall).

Due to the increased compliance obligation mechanism if a participant does not expect to have sufficient EAs in their compliance accounts at the true-up deadline there is an incentive for participants to either reduce their emissions over the compliance period or to purchase additional EAs (of vintages valid for the compliance period) in the market prior to the true-up deadline; the market price of which would be expected to increase due to demand exceeding supply.

The EAs that are remitted to the MOECC for a compliance period are retired. They are not re-sold. The exception to this is EAs that are remitted as part of the increased compliance obligation may be re-sold at auction. The purpose of the exception is so that the overall number of available EAs for future compliance periods is not reduced because of the failure of participants to comply at the true-up date.

A participant has a certain period of time (30 days after a notice of a shortfall is issued) to acquire and remit sufficient EAs to meet their compliance obligation, including additional compliance obligations for shortfalls. If they fail to remedy the shortfall, the Director can issue an order that the outstanding obligation be settled in cash to the Ministry of Finance, based on the settlement price from the most recent auction.

The removal of EAs from a participant's account is without payment to the participant. Specifically Section 70 (3) of the Act states that "No amount is payable by the Crown with respect to any action taken by the Minister or Director under this Act, or by any person acting on their behalf, including any action relating to the removal of emission allowances and credits from a participant's cap and trade accounts".

Credits and offsets

Other than EAs, entities may also obtain "early reduction credits" or "offset credits" in certain circumstances. These credits are also tracked by participant and can be used in place of EAs to settle a compliance obligation. Credits can also be sold or purchased by participants on the market. There are limits on how much of a compliance obligation can be settled with credits as opposed to EAs. As emissions can be settled by either EAs or credits and offsets, the creation of credits or offsets essentially increases the total "cap" amount of emissions under the cap and trade program for the compliance period.

Linking to the Western Climate Initiative (WCI)

It is anticipated that Ontario will link to the WCI in 2018. The WCI currently includes Quebec and California. When linked to the WCI, there will be one market for EAs – all participants from participating jurisdictions can buy, sell, hold and trade EAs with other participants. There is one auction process for all participating jurisdictions, with proceeds from the auction being allocated on a pro-rata basis. For example, each jurisdiction determines the number of EAs that they will put up for auction in that vintage based on their cap for the compliance period. This results in a total amount of EAs available of which, say 30% are part of the Ontario emissions cap, 15% for Quebec and 55% for California. The proceeds of the auction would be split 30:15:55 between the participating jurisdictions, regardless of which participants purchase the EAs. If not all the EAs are sold, the sales are attributed on these same rations and unsold EAs from the jurisdiction may be sold at future auctions under certain conditions. EAs are not attributed back to a jurisdiction of issuance and can be used to settle a compliance obligation in any of the participating jurisdictions. For example, an Ontario participant must ensure there are an adequate number of EAs or credits in their compliance account to meet their compliance obligation based on their emissions. It does not matter whether they purchased the EAs at auction or from a California or Quebec participant. The effect is that Ontario participants may produce emissions that exceed the Ontario cap for any compliance period, but this excess would be offset by reductions in Quebec or California below their caps, thus reducing emissions overall, and in the jurisdiction where the reduction is the cheapest (most efficient). There is no mechanism by which Ontario transfers or receives cash, financial assets or EAs between jurisdictions. There is no requirement to redeem EAs issued in other jurisdictions by issuing cash or other "Ontario" EAs as all EAs are interchangeable once issued.

Termination of the program

The program does not have a termination date. There is nothing in the current legislation that outlines how the cap and trade program might be terminated. The program could only be terminated through a change in the legislation. We are not aware of any terms in the arrangements with the WCI that would specify how a withdrawal from the WCI might be undertaken.

Greenhouse Gas Reduction Account

The Act establishes an account with the Public Accounts of Ontario called the Greenhouse Gas Reduction Account (GGRA). Other than limited exceptions, proceeds from the distribution of EAs are included in this account. Amounts of fees, penalties and the settlement of increased compliance obligations in cash are also included in the GGRA. The funds in the GGRA may be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gases. Such uses include the research and development of new technologies or processes, innovation, education and training, and informing the public. The amounts in the GGRA may also be used to fund costs of administration and enforcement of the Act. Annually, the Minister will issue a public notice regarding the evaluation of initiatives funded by the GGRA. In addition an annual report will be prepared describing the activities of the GGRA. Eligible costs that were incurred by the Crown on or after November 1, 2015 may be reimbursed from the GGRA, even if they were incurred prior to the Act coming into force.

Federal actions to reduce carbon emissions

In October 2016 the federal government announced that Canadian provinces that do not have a carbon pricing mechanism will be subject to a federal benchmark "floor price" for carbon in 2018. Ontario's cap and trade program means that it will not be subject to the federal carbon floor price as the Ontario targets are in excess of the targets imposed by the federal government. As such, actions by the federal government are not expected to have an impact on Ontario's cap and trade program. This must be monitored as subsequent federal actions and/or changes to Ontario's cap and trade program in response to the federal government actions may have accounting impacts.

3. What is the nature of EAs

Relevant guidance - See Appendix C for details.

PS 3450, Financial Instruments ("PS 3450") (effective for years on or after April 1, 2019)

PS 3510, Tax revenue ("PS 3510") (for definition of exchange and non-exchange transactions)

PSAS Revenue Statement of Principles ("Revenue SOP") (non-authoritative due process document)

IPSASB staff paper "Emissions Trading Schemes" Agenda Item 14 March 2016.

Preliminary position:

The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.

Analysis:

In order to determine the appropriate accounting for EAs it is important to understand what they are and what they are not.

An EA is separately identifiable and is a permit (a non-exclusive, non-expiring right) that allows the holder to settle the legislative compliance obligation that arises from producing one ton of emissions. This is subtly different from a "quotas" (for example a milk or fishing quota) that gives a holder the right to produce a certain level of product that the producer can then sell for economic benefit, because the ultimate benefit of the EA to the participant is the permission to avoid a fine or payment that would otherwise be required for non-compliance with the Act[1].

Is it a financial instrument?

Current PSAS does not define financial instruments. However, PS 3450 (effective in 2019) define financial instruments as "any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity". An EA is clearly not an equity instrument, and so it will only meet the definition of a financial instrument if it creates a financial liability to one party (and a financial asset to another). A financial liability is defined in PS 3450 as any liabilities that are contractual obligations (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government. A financial instrument by definition a contract, although PS 3450 does not define "contract" for its purposes. It could be argued that EAs are statutory instruments created by legislation and issued in a unilateral transaction (see "is it similar to a "tax" on emissions?") in which case an EA could never be a financial instrument. For purposes of this analysis an EA could be considered to be a contract in the broadest sense between the holder and the Province as both parties know their respective rights and obligations that arise from holding and issuing EAs as these are laid out by legislation and enforceable under it.

An EA does not create an obligation for any party to pay cash or other financial assets. The province has no contractual requirement to pay cash to redeem an EA and is never required to exchange an EA for another financial

[1] This is consistent with the conclusions of Mr. Stephen Morris QC in hearing a case regarding the EU ETS system and the nature of European Union Allowances in Armstrong DLW GmbH v Winnington Networks Ltd (2012).

asset under any circumstances. (The province may accept cash payment in lieu of EAs for an increased compliance obligation at its discretion). Similarly, once they are the holder of an EA they are not obligated to pay cash or other financial assets to another party under the terms of the individual EA. A participant may be obligated to obtain the necessary number of EAs to meet their compliance obligations under the cap and trade program, to reduce their emissions accordingly, or in some cases to pay an increased compliance obligation in cash, these are obligations that arise through the act of emitting pollutants and not an obligation that is incurred through holding an EA. Rather holding an EA permits the participant to avoid an outflow of cash otherwise payable.

Is it similar to a currency?

Governments are unique in that they have the power to issue currency as legal tender. By analogy the EAs could be viewed as similar to a form of "currency" – a medium of exchange - that must be accepted by the government to settle compliance obligations. Compliance obligations only exist through government legislation, and the government also provides the means by which to settle those obligations (EAs). The maintenance of EAs in circulation is required by Cap and Trade regulation. The issuance of EAs at auction could be an issuance of this "currency" for cash. The distribution of EAs could be similarly a distribution of currency for no consideration (similar to a government grant). EAs can be traded like a currency (with a varying exchange rate to Canadian dollars depending on the market price). This is the position taken by certain governments in accounting for their Emissions Trading Systems such as New Zealand (See Appendix A). The arguments that the EAs are a form of "currency" have some merits. However unlike currency, the EAs in circulation are retired after they are submitted for a compliance obligation and not recirculated. In addition the amount of EAs in circulation is planned to decline over time as emissions are reduced. These caps may also be influenced by external parties such as the Federal Government setting emissions reduction targets that must also be complied with. Further, once Ontario is linked to the WCI it is not the only jurisdiction issuing EAs in circulation that can be used to comply with an Ontario emissions obligation. This means that Ontario could accept back "currency" in excess of that which it issued, or equally never receive back "currency" that it has issued. These factors mean that unlike a currency in circulation, Ontario does not control the EA supply that can be used to settle the compliance obligations. However, for completeness Appendix B considers how the circulation in currency model could be applied to the Ontario cap and trade system.

Is it similar to a "tax" on emissions?

While the mechanics of a cap and trade system are different than a carbon tax, the policy objectives are the same - a price is put on pollution with the purpose of reducing pollution. The primary purpose of the cap and trade system is to reduce emissions and any revenues earned from the sale of EAs is incidental and similar to revenues obtained from taxing other undesired behaviours (such as taxes on alcohol or cigarettes).

The cap and trade legislation requires mandatory participants to purchase EAs in order to settle a legislative obligation to the extent that the participant's emissions exceed their allowance of freely distributed EAs. Under this approach any amounts received, regardless of the timing of those receipts, are considered to be a non-reciprocal transaction as the participants did not have to pay these amounts prior to the implementation of the cap and trade legislation, therefore these costs to the participants are created by legislation in respect of their emissions.

It is the act of emitting in excess of "free" EAs that creates an obligation of participants to pay for a certain amount of EAs. While Participants must obtain EAs in order to meet their compliance obligations which are created by legislation and initially EAs are only available from the Province, it is not the act of auctioning the EAs itself that gives rise to a right to the revenues as there is no legislative requirement that forces a participant to purchase an EA prior to them creating emissions that must be settled through EAs. Further, once linked to the WCI there is no legislative requirement that the participant purchase an EA from the Province.

If the scheme is considered to be in substance like a tax, it would be appropriate that the recognition of revenue would be accounted for in accordance with PS 3510. This would result in "revenue received in advance" for EAs that are sold, and something similar to a "tax concession" for participants that receive free EAs. There would be no accounting recognition for EAs. If the scheme was considered to be another form of unilateral transaction created by the constitutional rights of the Province then it is relevant to consider the proposed guidance in the Revenue

SOP. Although not authoritive until a standard is approved, the proposals indicate that revenue for unilateral transactions is recognized when the Authority to collect the revenue exists and the event that gives a right to those revenues has occurred. Paragraph .114 of the SOP states "The past event is specific to the nature of the transaction and the legal authority that gives the public sector entity a right to the revenue. The desired effect is that the past event should be readily identifiable and consistent, both over time and amongst those jurisdictions with similar sources of unilateral revenue. In TAX REVENUE, Section PS 3510, the equivalent concept is the taxable event". It is considered that the event that gives rise to a right to the revenue is the participant's emissions and not solely the auction of EAs.

The key determination to support this view is whether the sale of EAs is an exchange transaction or a non-exchange transaction as those terms are defined in PS 3510. It might be argued that the Province has not given up anything by issuing the EAs regardless of whether they sell the EAs in an auction or freely distribute them because the EAs do not cost anything to create and are to be used only to settle obligations created by the cap and trade regulations. Therefore any amounts received are non-reciprocal.

However, the sale at auction seems to meet the definition of an "exchange transaction" because one entity (the auction participant) receives assets (the EAs – which are assets from the perspective of the participant and assets to the Province immediately prior to the auction) and directly gives approximately equal value in the form of cash to another entity (the Province) as the amount of cash paid for an EA equates to the fair value of the EAs. This is supported by the following facts

- The province has delivered an asset in exchange for cash. The EAs are assets/economic resources prior to the sale as they are held-for-sale inventory assets prior to the auction (see also Section 4 (a) below).
- Purchasers of EAs have obtained an asset in exchange for cash. Purchasers can include market participants and unlike mandatory or voluntary participants, market participants are not subject to compliance obligations. They are purchasing the EAs because EAs are a resource that can be sold or traded on the marketplace. Mandatory and Voluntary participant also do not have to keep their EAs but can sell and trade them on the market speculatively. Participants recognize EAs as assets in their financial statements (typically as intangible assets under IFRS).
- The participant purchases EAs by giving up cash that is approximately equal in value to the EA as, by definition, the "fair value" of an EA is what a market participant is prepared to pay in an unforced transaction, and the auction process is a mechanism to assist in identifying the fair value of the EAs.
- The Province's right to payment from a participant arises from the auction process and not solely from legislation. If no EAs are purchased at auction the Province has no right to payment. The province has an obligation to deliver the EA to a participant's CITSS account as part of the auction process.
- Once Ontario has linked with the WCI, then mandatory and voluntary participants who create emissions in Ontario could obtain some or all their EAs from California, Quebec or other market participants. There is no direct link between the amount of Ontario-based emissions and the amount of proceeds obtained by the Province; emissions in Ontario could exceed (or be less than) the number of EAs issued by Ontario. Therefore the characterization as a tax on emissions does not hold as there is no consistent basis on which this "tax" is calculated.
- The program is not created under tax legislation and is not legally a tax.

Is it a "good or service" and if so, of what nature?

The analysis in the above section supports the sale of EAs as being an exchange transaction. This is consistent with the proposed definitions of "exchange transactions" and "unilateral transactions" in the Revenue SOP. Because of the exchange nature of the auctions as the EAs can be considered to be a good or service that is provided in

exchange for consideration, rather than a receipt of payment without a direct transfer of economic resources to the payor. For example, for any auction there may be no participants or not all EAs may be sold. In these cases, some EAs are not transferred to participants and there are no inflows to the Province or inflows are less than expected.

Prior to pollution pricing mechanisms the ability to emit pollution was a "free good". There was no cost to companies from emitting pollution - rather the costs were born by society as a whole. The cap and trade legislation forces companies to internalize the costs of pollution, thus turning a "free good" into a "good" that has a price. The price of being able to emit pollution is the cost of obtaining an EA i.e. a permit to settle the compliance obligation.

From the perspective of the participant, the EA is a "good or service". Accounting standards do not clearly define the difference between a "good" or a "service". Often it is evident. Goods are usually understood to be tangible items for which physical possession can be transferred. Services are usually understood to be actions that benefit the recipient that are consumed as the service is provided. Other examples of "goods and services" that are less clear are:

- Stand ready obligations, such as standby charges levied to have good or service providers ready to act
- Rights to use tangible or intangible assets, such as leases or licences for intellectual property
- Options to purchase future goods and services (for example, gift cards or future discounts)
- Providing a decision (for example, fees to apply for a driver's licence and its issuance to a qualifying driver)

(see "Revenue" Statement of Principles issued by PSAB, August 2013)

An EA does not fit neatly into any of these categories. It is intangible (it does not have physical form). It is not a right to use an existing asset (tangible or intangible) of the Province as the right relates to an action of the participant (emissions). As the participant can transfer the EA to other participants, it is clear that the issuance of an EA is not provide a benefit to the recipient that is consumed as it is delivered. The EA does not give a participant the right to future goods or services to be provided by the Province, nor does it represent that the province is on "stand-by" to deliver future goods and services as there is no transfer of further goods and services when the EA is remitted in settlement of a compliance obligation.

As an EA is tradeable and can be transferred or sold to other participants it is most similar to a "good", albeit one in intangible form. If a participant receives a good from the Province in a transaction then the Province must be delivering a good. Therefore although the province creates the EA and the use value of the EA is dependent on the Province's own legislation regarding compliance obligations it makes sense to apply symmetry between participants and the Province in respect of the determination of nature of the EAs.

4. Identification of assets relating to the cap and trade program as sponsoring government

Summary of relevant guidance – See Appendix C

PS 1000, Financial statement concepts ("PS 1000")

PS 1200, Financial statement presentation ("PS 1200")/PS 1201, Financial statement presentation, effective April 1, 2019 ("PS 1201")

PS 3210, Assets, effective April 1, 2017 ("PS 3210")

PS 3450, Financial instruments, effective April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to assets under Public Sector Accounting Standards.

a) On creation of free and auctioned EAs: EAs that are created by the government, including EAs held in the strategic reserve, are inventories held-for-sale. EAs that have been remitted to the government as payment for increased compliance obligations and are available for re-sale at auctions are also inventories held-for-sale.

   Inventories held-for-sale are measured at cost. Newly created EAs do not cost anything to create and are measured at a nominal amount. EAs that are returned to the government and not retired due to increased compliance obligations will be measured at the cost to re-acquire them (also a nominal amount).

   Note that as it is expected that these amounts will be nominal this preliminary position has not material impact on the Public Accounts.

b) Escrow proceeds held for auctions: Escrow proceeds received for bid guarantees are not recorded by the Province prior to the transfer of funds into the Province's escrow settlement account.

   After auction certification cash from successful bidders is transferred to the Province's escrow settlement account, resulting in recognition of an asset (cash in Escrow). A corresponding amount is recognized as deferred revenue until the contract[2] is settled by the transfer of EAs to the participants (see section 6 below). On settlement EAs held in inventory are removed from inventory and included in Cost of Sales, although these are expected to be at nominal amounts and so this entry would not be material.

c) Period between the auction certification date and the delivery date of the EAs: From the date of the contract between the Province and the successful bidder and the settlement of the contract by delivery of EAs there is no derivative instrument required to be recognized.

d) EAs in circulation: EAs in circulation or the right to receive back EAs in circulation as emissions are produced by participants are not recognized as assets, whether sold at auction or issued as free allowances.

e) Failure of participant to pay increased compliance obligation: The right to demand payment in lieu of EAs for an increased compliance obligation is recognized after the time period that a participant has to rectify the shortfall by remitting EAs as expired, e.g. on the deadline specified in a notice issued under Section 14 (8) of the participant's outstanding obligations.

The above can be summarized in the following journal entries:

On creation of EAs or receipt of EAs that can be re-sold:

Dr Inventory held-for-sale (expected to be nil cost)

Cr Cash (expected to be nil cost)

On distribution of "free" EAs to capped emitters (see section 6 - included here for completeness of entries)

Dr Expense (expected to be nil as at cost of inventory)

Cr Inventory held-for-sale (expected to be nil cost)

As payment from successful bidders is received and placed into Ontario Settlement account:

[2] Please refer to analysis of "Escrow proceeds held for auctions" for explanation of the use of the word "contract" in this memorandum.

Dr Cash (in Escrow)

Cr Deferred Revenue

On date of receipt of proceeds to GGRA and transfer of EAs to participant CITSS accounts:

Dr Deferred revenue

Cr Revenue

Dr Cash (GGRA account)

Cr Cash (in Escrow)

As emissions are made by participants

No journal entry required

On receipt of EAs for the current compliance period in respect of compliance obligations or increased compliance obligations:

No journal entry required

On receipt of any EAs of future vintages settled in respect of a 3 for 1 compliance obligation:

Dr Inventory held for sale (expected to be nil cost)

Cr Revenue (expected to be nil cost)

On expiration of deadline for rectifying increased compliance shortfall by remitting EAs:

Dr Receivable

Cr Revenue

Analysis

a) <u>On creation of free and auctioned EAs</u>:

EAs are "goods" created to be sold or distributed to participants (see analysis in section 3 above). The sales occur on a regular basis and generate revenues in the ordinary course of running the cap and trade program. PS 1200.048 notes that inventories for sale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. The EAs therefore meet the definition of inventories held-for-sale as they are held for sale in the ordinary course and the revenues can be used to finance future operations. Despite being intangible in nature these could be given accounting recognition as an asset. Consistent with current policies of the Province, inventories held-for-sale are measured at the lower of cost or recoverable amount. PSAS does not provide further guidance on what is included in "cost" for inventory. Following the guidance for tangible capital assets that are constructed would result in only direct costs of creation and directly attributable overhead costs being included. The definition of "cost" for inventories in under other frameworks such as IFRS or ASPE includes both direct costs and a systematic allocation of fixed and variable production overheads. As the EAs are intangible in nature it is not expected that any production overheads would be incurred. General overheads (such as general management) are not allocated to inventory.

EAs that are returned to the government and not retired due to increased compliance obligations are measured at their cost, which is expected to be a nominal amount as no cash or other financial asset is

paid to acquire them, and no liability is derecognized in respect of the receipt of these (see Section 4 on recognition of liabilities).

Alternative positions considered and rejected: EAs are intangible (without a physical substance) in nature and many participant's accounting framework include them as intangible assets. As the EAs are internally generated and intangible there is an alternative view that they should not be recognized on the books of the Province prior to sale, given the lack of a PSAS definition of what is included the reference to "Intangible Assets" in PS 1000.58. This view is an acceptable view under PSAS, but was ultimately rejected as the preliminary position because the intent of creating the EAs is for re-sale and not for use as a capital asset that is used in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other assets. The rationale for scoping out "intangible assets" in PS 1000.58 is because there is no recognition and measurement criteria for intangibles. However there is guidance on how to account for inventories held-for-sale, which can be applied. The selected approach of treating EAs as inventory held-for-sale may create an additional accountability of the number of EAs created and provide an opportunity for additional disclosures in the financial statements that would enhance transparency. As the cost is always expected to be nil or nominal because of the nature of the EAs, the accounting for EAs on creation is expected to be immaterial to the financial statements.

b) Escrow proceeds held for auctions:

An asset is recognized by the province as cash is transferred to the Province's escrow settlement account. Prior to the auction process, the Province does not control the cash or LOC/LOGs held in the participant's escrow sub-account and therefore cannot recognize them as assets. The proceeds are held by a third party in a sub-account that identifies the participant and legal title and control is not with the Province. The Province does not control whether or how much a participant bids and therefore if their bids are successful. Only successful bids give the Province any rights to the escrow proceeds. Instead the participant controls whether the escrow proceeds will be used to purchase EAs or will be returned to the entity. If no auction occurs for any reason then the Province does not have any right to the escrowed cash amounts in the sub-account. It is the view of the Province that the point in time when money is deposited into Ontario's escrow account, that money is "public money" within meaning of the Financial Administration Act (see subsection 1 (3) of that Act) in that it "belongs" to Ontario. Therefore prior to this point, funds (such as those in the participant's sub-accounts) are not considered to belong to Ontario and should not be recognized as an asset. Further if DB fails to make payment to the Province because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for DB's error. As the agreements between DB and the Province are still under negotiation, the final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

On the auction date participants place their bids and indicate what amounts they stand ready to transact at. However, until auction certification date the Province has not accepted the bids and therefore there is no contract for the sale and purchase of EAs on the auction date. This occurs only on the certification date because the certification process is considered to be substantive. Certification is considered substantive because the Province reviews the results, analyses the bid data in detail and reviews and accepts the auction report. The jurisdiction could reject the auction report if the auction has not proceeded in accordance with regulatory requirements and internal jurisdiction approvals must be obtained. Auction results are not fully published until certification has been completed and therefore the participants do not know if they are successful until certification. Based on this analysis there are no additional accounting implications of the auction date.

Once certification has occurred there is a "contract" between a successful bid participant and the Province and the settlement process begins. Legally speaking, the Province is not obligated to issue an EA under legislation until the participant has paid the auction price, and therefore there is no legal obligations of the Province until payment is received. This would suggest that there is no "contract" until some point in the financial settlement process when proceeds are received into Ontario's escrow account. However, for purposes of this analysis the word "contract" is used consistent with the accounting definition found in IFRS 15 IFRS 15 is an appropriate source of GAAP consistent with reference to IFRS 15 for revenue recognition purposes – see Section 6), whereby an arrangement is a contract when both parties have approved the arrangement (in writing or in accordance with customary business practices); the entity can identify each party's rights and payment terms regarding the goods and services to be transferred, there is commercial substance and it is probable that the entity will collect the consideration in exchange for the goods and services (IFRS 15.9). Further uses of the word "contract in this memorandum refers to the accounting sense.

Once cash has been transferred from participant's sub-account to the Province's escrow account it is an asset of the Province. It is held for the Province's benefit, notwithstanding that it is not transferred to the Province's own GGRA bank account until the validation of the financial reconciliation, which is considered to be only a matter of time. Therefore during the settlement process, as cash payments are received from participants and deposited into the jurisdiction's escrow account or an LOC/LOG is drawn upon and deposited these would be recognized as cash (in escrow) by the Province. As the EAs have not been delivered to the participant the corresponding side of the entry would be to deferred revenue (see Section 6 below). Any cash recognized for successful bid participants would not be considered to be restricted cash as it is not required to be returned to the bidder and is not externally restricted.

Amounts receivable from participants (i.e. those bid guarantees covered by LOC/LOGs) would not be recognized as an asset of the Province prior to settlement of the LOC/LOG and cash being deposited in the Province's escrow settlement account. While there is a contract between the participant and the province neither party has executed on the contract prior to cash being received into Escrow, and therefore it remains an executory contract until one party performs by paying consideration or delivering the goods. As there is no amount receivable (as the Province will never deliver the EAs prior to cash being received) there is no need to consider any provision for impairment of those receivables.

Note that the cash held in escrow will usually be classified as cash because it is expected to meet the definition of cash and cash equivalents in PS Section 1200.97. The time that the cash is expected to be in the Ontario Settlement account is not more than 20 days, therefore the escrow cash is a "short term highly liquid" amount of cash that is subject to an insignificant risk of changes in value. PSAS considers that anything less than three months might be "short term". However, if there were significant concerns about the amount and timing of cash transfers from the settlement account to the GGRA bank account, for example because of concerns about the Escrow Agent's financial stability, the definition of "cash and cash equivalents" might not be met. In this case the amounts would be recorded as a receivable from the Escrow Agent and the need for a valuation allowance would be considered.

By settlement date all the cash proceeds from the auction would be transferred from the participant's sub-accounts and deposited into the Province's Escrow account. On the settlement date, the Escrowed cash is transferred to the Province's GGRA bank account which would result in a reclassification of the restricted cash to "cash" as the GGRA account is only internally restricted. (See Section 6 for the discussion on the GGRA account restrictions and other revenue implications at settlement date.)

Alternative positions considered and rejected:

It was considered whether an asset should be recognized by the province when cash is received into a participant's escrow "sub-account" - which is a sub-account of the Province's escrow account - and only

released upon the completion and settlement of the auction, which is under the control of the Minister through the certification and settlement process. For example, the province requires participants to place bid guarantees and can control whether an auction goes ahead and therefore when the proceeds are released back to unsuccessful bidders. A bidder cannot retract their posted financial assurance until after an auction has gone ahead.

Therefore any escrowed cash amounts could be considered similar to customer deposits received in advance that should be recognized on the Province's balance sheet, offset by a liability to return those deposits, which will be settled either through a refund of the cash in escrow or through the deposit of EAs in the participant's CITSS account. This view was rejected as based on legal assessment the Province does not own or control the participant's cash in Escrow and has no rights to it prior to the auction process.

Trade date accounting: An alternative view is that recognition of the sale of the EAs should be on a "trade-date" accounting basis. See Section 6 on revenue recognition for discussion on accounting for the sale of the EAs on the trade date and why this view was ultimately rejected. The implications for asset recognition under trade date accounting is that, as the sale is recognized on the trade date not the settlement date, a receivable for the entire proceeds of the auctioned EAs would be recognized on the trade date. Receivables recognized would be subject to impairment considerations, although the bid guarantees would mean a valuation allowance would not be required.

Under trade date accounting it would be determined on what the date is there a fixed price commitment which is the date at which a receivable is recognized. If the certification process is considered to be a substantive process that is undertaken by the Province then there would not be a fixed price commitment until the certification date. If the certification process is not considered to be substantive and the Province is committed to the amounts, prices and bid participants that are shown by the auction algorithm and auction report then this would indicate the auction date is the trade date. As trade date accounting has been rejected this issue has not been considered further.

Auction date as contract date: An alternative view to certification date as the contract date between the Province and the participant for the sale of EAs is that there is a contract on the auction date. This view would indicate that the certification process is not substantive and is a matter of course with changes or rejection of the initial auction algorithm results expected to be rare. It might also be argued that while the participant does not know whether they have been successful or not, the Province has run the auction algorithm and does know who the successful bidder are and at what price, and therefore from the Province's perspective there is a contract. This view was ultimately rejected on the basis that the auction certification process is considered to be substantive to ensure the successful bids are legitimate and do not exceed holding limits. Note that based on the preliminary revenue conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

Settlement period/financial settlement date as contract date: As noted above, legally there is no obligation of the Province to deliver EAs until cash has been received. Therefore it could be argued that there is no contract until the cash is received during the settlement period. It should be noted that the financial settlement date itself is merely the date by which all cash will be received under the escrow process. It is not substantive for accounting purposes in that it does not reflect when the cash is received into the Ontario Escrow Settlement account, nor when it is transferred into the GGRA. This view was rejected for accounting purposes because both parties have a good understanding of the auction processes and arrangements to be able to determine their respective rights and obligations and payments terms under the program prior to this point. Note that based on the preliminary revenue

conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

c) Recognition of a derivative

When the province adopts PS 3450 it will need to consider whether the arrangement creates a derivative that needs to be recognized for the contract that exists from the certification date to the settlement of the contract by delivery of EAs date. The contract is a fixed price contract as the Province has agreed to sell a specified number of EAs for the specified price to the successful bid participant. While EAs are financial assets for the purposes of PS 1200/PS1201 it could be argued that they are "non-financial items" because they are inventories held for sale (not in scope of PS 3450) and are not contractual rights to receive cash. PS 3450 scopes out contracts to buy non-financial items from being derivatives when they are made in accordance with the entities normal sale or usage requirements and when those contracts cannot be settled net in cash or another financial instrument. Auction contracts to buy and sell EAs cannot be settled net – they can only be settled gross by exchanging cash for the EAs. Therefore no derivative will be recognized in respect of the contract.

Alternative positions considered and rejected:

No alternative views considered on the basis that EAs are not financial assets for purposes of PS 3450 as discussed below in "EAs in circulation".

d) EAs in circulation:

Once sold EAs in circulation do not represent assets to the Province. The EAs are economic resources as participants ascribe value to them. It may also be argued that the Province controls EAs as it can deny or regulate access to EAs by participants through regulation (PS 3210.16). However, the Province will not obtain any economic future benefits from the existence of EAs in circulation. PS 3210.12 distinguishes between the benefit the public receives and the economic benefit that a public sector entity receives through provision of goods or services, increase in cash inflows or reduction in cash outflow; only the latter resulting in future economic benefits that give rise to an asset. While the Province has a right to receive EAs in the future to settle compliance obligations, those EAs are retired after receipt and never result in an inflow of cash (or reduction in cash outflows) for the Province. Under certain circumstances EAs may be received that are not retired, for example those received as part of a 3 for 1 increased compliance obligation. However, when the EAs are issued the Province cannot expect that any participants will be subject to the 3 for 1 increased compliance obligation and in fact the objective of the cap and trade program is to incentivize participants to purchase their required EAs on the market or reduce emissions and so to avoid the burden of the 3 for 1 increased compliance obligation. Therefore the Province has no basis for expecting future benefits in the form of EAs that will not be retired and can be resold. The EAs do not enhance the government's provision of goods or services as the EAs do not, by themselves, reduce emissions. While EAs exist to further a policy objective of the Province, the benefits of the policy (reduced climate change impact and lower pollution) is a benefit to the Province of Ontario as a whole, not specifically to the government of Ontario.

Alternative positions considered and rejected: An alternative view would be recognize EAs in circulation as an asset based on the Province's right to receive the EAs as a participant emits. This is symmetrical with the participant's accounting for an emission obligation as they emit. However, while

the Province arguably has a right to receive an EA due to a past event (the emissions) that the Province controls (through the cap and trade legislation) once returned the EAs do not have future service potential or the ability to generate future economic benefits as they are retired immediately.

Any recognition of a right to receive an EA that is created when a participant emits over time must create revenue as the corresponding credit, as there is no liability that is created by the right to receive an EA. This then results in a write-off to expense when the EA is actually received back. This expense would not reflect the economic substance as it implies that the Province is "better off" financially when emissions are produced despite there being no inflow of economic benefits due to emissions, and "worse off" when EAs are remitted for the pollution, despite there bring no outflow of economic resources (expense) for the Province at the point the EAs are returned and written off. For these reasons this view would not result in a fair presentation.

This alternative view is more consistent when there is a corresponding view that the Province has a liability for EAs in circulation (similar to currency in circulation) and therefore the receipt of the EAs does represent a future economic benefit because it results in the extinguishment of a recognized liability by the Province. This view was rejected because liability accounting for EAs in circulation is rejected as noted in Section 5 below and Appendix B.

It was also considered whether the right to receive EAs gives future economic benefits because the EAs are recognized as assets by participants under their accounting frameworks (e.g. IFRS) and therefore the Province has a right to recall an asset. However this view was rejected because while EAs are assets for participants as they can be used to reduce a recognized obligation, they are not assets for the Province as they do not give the Province access to future economic benefits through the provision of goods or services, future cash inflows or reduction of future cash outflows for the reasons noted above. The only exception is when EAs for a future compliance period are received as part of the 3 for 1 increased compliance obligation as these may be re-sold in the future. However for these EAs, the Province does not control how many EAs may be received back that can be re-sold or how many of these are for a future compliance period and so the asset criteria of control cannot be met in respect of this right to receive EAs for increased compliance obligations. Any recognition of an asset for the right to receive back applied to all EAs would result in a write-off to expense when EAs are remitted for a regular compliance obligation and then retired. This expense would not reflect the economic substance as there has been no outflow of economic resources by the Province at the point the EAs are returned and is therefore not a fair presentation.

e) Failure of participant to pay increased compliance obligation:

An increase compliance obligation is similar to a fine or penalty in that it increases the incentive for a capped participant to obtain enough EA "permits" during the compliance period or the participant must obtain a greater number of permits at a greater cost. However, while the compliance obligation is increased for the participant, the Province does not recognize a right to receive cash for increased compliance obligations until the expiry of the notice period because prior to this point participants, not the Province, control whether they have sufficient EAs to meet their compliance obligations or increased compliance obligations as they can purchase additional EAs on the market at the market price. EAs do not enhance or create expected economic future benefits for the government for the reasons noted in part (d) above in that they are resources that are controlled, but do not lead to future economic benefits for the Province. As participants can settle their obligations with EAs (including those from a future compliance period and after Ontario is linked, those issued by another jurisdiction of the WCI) there is no asset of the Province until a participant has not settled with EAs and under legislation the Province has a right to demand cash as settlement of the compliance obligation (i.e. to

levy a cash penalty for non-compliance with the program). The right to demand cash represents a right to future economic benefits (cash flows) and is an asset, regardless of how the Province ultimately agrees to settle the obligation with the participant.

Measurement of the receivable: There is no specific guidance in PSAS on the recognition of receivables of fines or penalties as they are scoped out of PS 3510, *Tax revenues*. However, it would be consistent with PS 3510 and other standard to recognize the receivable at the amount expected to be received at the time of initial recognition. This would take into account the *expected* settlement of the receivable. For example, some or part of the amount might be settled by a reduction in the free allowances that would otherwise be due to a participant in future years. Settlement in this manner does not result in a direct inflow of economic benefits for the Province as the cost of creating free EAs for distribution is nominal (the benefits are indirect in that more EAs would be available for auction sale) and so would reduce the amount expected to be received.

Alternative positions considered and rejected: It was considered whether the ultimate right for the Province to demand cash in settlement of an increased compliance obligation indicated that the EAs in circulation give rise to future economic benefits because the right to receive EAs *might* ultimately end up being settled in cash. However, this view was rejected as it is only when a participant has chosen not settled with EAs that the Province has a right to demand cash as settlement of the compliance obligation. Therefore there can be no further expected future benefits to be obtained for the Province prior to this point.

5. Identification of liabilities relating to the cap and trade program (excluding deferred revenue) as sponsoring government

Relevant guidance – See Appendix C

PS 1000, Financial statement concepts (“PS 1000”)

PS 3200, Liabilities (“PS 3200”)

PS 3300, Contingent liabilities (“PS 3300”)

PS 3310, Loan guarantees (“PS 3310”)

PS 3410, Government Transfers (“PS 3410”)

PS 3450, Financial instruments, effective from April 1, 2019 (“PS 3450”)

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to liabilities under Public Sector Accounting Standards.

a) Financial liabilities: There are no attributes of the cap and trade program that result in financial liabilities for the Province.

b) Other liabilities: There are no attributes of the cap and trade program that result in another type of liability for the Province.

c) Loan guarantees and contingent liabilities: There is no exposure for the Province in respect of Participant's cash financial assurance held in escrow in the participant's sub- accounts.

Analysis

a) Financial liabilities: As noted in the analysis in part 3 above and Appendix B the EAs themselves are not financial instruments and therefore do not create a financial liability, as once the EAs are issued and in circulation there is no contractual obligation of the Province to redeem them for cash or any other financial asset, or exchange them for other financial instruments. For example, if EAs are not required to be remitted by a participant for a compliance period it can be rolled forward for use in a future compliance period, rather than being redeemed for cash or another EA.

After Ontario links with the WCI it was considered if there is an obligation of Ontario to exchange Ontario EAs for those of other jurisdictions, or accept other EAs in lieu of Ontario EAs on terms that might be unfavourable to the Province. No such obligation appears to exist as there is one market for all jurisdictions in the WCI and once issued there is no way to determine whether an EA is an "Ontario" EA or that of another jurisdiction as all EAs are contractually identical. If a market participant has purchased an EA that was issued as an allocation from California or Quebec and redeems it for an Ontario compliance obligation this does not create any obligation for Ontario to "settle" or return that EA to the originating jurisdiction.

It was considered whether there is any contractual obligation to repurchase the issued EAs or return the purchase price of auctioned EAs in contingent circumstances, such as the termination of the cap and trade program or bankruptcy of a participant. Based on the legislation and regulations there are no terms of the EAs that permit the participant to "put back" the EA to the Province, or require the Province to recall EAs for cash. Rather, Section 70 (3) of the Act specifically notes that the Crown is not obligated to make any payments in respect of retired or removed EAs. The current legislation does not foresee any mechanisms to terminate the program and therefore no current contractual obligation to redeem EAs exists under the terms of the EAs. If the program were to be terminated in the future the settlement of outstanding EAs would be the subject of future legislation and therefore no past event has yet occurred that creates an obligation in the event of termination.

Alternative positions considered and rejected: New Zealand has adopted an accounting policy of accounting for EAs in circulation similar to "currency in circulation", also known as the "Emission Notes" approach. Whether the EAs can be considered similar to "currency in circulation has been considered in Section 3 above". Whether this view would result in a financial liability being recognized by the Province for EAs in circulation is explored further in Appendix B.

b) Other liabilities: There is no liability under PS 3200 for the future issuance of EAs that are predominantly sold through the auction process as these are reciprocal transactions at the market price. The requirement to issue EAs at an auction price does not result in an outflow of economic benefits to the Province, because the Province receives fair value at the time of issuance.

In respect of the EAs that are given away as free allowances, there could be considered to be a constructive obligation to transfer "goods" (being the free EAs) in total or to specific participants. The delivery of free EAs is a transition mechanism and is non-reciprocal (as opposed to the sale of EAs which is a reciprocal transaction). The transfer of EAs is not technically in scope of PS 3410 because EAs are neither monetary assets (as they are not claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangements – PS 3410 GLOSSARY) nor are they tangible capital assets as they are not tangible in nature. However the principles in PS 3410 can be

applied to determine whether there is an obligation to deliver free EAs. Under PS 3410 a transferring government has a liability (and expense) for a transfer when the transfer is authorized and all eligibility criteria have been met. The ability to receive free EAs is dependent on the participant registering each year to be eligible to receive the EAs. To the extent that that a capped emitter has registered to get free EAs and the number of EAs that it will receive can be determined under the regulations without continuing discretion from the MOECC to adjust the number then there should be a liability and expense amount recognized for the obligation to issue free EAs. It is noted however, that PS 3410 does not provide guidance on measurement of that liability and expense. As the obligation is to be settled only in the delivery of the free EAs, the best estimate of the amount to settle the obligation by the Province is the cost of the EAs, which is a nominal amount. Therefore, the obligation cannot be material at any time.

After the issue of free EAs or auction of other EAs, there is no legal or constructive or obligation to make payments or otherwise have an outflow of economic benefits in respect of issued EAs. As the cap and trade program is new, there have been no past practices established by which the Province settles outstanding EAs in cash or by transfer of other economic resources. There are no exchange mechanisms to exchange some EAs for others or to settle them in cash outlined in legislation.

Alternative positions considered and rejected:

It was considered whether the Act creates a broader obligation of the Province to reduce greenhouse gas emissions in Ontario in a manner that requires the outflow of economic benefits. Aside from the administration of the cap and trade system, the Act does not require specific actions to be taken by the Province that would result in an outflow of future economic benefits that the Province does not have the discretion to avoid. The question of whether the responsibility to spend auction proceeds on initiatives that are reasonably likely to reduce or support the reduction of greenhouse gases creates a liability as discussed in Section 6 below.

It was also considered if there is an obligation of the Province to run the Cap and Trade Program pursuant to legislation and if this creates a liability for the costs of running the program. Under the government's own legislation the Province is responsible for managing the ETS, which will require an outflow of resources in the form of administration costs, including the costs of administering EA issuance, emissions monitoring and compliance settlement activities at the end of the compliance period. There is also a past event that gives rise to this obligation being the enactment of the ETS legislation. However, as the cap and trade program is pursuant to the Province's own legislation there is still discretion to avoid the future outflows through the ability to change the legislation. The federal government has recently announced plans that mean provinces must come up with some form of carbon pricing scheme or else a federal carbon price will be imposed. Currently there is no indication that the federal government is requiring that Ontario continue with its cap and trade program as that program could be replaced with other carbon pricing mechanisms or could be removed and Ontario become subject to any future federal scheme. As such there is no third party that means Ontario has little or no realistic alternative but to continue with the Cap and Trade Program. Indeed, the actions of the federal government indicate that Ontario could stop its own program at its discretion and rely on any federal scheme to achieve carbon reductions.

Loan guarantees and contingent liabilities: It was considered whether the Province has an implied loan guarantee or contingent liability in respect of Participant's cash financial assurance, and whether the Province has the obligation to ensure the amounts are returned to participants if the auction does not run or they are not successful, even in cases of insolvency or error on the part of DB. Based on a legal analysis the Province does not appear to have exposure for loan guarantees or contingent liabilities to

the extent that participants have submitted cash bid guarantees in participant's Escrow accounts as there is recourse under both the indemnification clause of the DB contract and required insurance (depending on the nature of the error). Further, if the DB fails to make payment to a participating jurisdiction because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for DB's error.

Alternative positions considered and rejected: No alternative views considered, based on the understanding of the specific arrangements regarding the escrow accounts. The final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

6. Revenue recognition under the cap and trade program as sponsoring government

Revenue recognition on sale and distribution of EAs

Relevant guidance - See Appendix C for details.

PS 1000, Financial statement concepts ("PS 1000")

PS 1150, Generally accepted accounting principles ("PS 1150")

PS 3410, Government transfers ("PS 3410")

Other GAAP accounting frameworks including IFRS 15, *Revenue from contracts with customers* ("IFRS 15")

PSAB Revenue – Statement of Principles ("Revenue SOP")

Preliminary position: Revenue is recognized for the sale of EAs on the date of delivery of the EAs as this is when the performance obligation is settled by the Province. No revenue is recognized on the distribution of free EAs for no consideration.

Analysis:

The following analysis follows from the preliminary position in Section 3 on the nature of EAs – *The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.* Given the nature of the EAs as intangible goods it is appropriate to consider revenue recognition requirements for exchange transactions. PSAS does not have a specific standard on revenue from exchange transactions. Therefore other sources of GAAP and consideration of the conceptual framework must be applied to develop an accounting policy.

a) What is the performance obligation for the sale of EAs? A performance obligation is defined in IFRS 15 a promise in a contract with a customer to transfer a distinct good or service (or bundle of distinct goods or services) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. This is similar to the proposed definition of performance obligation in the Revenue SOP which defines a performance obligation as an "enforceable promise to provide goods or services to a payor as a result of exchange transactions". The following analysis has applied the IFRS concept, as permitted under PS 1150.

In both IFRS 15 and the Revenue SOP, performance obligations are identified by reference to a contract – which is an agreement that creates enforceable rights and obligations. A contract does not have to be a formal written bilateral agreement, as long as both parties have an understanding of each party's respective enforceable rights and obligations. In this situation the good or service is the EA that is credited to a participant as a result of the auction process or strategic reserve sale. As discussed in Section 4 above, the auction certification date is the date that a contract is considered to exist.

Each EA is "distinct" in that the customer (purchaser) can benefit from each EA individually by selling, trading or using those EAs as the customer sees fit, including using those EAs to sell to other participants in the WCI or to settle compliance obligations in other WCI jurisdictions (once linked), and does not need other goods or services to benefit from the EA and the EA is not combined with other goods and services. A purchaser can only purchase an EA if they are a registered participant, however, becoming a registered participant is available to voluntary participants and market participants and therefore is considered to be readily available to all customers. (See IFRS 15.27 in Appendix C for definition of "distinct goods and services")

Based on the above analysis, a contract is created when a participant successfully bids at auction as confirmed in the auction certification process. The Province has distinct performance obligations to deliver each EA to each successful bidder under these contracts.

Alternative positions considered and rejected: It was considered whether the item delivered to participants in the exchange transaction was a program of carbon (greenhouse gas) reduction rather than the delivery of an EA itself. This was rejected because the individual participants may or may not benefit from a reduction in carbon in Ontario and may or may not benefit in proportion to the cost of the EAs. Further, when Ontario links with the WCI, the participants may not even be located in Ontario. While the province may have promised the public of Ontario and other parties that they will reduce carbon emissions in Ontario to meet emissions targets, this should be separately analysed as to whether it has created a constructive obligation for Ontario to take actions and incur costs to meet this promise (See analysis in 5 (b) above). This is separate from the obligation in the exchange transaction with participants in respect of the purchase of EAs.

It was also considered whether the performance obligations to participants is both to issue the EA in the auction process, and also a stand-ready promise to redeem the EA in the future to settle a compliance obligation. In other words an EA is an intangible "right" that has been issued that province is obligated to redeem. Under this view, some or all of the proceeds from the auction would not be earned as revenue until the Province redeems the EA. This view was rejected because the obligation to redeem the EA as settlement of a participant's compliance obligation is an obligation that arises when a participant emits pollution and does not arise from the sale of the EAs. For example, Ontario sells 10,000,000 EAs in a compliance period. However total emissions from Ontario participants are only 100,000 tonnes. Ontario does not have an obligation to redeem all of the 10,000,000 EAs that were sold. Rather, Ontario accepts the 100,000 EAs that are submitted by the participants who emitted the 100,000 tonnes of emissions as settlement of their compliance obligations. Therefore Ontario has no obligation to redeem an EA that arises from the original exchange transaction and therefore there is no performance obligation that exists once the EAs have been sold. Similarly, when Ontario has linked to the WCI as Ontario is only obliged to take back EAs in respect of emissions from Ontario participants. There is no obligation to take back EAs sold to participants in other jurisdictions or to market participants, and likewise there is an obligation to redeem EAs submitted by Ontario participants, even when these were purchased from another WCI jurisdiction or another participant.

It was also considered whether the Province has an obligation to continue to provide the cap and trade program and/or a marketplace where participants can buy and sell EAs, on the basis that participants purchasing EAs are doing so on the understanding that they will be able to buy and sell EAs as well as to remit them for compliance obligations (if necessary). For example, if the termination of the cap and trade program would

result in an obligation of the Province to return the sale proceeds to the holders of EAs that had been sold at auction this could indicate that there is an ongoing performance obligation that has not been fulfilled as the amounts must be refunded in the event of termination of the program. Under the Act, the Director establishes one or more accounts for registered participants for the purpose of allowing the participant to purchase, sell, trade and otherwise deal with emission allowances and credits. However, these are established and maintained in accordance with regulation for any registered participants, regardless of whether they purchase EAs in the auction process. Therefore the responsibility of creating and maintaining these accounts is a requirement and responsibility to registered participants under the Act and not a performance obligation to the purchasers or holders of EAs. The Act permits the trading of EAs between registered participants, but it does not create a provincially controlled market place for these trades. Registered participants may have an *expectation* of the Province continuing the cap and trade program and may make decisions based on this expectation, but this expectation exists in all registered participants including those that receive free allowances, rather than being a performance obligation that arises from the exchange transaction that is the sale of EAs. Section 5 (b) above discusses whether there is a general liability of the Province to continue the cap and trade program. Finally, it is noted that there is no legislative provisions for the termination of the program and there are no contractual provisions embedded in the EAs that give the participants the right to receive cash in respect of outstanding EAs upon termination of the program. As such, there is no evidence of a written or implied contractual performance obligation to continue the program that is part of the sale of EA exchange transaction.

b) When is the performance obligation satisfied? There are a number of models used in practice for determining when a performance obligation is satisfied. Under IFRS 15 the performance obligations are satisfied as control of the good or service passes to the customer, regardless of whether the performance obligation is a good or a service. Under other standards such as ASPE Section 3400, *Revenue* or IAS 18, *Revenue* there are different criteria for "goods" or "services" and generally revenue is recognized as risks and rewards of ownership are transferred (for goods) or services are provided (for services). Both would be acceptable ways to approach the timing of revenue recognition for exchange transactions under current public sector accounting standards. However, the Revenue SOP proposes a "control" model similar to IFRS 15, so this approach has been applied in the analysis. Under IFRS 15 an "over time" approach is permitted only in specific circumstances (see IFRS 15.35 in Appendix A). In the case of the EAs the customer does not simultaneously receive and consume the benefits of the EA, the EAs do not create or enhance an asset that the customer controls and there is no additional asset that does not have an alternative use that is created by the province to fulfil the contract. Therefore the performance obligation will be satisfied at a point in time.

IFRS 15 provides indicators of when a point-in-time obligation has been satisfied. These are also included in the Revenue SOP and have been considered in this analysis. See IFRS 15.38 in Appendix C. The indicators have been assessed as follows:

Indicator	Auction day	Auction Certification date	Financial Settlement date	Receipt of proceeds and delivery of EAs
Present right to payment	Possible – there is a right to payment from successful bidders but it has not been confirmed who these are.	Yes. Under the contract payment must be received prior to delivery of EAs	N/A payment must be received before this date	N/A payment must be received before this date

Legal title to the asset	Legally EAs are not "property" under the legislation and therefore the concept of legal title does not technically apply to EAs.			However, EAs can only be traded or used after they have been credited to the participant's account. This occurs only on this date.
The entity has transferred physical possession of the asset	This indicator is not entirely relevant as EAs do not have physical form.			However the record of a participant's EAs is maintained in the CITSS account and so the right to use an EA is confirmed only upon this date.
The customer has accepted the asset	There are no customer acceptance clauses. This indicates is not relevant.			
The customer has significant risks and rewards of ownership of the asset. Specifically:				
- Using the EA to settle a compliance obligation (permit to settle a compliance obligation)	No. The EAs cannot be transferred from a participant's holding account to its compliance account to settle an obligation until it has been credited to the holding account.			Yes. Once credited to a holding account a participant can use the EA to settle a compliance obligation.
- Benefiting or suffering from the fluctuations in the market price of EAs	Possibly – the price that the customer pays is set by the auction process. However the customer does not yet know what price that is or how many EAs will be obtained. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	Yes – From this date the participant knows how many EAs they have and for what price. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	N/A already met	N/A already met

Based on the balance of the indicators above it can be concluded that there is most support for recognizing revenue on a "point in time" basis on the date when the EAs are transferred to the participant. As part of this it

was considered that the nature of the EAs is ultimately as a permit to settle compliance obligations and therefore this element of risks and rewards was weighted more heavily.

Alternatives considered and rejected:

Auction date/Certification date/financial settlement date: See table above for analysis.

Trade date accounting: It was also considered whether "trade date accounting", as required by PS 3450 for regular way purchases and sales, could be applied to the purchase and sale of EAs. Trade date accounting is accepted for financial instruments to avoid having to recognize a derivative that be created for the period of time between when the fixed price commitment is entered into and it is settled because of the presence of an underlying variable that is not specific to either party. "Regular way" purchases and sales are those that are settled in the regular settlement cycle required for that particular investment. The time of that settlement varies depending on the type of instrument and jurisdiction. There could be an argument that the period between certification date and financial settlement date is the regular settlement cycle required for EAs, and therefore trade date accounting could be applied, which would result in the recognition of revenue (gains) on the sale of the EA on the trade date and not on the settlement date when the EA is actually transferred. However, this view was rejected for the following reasons:

- EAs are not sold through a "recognized exchange or securities market" but through the Province's auction process. While there is anticipated to be a market that develops for trades of EAs it will not be a "recognized exchange" under the Ontario Securities Act.
- As the sale is not on a "recognized exchange or securities market" there is not a customary period to settlement date (e.g. three days for equities, two days for forex swaps). Rather the period between the certification date and final settlement can vary depending on how long it takes for participants to provide cash, the LOCs/LOGs to be drawn upon and the final reconciliation to be approved. Further if the "trade date was considered to be the auction date and not the certification date this would extend the period further and make it more variable as the certification period can vary from 3 – 7 days.
- Trade date accounting is an exception to the usual rules of recognition for executory contracts and/or derivatives. As an exception it should not be extended by analogy to other situations such as EAs which are out of scope of PS 3450 as they are classified as inventories held for sale.

c) What are the implications of free allowances? Free allowances are not sold in an exchange transaction but are distributed in a non-exchange transaction, similar to a government transfer. As noted in Section 5 above, the distribution of EAs are technically not in scope of PS 3410, Government Transfers as they are not tangible capital assets or monetary assets. Further PS 3410 does not provide guidance on the measurement of a government transfer. However, the distribution of EAs to participants is similar to a government grant given that EAs are considered "goods" for which control is transferred at a point in time. This indicates that there is an outflow of economic benefits to participants. Typically under PSAS expenses incurred that are a result of derecognition of assets are measured at the difference between the carrying amount of the asset and the consideration received (in this case nil). The carrying amount of the EAs is at cost; expected to be a nominal amount. This is an acceptable policy under PSAS and consistent with PS 1000.60 (See Appendix C).

Alternatives considered and rejected:

An alternative to measuring the free EAs at cost is to measure them at fair value at the date of distribution being the opportunity cost of the economic resources foregone by not selling the EAs at auction. This policy also appears to be supportable by PS 1000.60 which indicates transactions can be measured at the "fair value ascribed to them when they took place". However this alternative is not proposed because the expense from recognizing the EAs at fair value would be necessarily offset by a gain as the carrying amount of the EAs is

nominal. This gain (revenue) does not seem to meet the definition of revenues under the Conceptual framework as there is no inflow of economic benefits to the government from issuing free EAs to participants. Therefore this alternative was rejected as it results in a gross up in the statement of operations that is not a fair presentation of the economic activities of the Province in respect of the issuance of free EAs.

Restrictions on Greenhouse Gas Reduction Account

Relevant guidance – See Appendix C for details

PS 3100, Restricted assets and revenues

PSG-4, Funds and reserves

Preliminary position: The requirement to place the auction proceeds into a Greenhouse Gas Reduction Account is an internal restriction and does not lead to a liability on the statement of financial position.

Analysis:

The legislative requirement to establish the GGRA within the Public Accounts and record the proceeds from the distribution of EAs is found only in the Act, which is legislation of the Province and not of another government. There are no other agreements with other governments or other external parties that restrict the use of the proceeds from the distribution of EAs. Therefore, there are considered to be no external restrictions and the requirements of PS 3100.11 to defer revenue until the resources are spent on the purpose or purpose specified do not apply.

Instead, the GGRA is an internally established reserve of the Province. The reserve is supported by assets that have been formally designated by the Province for specific uses and therefore meet the definition of "designated assets" in PS 3100, as this designation could be readily changed by amending the Act. Disclosure of designated assets may occur in the notes to the financial statements, but cannot occur on the statement of financial position. Similarly, PSG-4 permits reserves supported by designated assets to be disclosed in the notes, but not in the statement of financial position.

Alternative positions considered and rejected: It was considered whether there was an implied external restriction on the proceeds from the auction process, as when the participants purchase EAs they know that, by legislation, the funds are to be placed in the GGRA and spent on eligible programs. This view was rejected because the participants are purchasing the EAs in an exchange transaction (See discussion on "Sale of EAs as exchange or non-exchange transactions above). If the Province were to change the legislation regarding the use of the auction proceeds, the participants would still continue to purchase the EAs that they require or choose to purchase to meet their compliance obligations or to trade in the marketplace. As such, there is no evidence that the participants intend for there to be an external restriction on the proceeds.

It was also considered whether Ontario's commitments to other governments and parties, such as commitments to the WCI, create external restrictions on the use of auction proceeds for specific greenhouse gas reduction purposes. No external restrictions have been noted.

7. Financial statement presentation and disclosure considerations

- Financial statement disclosure consideration
- Other disclosures outside of the financial statements

8. Accounting for Emission Allowances held by government organizations

- Organizations that are consolidated into the Province's financial statements (hospitals, colleges etc.)
- GBEs that are accounted for using the modified equity method (IFRS) and prepare stand-alone financial statements under US GAAP

9. Anticipated fiscal impact over planning horizon

- Impact on balanced budget legislation

10. Implementation risks and audit considerations

Appendix A – Comparison to other select jurisdictions

	Quebec *Applies Canadian Public Sector Accounting Standards*	New Zealand[3] *Applies International Public Sector Accounting Standards*
Similarities and differences to Ontario	Quebec's cap and trade program substantially the same design as Ontario, as it is intended that Ontario will link into the WCI within the first compliance period	Similarities: Entities must provide New Zealand Units (NZUs) (not cash) to the government based on total emissions. NZUs can be traded between entities. Differences: New Zealand (NZ) had an obligation to the United Nations to keep emissions within the prescribed cap. NZUs are interchangeable with International Assigned Amount Units (AAUs) and New Zealand has an obligation to hold a quantity of international units equal to 90% of its AAU allocation. These units can be used to settle the New Zealand Government's Kyoto obligation. There is no hard domestic cap. International units can be used to settle emissions obligations. If the amount of NZUs are not sufficient for New Zealand to meet its international obligations the government must purchase more AAUs. For every NZU the government stands ready to swap it into an AAU (or equivalent international unit)
Asset recognition	None.	a) Creation of NZUs as "currency" results in inventory prior to issuance b) As Participants emit NZ has a "right to receive" the NZUs, created by legislation. The emissions are similar to a "taxable event"

[3] Information regarding the New Zealand ETS taken from the IPSASB paper "Emissions Trading Schemes" Agenda Item 14, March 2016 and "The Emissions Trading Scheme – Summary information for public entities and auditors"

Liability recognition	None. Although linked to the WCI, there is no cash changing hands with California, therefore no obligations/additional transactions that arise from a combined market.	When issued an NZU is an obligation, similar to "currency in circulation" that represents the obligation to redeem the NZU for their emissions value. NZUs are exchangeable for AAUs and an AAU or equivalent unit can be surrendered instead of an NZU, emphasizing that NZUs are a "medium of exchange" for settling the obligations. The liability is measured by reference to the cash received. For an grant of NZUs it would be nil. For NZUs issued for cash it is measured at the cash amount received. At the end of the compliance period the liability is settled by the return of NZUs (or other acceptable units) recorded under the "right to receive NZUs" asset. There are no assets or liabilities at the end of the compliance period.
Accounting for free allowances	Not recognized in the public accounts as revenue/expense.	Revenue is recognized when the "right to receive" NZUs is recognized – i.e. as the emissions are created by participants. Cash received from sale of NZUs is used to measure the liability representing the obligation to redeem NZUs and is not recognized as a revenue directly.
Accounting for sold/auctioned allowances	Revenue recognized immediately on sale/auction. Rationale was that sold rights are in scope of "unilateral rights" in the Revenue Statement of Principles and therefore result in immediate revenue recognition as government has sole authority to grant the right under constitutional powers and the past event (the auction) has occurred. No further obligations of the government. The revenues are non-refundable. Currently unknown whether recognized on auction date/certification date/settlement date/delivery date. Note that based on auction dates for WCI this is unlikely an issue for the Province of Quebec.	

Appendix B – Currency in circulation model

If the currency in circulation model is applies, as has been applied in New Zealand, the following analysis would be relevant for consideration. It is noted that the results are similar in respect of revenue recognition and liability recognition as for the "exchange transaction model".

The accounting for currency in circulation is not dealt with specifically in PSAS, however central banks typically recognized a liability for currency in circulation when it is issued as the central bank has an obligation to take back or issue notes and coins from banks with an offset to the bank's reserve liability with the central bank – in other words currency in circulation is exchangeable by holders into a different form of financial asset/ financial liability from the perspective of the central bank. In July 2016 IPSASB released a consultation paper on "Public Sector Specific Financial Instruments" that includes a discussion of currency in circulation[4]. This consultation paper lays out the critical questions to the application of this model. It is noted that the consultation paper considers the issuance of currency in circulation for its face value to be an "exchange transaction".

1. Is there a liability created?
2. What are the revenue implications?

Is there a liability created?

The consultation paper analyses the circumstances under which a liability may be created for currency in circulation by reference to the conceptual Framework. The analysis below considered the factors in the Consultation Paper in reference to the PSAS definition of a liability in PS 1000 and Section 3200 (Note that the IPSASB definition of a liability contains similar concepts to the PSAS definition in PS 1000 and PS 3200 although the words used are different).

- A past event has occurred when the EAs are issued, whether distributed for free or sold for cash.
- The issuance of a currency will embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation when there are legally enforceable obligations of the issuing government. For example, laws requiring the government to exchange damaged currency for new currency, hold collateral for the amount in circulation or establish explicit claims against the assets of the government for the currency in circulation. Where these legal obligations exist to redeem currency there is likely to be an outflow of resources required to discharge the obligation.
- If there are not legally enforceable obligations, the issuance of currency may still be a liability if the government has indicated they will accept certain responsibilities, have raised a valid expectation in others and have little or no alternative to avoid an outflow of economic resources. It may be less clear whether

[4] https://www.ifac.org/system/files/publications/files/IPSASB-Consultation-Paper-Public-Sector-Financial-Instruments.pdf

there will be an outflow of economic resources to settle these obligations, but a past practice of settling them (e.g. redeeming for cash) may create a valid expectation that will be settled by an outflow of economic resources.

There are a number of aspects that indicate the Ontario issued EAs do not meet the definition of a liability (and are not similar to the New Zealand Units):

- When they are remitted to the Province they are retired and not re-sold into circulation (with some limited exceptions)
- EAs issued in Ontario do not require the Province to exchange the EA into any other unit that is in turn can be sold by the Province for cash or used to settle a Provincial obligation, and does not require the Province to exchange an EA for cash. Ontario is not obligated to:
    - Hold collateral for amounts of EAs in circulation
    - Exchange EAs for "new" EAs
    - Honour any claims against other assets of the Province through the redemption of EAs
- In the absence of any legal obligation to redeem EAs for cash or another claim on an asset there is also no constructive obligation created by past practice of such claims/redemptions.
- This contrasts with the New Zealand system where New Zealand has an government Kyoto obligation to settle with international units and the government stands ready to exchange New Zealand Units into Assigned Amount Units (AAUs) or equivalent international unit. This may be on terms that are unfavourable or result in the requirement for New Zealand to pay cash to obtain the necessary AAUs for exchange.

Based on an analysis of the cap and trade program applied by Ontario the obligation to repatriate or redeem the EAs does not result in an outflow or sacrifice of future economic benefits as there are no circumstances when the Province must pay cash or other financial assets to settle the obligation to take back EAs for a participant's compliance obligation. Therefore the presentation of an obligation to redeem EAs would not reflect the substance of the arrangements, as the terms of the EAs do not meet the definition of a liability.

What are the revenue implications?

The consultation paper goes on to discuss whether, if no present obligation exists upon the issuance of currency in circulation if and when would revenue be recognized. Similar to IPSASB, under PSAS revenue is an increase in net financial position of the entity. (IPSASB also has the concept of ownership contributions, which are not relevant in this situation). The Consultation paper paragraph 3.43 notes that "when the issuance of currency does not satisfy the definition of a liability in the Conceptual Framework and recognition criteria, it should be recognized as revenue". This indicates that the test for a currency in circulation model is whether any attributes of the issuance of the EAs create a liability, and if not, any proceeds received from their issuance would be immediately credited to revenue as an inflow of economic resources to the government.

Appendix C – Technical guidance

Definition and nature of Assets

The definition of an "Asset" is currently set out in PS 1000.35.

1000.35 Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

PS 3210, *Assets* is effective from April 1, 2017, which expands on this definition. In light of the timing and multi-year nature of the cap and trade program PS 3210 is considered relevant.

PS 3210 defines assets as "economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained". Assets have three essential characteristics:

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

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

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

(PS 3210.03-.04 and PS 1000.36)

Assets may be classified as financial assets or non-financial assets. A financial asset is an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations (PS 1000.39). Examples of financial assets include cash, receivables and inventories held-for-sale. A non-financial asset is an asset that is acquired, constructed or developed and does not normally provide resources to discharge existing liabilities, but instead is normally employed to deliver government services, consumed in the normal course of operations and is not for sale in the normal course of operations (PS 1000.42). Examples of non-financial assets include tangible capital assets, supplies inventory or prepaid expenses.

Inventories are not specifically defined under PSAS, although PS 1200.48 provides guidance that Inventories for resale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. Other frameworks such as IFRS define inventories as assets that are held-for-sale in the ordinary course of business, used in the process or production for sales in the ordinary course of business or are consumed in the production process or rendering of services. This definition is consistent with the PSAS terminology of inventories held-for-sale and inventories held for consumption or use (consumed in the production process or rendering of services).

Intangible assets may meet the definition of an asset under PS 1000 and PS 3210. However, in the absence of appropriate public sector recognition and measurement criteria for intangible assets, no intangible assets are recognized in government financial statements (PS 1000.58). There is no definition provided for "intangible asset" in PSAS, although PS 4230 (applicable only to NPOs) does define Intangible Properties as "capital assets that lack physical substance". Other frameworks such as IFRS define Intangible Assets more broadly as "an identifiable non-monetary asset without physical substance".

Measurement of Assets

There is no specific guidance in PSAS on the initial recognition amounts for inventories. PS 1000.60 notes that generally financial statements are prepared on the "historical cost basis" being the cash or cash equivalents paid or received or the fair value ascribed to them when [the transactions] took place. Inventories held-for-sale are financial assets. Subsequent to initial recognition inventories are measured at their recoverable amount, net of any valuation allowance (PS 1200.049).

Definition and nature of liability

The definition of a "Liability" is currently set out in PS 1000.44-.45 and PS 3200, *Liabilities* which expands on this definition.

PS 3200 defines liabilities as "present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits". Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event or on demand;

c) The transactions or events obligating the government have already occurred.

(PS 3200.05)

PS 3200 states that discretion can be removed by an entity's own actions when this creates a constructive obligation to others. For a constructive obligation to exist the government must accept responsibility for the obligation, create a valid expectation among others and have no realistic obligation but to settle the obligation. This can arise from past practice, established policies, cabinet minutes, orders-in-council, ministerial orders, approved plans, ministerial letters and legislation.

PS 3200 states that the obligation to sacrifice economic benefits must be to a third party, and that entity exists at the financial statement date. The timing of the sacrifice of economic benefits must also be specified.

PS 3450 includes a definition of financial liabilities as "contractual obligations to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government". While PS 3450, *Financial instruments* is not mandatorily effective for the Province until fiscal 2020, given the long term nature of the cap and trade program, it has been considered in the analysis. Under PS 3450 there is no guidance on initial measurement of financial liabilities – typically transaction price is used, although fair value may be appropriate in some circumstances. Subsequently, financial liabilities are measured at amortized cost, unless they are eligible to be designated at fair value.

PSAS also contains guidance on loan guarantees (PS 3310), which are a form of contingent liability (PS 3300). Loan guarantees, as with other contingent liabilities, are accounted for as a liability when a loss is likely and the amount can be reasonably estimated.

Measurement of Liabilities

There is no general measurement guidance for liabilities in PS 3200, although specific standards specify measurement bases to be used. Other standards such as PS 3250, Retirement benefits and PS 3260, Liability for contaminated sites use a measurement model of the best estimate of the "cost" or cash outflows to settle the liability (discounted where appropriate). It is also noted that PS 1000.60 includes the following guidance:

PS 1000.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.

(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

PS 3410 Government Transfers - Scope

04 Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase / sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

.05 This Section does not deal with:

(a) transfers made through a tax system that are authorized through tax legislation;

(b) grants in lieu of taxes;

(c) settlements of lawsuits or other types of legal compensation provided by governments;

(d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments; and

(e) transfers of non-monetary assets other than tangible capital assets. Examples of transfers of non-monetary assets that are excluded from the scope of the Section are: transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures. 4

(footnote 4 - In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements)

PS 3410 Government Transfers - Expense (and liability) recognition

.12 A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Exchange transactions and non-exchange transactions

PS 3510.07 – (a) *Exchange transactions* are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(b) *Non-exchange transactions* are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

PSAS Revenue Statement of Principles –

.026 "Exchange transactions are transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor"

.032 "Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue".

Definition of revenue

PS 1000.46 - "Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period." Revenues are distinguished from gains because gains arise from peripheral or incidental transactions and events affecting a government.

Revenue recognition

PS 1000.59 - "Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting.... Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied."

PS 1150 - When there is no primary source of PSAS that addresses an issue a government uses professional judgement to develop an appropriate accounting policy that is consistent with the primary sources of GAAP and PS 1000. Additional sources can be referred to which include pronouncements of other standard setters (such as IPSASB, GASB, FASAB in the public sector or FASB, IASB or AcSB for private sector equivalents). Exposure drafts and other due process documents may also be considered, although care should be taken when using such documents as they may change before finalization.

The table below various approaches to revenue recognition taken by other standard setters and the pronouncements that could be taken into account in developing an accounting policy.

Source	Standard reference	Revenue recognition model for sale of goods
Public sector standard setters		
IPSASB	IPSAS 9 – Revenue from exchange transactions	As risks and rewards are transferred; no continuing managerial involvement or control; revenue can be reliably measured; probable economic benefit will flow; costs incurred can be measured reliably.
GASB	Principles covered in 1600, Basis of accounting. Some specific issues covered in other standards.	Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.
PSAB	Statement of principles, Revenue (Exposure draft, standard not finalized)	Revenue is recognized as a performance obligation is satisfied. Based on principles of IFRS 15.
Private sector standard setters		
IASB	IAS 18	Same as IPSAS 9
	IFRS 15 (effective 2018)	Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services
FASB	ASC 605	As risks and rewards are transferred; no continuing managerial involvement or control; reasonable assurance of the measurement of consideration. Specifically, there must be persuasive evidence of an arrangement, delivery has occurred or services have been rendered and the sellers price is fixed or determinable
	ASC 606 (effective 2018)	Same as IFRS 15
AcSB – Part II (ASPE)	Section 3400, Revenue	Same as ASC 605

IFRS 15.27 - A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

IFRS 15.35 - An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

IFRS 15. 38 - If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset — if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset — legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs B64–B76, B77–B78 and B79–B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The customer has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset — the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs B83–B86.

Restricted assets and designated assets

PS 3100 applies to funds and reserves that are externally restricted, PSG-4 applies to funds and reserves that are not externally restricted.

PSG-4.3 - .4 - Some funds and reserves are supported by assets. These may meet the definition of designated assets set out in PS 3100.04 (c). PS 3100.30 requires that when a government chooses to provide information about designated assets it does so in the notes and not on the statement of financial position.

PSG- 4.7 - "Therefore, when a government chooses to provide information about any funds or reserve, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations."

PS 3100.04 (a) - "External restrictions are stipulations imposed by an agreement with an external party, or through legislation of another government that specify the purpose or purposes for which resources are to be used."

PS 3100.11 - "Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified."

PS 3100.27-.28 - Designated assets – "...Assets may be designated for a specific purpose as a result of government legislation, by-law or resolution that limits the use of assets to specified purposes. Designated assets are distinct from restricted assets. Unlike restricted assets, governments can readily change the legislation, by-law or resolution and use the designated assets for another purpose if the need arises...."

IPSASB discussions

The International Public Sector Accounting Board (IPSASB) debated a paper in March 2016 that outlined a number of different accounting options that could be applied to various emissions trading schemes including conceptual considerations for and against each model. To date the IPSASB has not concluded on an appropriate model for accounting for emissions trading schemes such as Ontario's cap and trade scheme. The various approaches outlined in the paper were considered in developing the preliminary positions of this memorandum. The proposed approach for Ontario is most closely aligned with "Approach 2" of the paper, altered where necessary to account the specifics of the Ontario cap and trade system and the application within the PSAS Framework.

This paper can be found at: http://www.ipsasb.org/system/files/meetings/files/Agenda-item-14.pdf

Re_ Weekly update.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Re: Weekly update
Date: Friday, June 02, 2017 23:09:10
Attachment 1: image003.jpg

Thanks Christina.
The list looks complete.
Have a great weekend.
Nadine

From: Christina Chan
Sent: Friday, June 2, 2017 5:40 PM
To: Petsche, Nadine (TBS)
Cc: Uros Karadzic; Shayan Jafrani
Subject: Weekly update

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

We consider the ELHT item closed and removed from the list below.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

<u>In progress – next week</u>

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions (awaiting feedback from OAG) on proposed year-end adjustments

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Research on other public plans as identified by EY– OPCD *(OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)*

Next week and after

1. Support related to excel tools update and provide OPCD with associated "audit checklist" *(OPCD APFR team completing template developed based on EY checklist to document current year's activities)*

2. SERP/SRAs (non-registered supplemental plans) reporting

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
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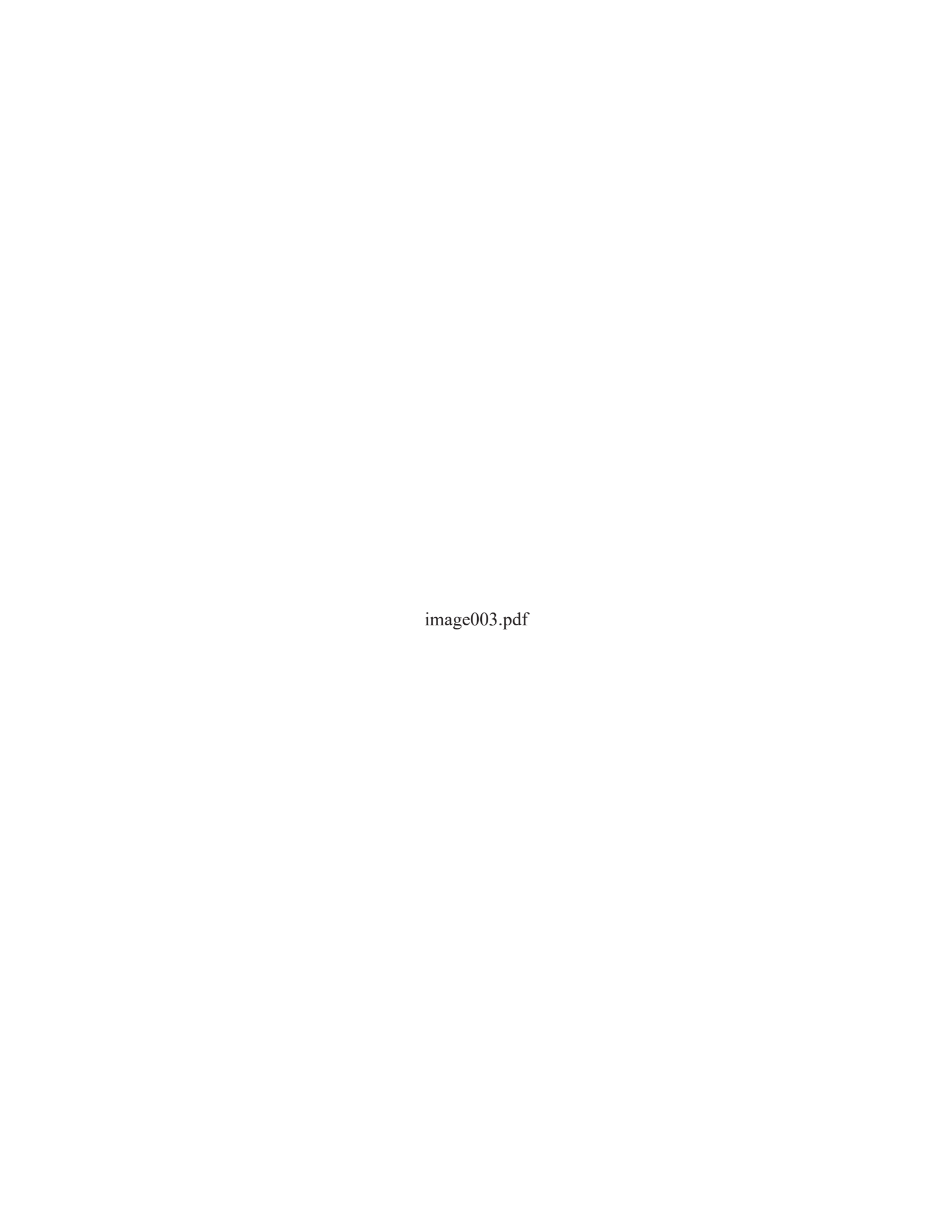
image003.pdf

Re_ Year-end contribution adjustments..rtf

From: Fong, Pauline (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: Re: Year-end contribution adjustments.
Date: Monday, April 10, 2017 08:18:02
Attachment 1: image001.png

Hi Shayan,

I haven't received any follow up questions on this matter as of yet from your team. I understand both you and Christina have be busy working on the asset ceiling test for Nadine however if we could spend time on the year end adjustments, unamortized difference in contributions this week it would be greatly appreciated as OPCD will be meeting with the auditors this Thursday to do some preliminary discussions on this matter.

Regards,

Pauline

Note: I will be at the doctor's this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Shayan Jafrani
Sent: Wednesday, April 5, 2017 3:12 PM
To: Fong, Pauline (TBS)
Subject: Year-end contribution adjustments.

Hi Pauline,

We are continuing to look through the contribution adjustments for the Province's pension plans.

Christina and I will prepare an e-mail with some questions later today. We want to ensure that we correctly understand all of the figures before making any suggestions.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

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image001.pdf

Re_ Your email of Tuesday.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Your email of Tuesday
Date: Wednesday, March 29, 2017 13:52:56
Attachment 1: image001.png
Attachment 2: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

OK, thanks Nadine.

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Partner
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kmlaw.ca

On: 29 March 2017 13:34, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca> wrote:

Hi Murray.

As an update on my discussion with Cindy, she was appreciative of your offer, but advises that we aren't in a position to engage on this file right now. We will need to do some additional info gathering and internal stakeholdering over the coming weeks before a decision can be made.

Again, thanks for sharing your information. It will be valuable to help inform next steps.

Best regards,

Nadine

From: Petsche, Nadine (TBS)
Sent: March 23, 2017 10:39 PM
To: Murray Gold (mgold@kmlaw.ca)
Subject: FW: Your email of Tuesday

Thanks Murray.

This is helpful information. I will touch base with Cindy Veinot tomorrow and get back to you.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 10:35 PM
To: Petsche, Nadine (TBS)
Subject: Re: Your email of Tuesday

Well, that would be my failure with LinkedIn. I apologize for that.

But I would be happy to help with this work.

Our expert panel work is complete, but we have a Retainer agreement with TBS and I could do that work under the Retainer if that works for you.

In this case, I would like to work with a Senior Associate at the Firm, Lesa MacDonald, and would need the consent of TBS for her to work on the project with me.

As well, we'd likely want to talk to other plans, or perhaps sponsors, and tell them of our work as we sought information from them. That would involve disclosing the identity of our client and the nature of our work, and for this as well we would need your consent.

I hope this makes sense to you, and would look forward to working with you on this task.

Best regards,

Murray

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kmlaw.ca

On: 23 March 2017 21:22, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca> wrote:

Thanks Murray. I've been busy working on other 'fires' over the past couple of days. I'll check my linked in now.

On a personal note, it was great meeting you again. We were very fortunate to have had the benefit of such a talented and expert group of Panel members.

Thanks again for your contribution.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 9:18 PM
To: Petsche, Nadine (TBS)
Subject: Your email of

Hi Nadine,

I hope all is well with you. I also hope that the Expert Panel Reports were useful to you. It was a real pleasure to assist with this project.

I wanted to make sure that you had received my email in response to yours of Tuesday? I don't usually use LinkedIn, so I wanted to check that my response to your email did come through.

Thanks Nadine.

Murray

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RE_ Expert Panel -- Pension Issue.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Expert Panel -- Pension Issue
Date: Monday, October 17, 2016 18:07:49
Attachment 1: image001.png
Attachment 2: image002.png
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OK, 416 595 2085.

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kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 6:03 PM
To: Murray Gold
Subject: RE: Expert Panel -- Pension Issue

I'll call you if that's ok – talk to you tomorrow - -Cindy

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: October-17-16 6:01 PM
To: Veinot, Cindy (TBS)
Subject: RE: Expert Panel -- Pension Issue

Yes, that window works. I'll be at 416 595 2-85, or I can call you?

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From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 6:00 PM
To: Murray Gold
Subject: RE: Expert Panel -- Pension Issue

That's great – any chance you have time tomorrow between 3 and 3:20 to connect for a few minutes?

Cindy

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: October-17-16 5:58 PM
To: Veinot, Cindy (TBS)
Subject: RE: Expert Panel -- Pension Issue

Hi Ms. Veniot,

I would be happy to help!

Murray

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kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 3:21 PM
To: Murray Gold
Subject: Expert Panel -- Pension Issue

Hi Mr. Gold,

Scott Thompson passed along the message that you would be interested in assisting with the expert panel the Province is setting up to review the accounting for pension assets. We are now in the process of identifying candidates for the panel.

We have drafted the terms of reference for the panel, which I've attached.

Would you please review these, let me know whether you have any questions and confirm back that you continue to be interested. We can then set up a time for a conversation (assuming you are still interested!)

Regards,

Cindy Veinot

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen’s Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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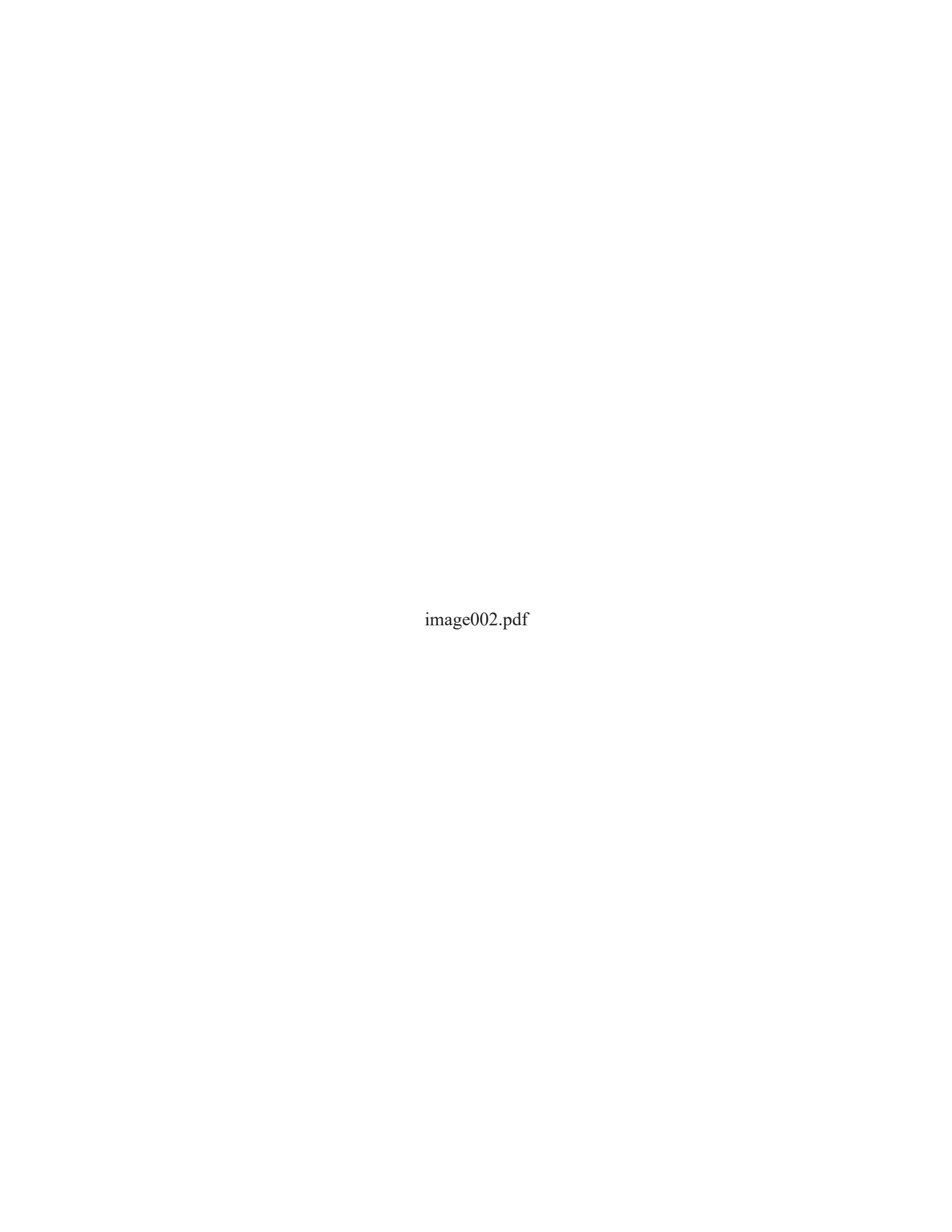
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RE_ Expert Panel -- Pension Issue.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Expert Panel -- Pension Issue
Date: Monday, October 17, 2016 18:01:00
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Attachment 3: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

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To: Veinot, Cindy (TBS)
Subject: RE: Expert Panel -- Pension Issue

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Murray

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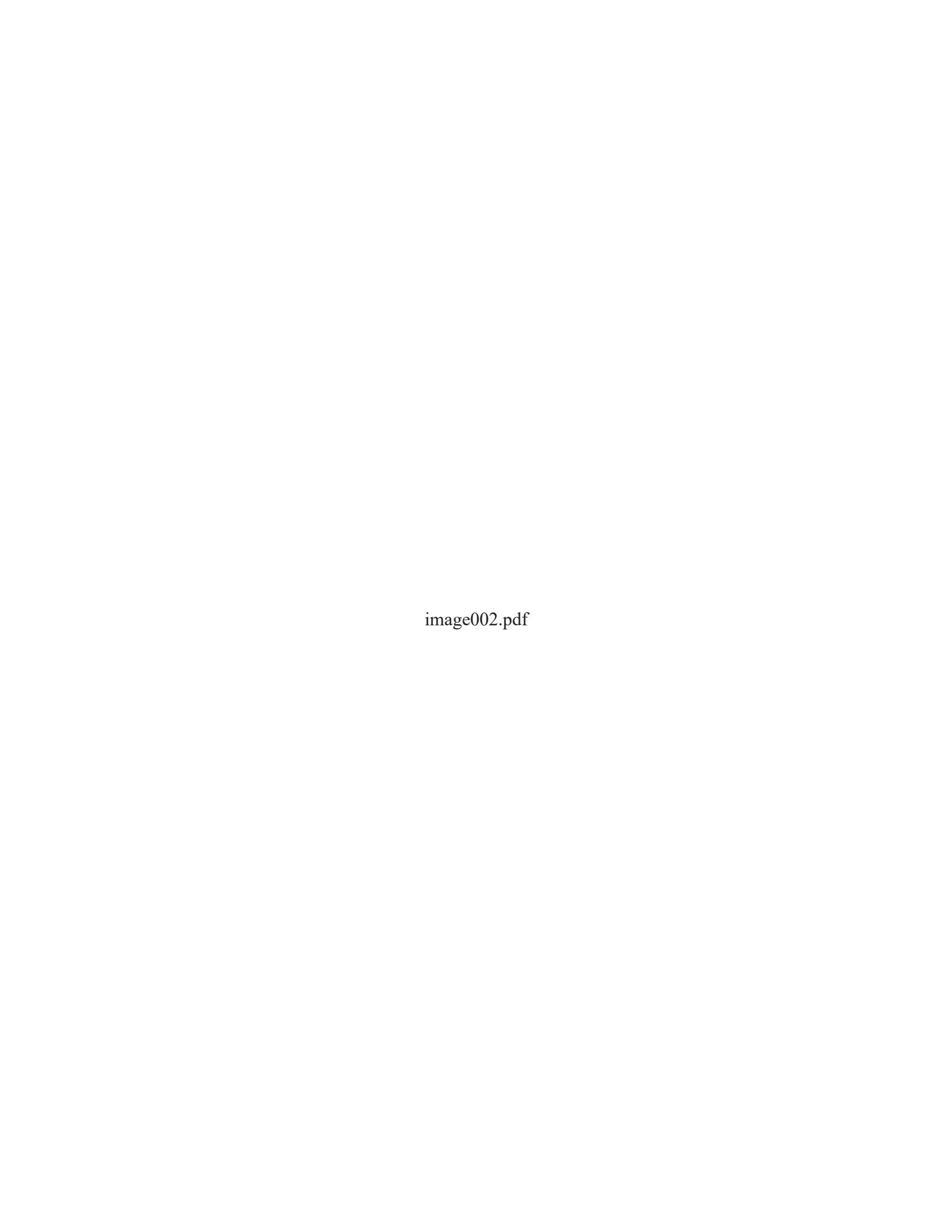
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RE_ Expert Panel -- Pension Issue.rtf

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Expert Panel -- Pension Issue
Date: Monday, October 17, 2016 17:57:54
Attachment 1: image001.png
Attachment 2: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Hi Ms. Veniot,

I would be happy to help!

Murray

http://www.kmlaw.ca/ Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 3:21 PM
To: Murray Gold
Subject: Expert Panel -- Pension Issue

Hi Mr. Gold,

Scott Thompson passed along the message that you would be interested in assisting with the expert panel the Province is setting up to review the accounting for pension assets. We are now in the process of identifying candidates for the panel.

We have drafted the terms of reference for the panel, which I've attached.

Would you please review these, let me know whether you have any questions and confirm back that you continue to be interested. We can then set up a time for a conversation (assuming you are still interested!)

Regards,

Cindy Veinot

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen's Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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image001.pdf

TBS

logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.pdf

KOSKIE
MINSKY

JUSTICE MATTERS

RE_ Expert Panel -- Pension Issue.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Expert Panel -- Pension Issue
Date: Tuesday, October 18, 2016 15:32:04
Attachment 1: image001.png
Attachment 2: image002.png
Attachment 3: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Cindy,

Another person I also suggested to Scott is Professor Darlene Himick. She teaches accounting at the Telfer School of Management at the University of Ottawa and has an interest in public sector pension accounting.

Murray

http://www.kmlaw.ca/ Murray Gold
Partner
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Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 6:03 PM
To: Murray Gold
Subject: RE: Expert Panel -- Pension Issue

I'll call you if that's ok – talk to you tomorrow - -Cindy

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: October-17-16 6:01 PM
To: Veinot, Cindy (TBS)

Subject: RE: Expert Panel -- Pension Issue

Yes, that window works. I'll be at 416 595 2-85, or I can call you?

http://www.kmlaw.ca/

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 6:00 PM
To: Murray Gold
Subject: RE: Expert Panel -- Pension Issue

That's great – any chance you have time tomorrow between 3 and 3:20 to connect for a few minutes?

Cindy

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: October-17-16 5:58 PM
To: Veinot, Cindy (TBS)
Subject: RE: Expert Panel -- Pension Issue

Hi Ms. Veniot,

I would be happy to help!

Murray

http://www.kmlaw.ca/

Murray Gold
Partner
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Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: October-17-16 3:21 PM
To: Murray Gold
Subject: Expert Panel -- Pension Issue

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We have drafted the terms of reference for the panel, which I've attached.

Would you please review these, let me know whether you have any questions and confirm back that you continue to be interested. We can then set up a time for a conversation (assuming you are still interested!)

Regards,

Cindy Veinot

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen’s Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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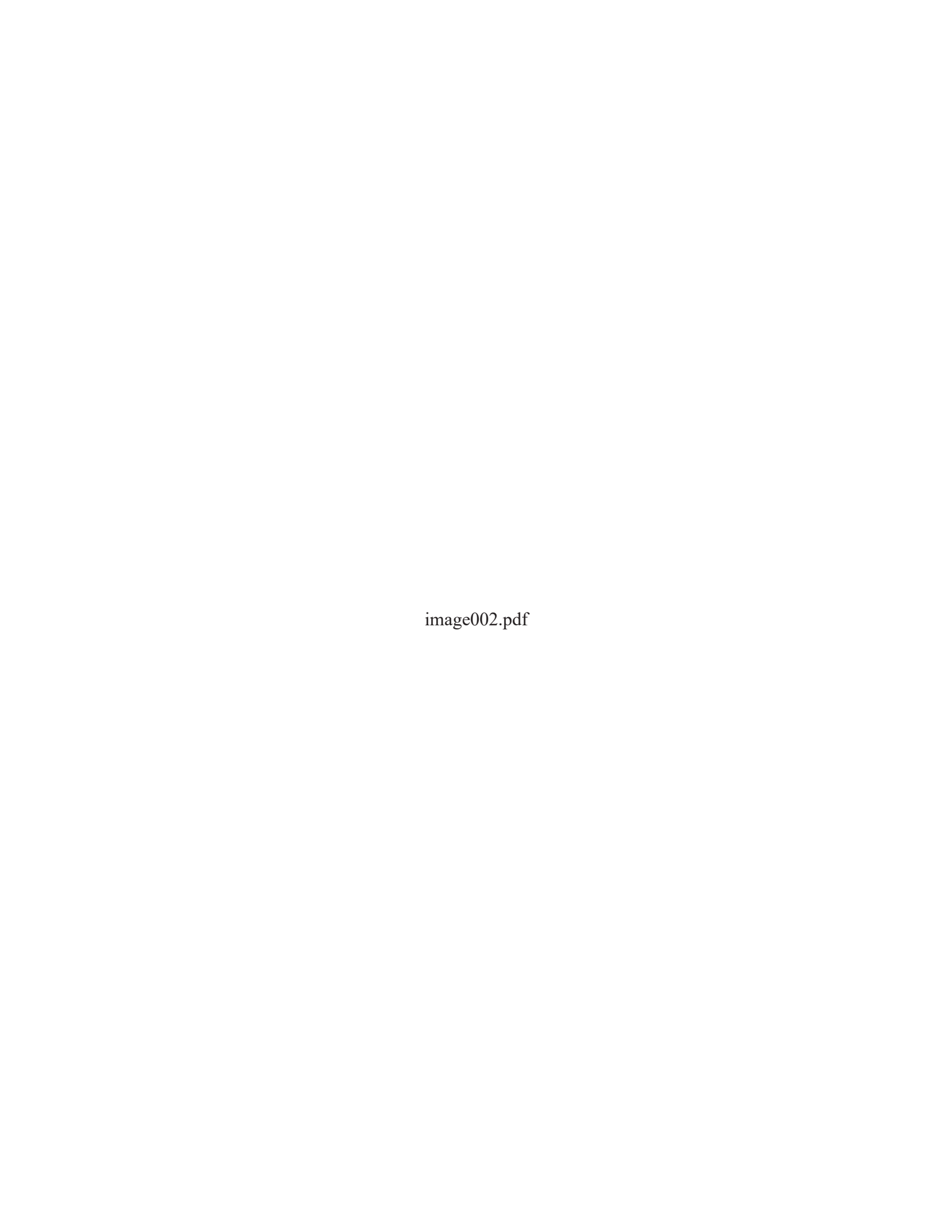
image002.pdf

TBS

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JUSTICE MATTERS

Re_ Introduction and request.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Introduction and request
Date: Thursday, September 15, 2016 10:08:43

Scott and Cindy,

I'd be happy to help!

I am out this morning, but in this afternoon at 416 595 2085.

Murray

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca
Original Message
From: Thompson, Scott (MOF)
Sent: Thursday, September 15, 2016 10:05 AM
To: Murray Gold
Cc: Veinot, Cindy (TBS)
Subject: Introduction and request

Hi Murray - hope you're doing well. I have a non-ORPP matter to seek your assistance with. I won't get into detail on it here, because I'm certainly not the expert on it. But I am copying Cindy Veinot, who is the new Ontario Provincial Controller. If you're amenable to a call, she can describe to you the situation and seek your advice.
Just let us know, and then I'll leave it to you and Cindy to find a time that works.
All the best
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Your email of.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Your email of
Date: Thursday, March 23, 2017 21:18:21
Attachment 1: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Hi Nadine,

I hope all is well with you. I also hope that the Expert Panel Reports were useful to you. It was a real pleasure to assist with this project.

I wanted to make sure that you had received my email in response to yours of Tuesday? I don't usually use LinkedIn, so I wanted to check that my response to your email did come through.

Thanks Nadine.

Murray

http://www.kmlaw.ca/ Murray Gold
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JUSTICE MATTERS

Re_ Pension Asset Expert Advisory Panel (Expert Panel).rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 09:28:20

---

416 509 2525

Murray Gold
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T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca
Original Message
From: Veinot, Cindy (TBS)
Sent: Thursday, November 17, 2016 8:27 AM
To: Murray Gold
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Murray. Just tried you at the number below. Is there a number I can reach you at now?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Murray Gold
Sent: Thursday, November 17, 2016 8:07 AM
To: Veinot, Cindy (TBS)
Subject: Fw: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Cindy,

I was wondering how this is coming, and whether you have a moment for a call this morning?

Murray

Murray Gold
Partner
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mgold@kmlaw.ca<mailto:mgold@kmlaw.ca>
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

Original Message
From: Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Sent: Wednesday, November 16, 2016 2:19 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Thanks very much for this Murray.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Murray Gold
Sent: Wednesday, November 16, 2016 2:13 PM
To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Len,

You asked me on our call this morning for some additional information on my work for the Ontario Teachers Federation (OTF), as disclosed in my conflict of interest form with respect to the Expert Panel.

I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

The relationship between the OTF and the Crown has been, for a decade or more, quite collegial and cooperative, and we would expect (and want) it to continue in this way.

We discussed my OTF relationship at the time of the retainer to provide advice

concerning the OTPP, the OPTrust and the BC Plans. At that time, we agreed that the engagement presented no conflict of interest.

In regard to the Expert Panel, I expect that its mandate is as a non-partisan expert board. This is not a client retainer, but is rather an expert inquiry into the way or ways forward within technical constraints. In principle, I don't believe that expert panel work engages conflict of interest considerations with OTF or other clients, precisely because it is expert and non-partisan.

I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

 Original Message
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca<mailto:mgold@kmlaw.ca>
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Re_ Pension Comparison - question and timelines confirmation.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Pension Comparison - question and timelines confirmation
Date: Friday, September 16, 2016 20:57:56

Hi Paul,

My preliminary thinking was based on a view of the BC Municipal Plan; I haven't yet looked at the other BC Plans. I expect they'll follow the BC pattern, but I cannot yet confirm that.

Murray

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca
Original Message
From: Kaufman, Paul (TBS)
Sent: Friday, September 16, 2016 8:38 PM
To: Hatzis, Len (TBS); Murray Gold
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: Pension Comparison - question and timelines confirmation

Hi Murray -

To confirm our discussion, you are going to provide a comparative legal/governance analysis of how the frameworks for the two Ontario pension plans we identified (OTPP and OPSEU) and the four BC plans we identified (municipal, teachers, college, public service) compare on the issue of the authority of the pension boards and the plan partners to determine the utilization of plan surpluses. Your preliminary thinking is that in Ontario this determination is left to the partners, while in BC either the boards or the partners can make this determination.

You expect that you can provide this analysis by Monday or Tuesday.

We've provided the relevant joint trust agreements for the plans noted above and you don't expect that you need further documentation from us to respond to this request, but you will let us know if any need arises.

Cindy, if the above is inconsistent with what you are looking for please advise.

Paul

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Re_ Your email of Tuesday.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Your email of Tuesday
Date: Thursday, March 23, 2017 22:35:29
Attachment 1: image001.png
Attachment 2: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Well, that would be my failure with LinkedIn. I apologize for that.

But I would be happy to help with this work.

Our expert panel work is complete, but we have a Retainer agreement with TBS and I could do that work under the Retainer if that works for you.

In this case, I would like to work with a Senior Associate at the Firm, Lesa MacDonald, and would need the consent of TBS for her to work on the project with me.

As well, we'd likely want to talk to other plans, or perhaps sponsors, and tell them of our work as we sought information from them. That would involve disclosing the identity of our client and the nature of our work, and for this as well we would need your consent.

I hope this makes sense to you, and would lol forward to working with you on this task.

Best regards,

Murray

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Partner
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Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 23 March 2017 21:22, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca> wrote:

Thanks Murray. I've been busy working on other 'fires' over the past couple of days. I'll check my linked in now.

On a personal note, it was great meeting you again. We were very fortunate to have had the benefit of such a talented and expert group of Panel members.

Thanks again for your contribution.

Best regards,

Nadine

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: March-23-17 9:18 PM
To: Petsche, Nadine (TBS)
Subject: Your email of

Hi Nadine,

I hope all is well with you. I also hope that the Expert Panel Reports were useful to you. It was a real pleasure to assist with this project.

I wanted to make sure that you had received my email in response to yours of Tuesday? I don't usually use LinkedIn, so I wanted to check that my response to your email did come through.

Thanks Nadine.

Murray

http://www.kmlaw.ca/

Murray Gold

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Fw_ Pension Asset Expert Advisory Panel (Expert Panel).rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Fw: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 09:07:26

Hi Cindy,

I was wondering how this is coming, and whether you have a moment for a call this morning?

Murray

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca
Original Message
From: Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Sent: Wednesday, November 16, 2016 2:19 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Thanks very much for this Murray.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Murray Gold
Sent: Wednesday, November 16, 2016 2:13 PM
To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Len,

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I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as

sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

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In regard to the Expert Panel, I expect that its mandate is as a non-partisan expert board. This is not a client retainer, but is rather an expert inquiry into the way or ways forward within technical constraints. In principle, I don't believe that expert panel work engages conflict of interest considerations with OTF or other clients, precisely because it is expert and non-partisan.

I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

 Original Message
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been

working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
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Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
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Pension Asset Expert Advisory Panel (Expert Panel).rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Wednesday, November 16, 2016 15:13:08

Hi Len,

You asked me on our call this morning for some additional information on my work for the Ontario Teachers Federation (OTF), as disclosed in my conflict of interest form with respect to the Expert Panel.

I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

The relationship between the OTF and the Crown has been, for a decade or more, quite collegial and cooperative, and we would expect (and want) it to continue in this way.

We discussed my OTF relationship at the time of the retainer to provide advice concerning the OTPP, the OPTrust and the BC Plans. At that time, we agreed that the engagement presented no conflict of interest.

In regard to the Expert Panel, I expect that its mandate is as a non-partisan expert board. This is not a client retainer, but is rather an expert inquiry into the way or ways forward within technical constraints. In principle, I don't believe that expert panel work engages conflict of interest considerations with OTF or other clients, precisely because it is expert and non-partisan.

I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

 Original Message
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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Re_ Expert Panel -- Next Steps.rtf

From: Murray Gold [mgold@kmlaw.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
Subject: Re: Expert Panel -- Next Steps
Date: Monday, October 24, 2016 08:18:12
Attachment 1: image001.png
Attachment 2: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Thanks Cindy.

I'll be around this morning but leaving for the airport at 2:00 pm and out of town tomorrow as well.

Murray

http://www.kmlaw.ca/ Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

From: Veinot, Cindy (TBS)
Sent: Monday, October 24, 2016 7:59 AM
To: Murray Gold
Cc: Tam, Nelson (TBS)
Subject: Expert Panel -- Next Steps

Hi Murray,

As we move towards finalization of panel members, there are some information requirements we will need from you re: conflict of interest and security screening.

Nelson Tam, the Project Manager for the Panel, will be in touch re: the forms and completion instructions. Please complete these as soon as possible.

Also, I wanted to let you know that we are in the process of finalizing the per diem amounts. These amounts are public information (filed as an Order-in-Council). If you have any concerns with that, please let me know.

Thanks,

Cindy

Cindy Veinot

Provincial Controller and Assistant Deputy Minister, Office of the Provincial Controller

Treasury Board Secretariat

Frost Building South

7 Queen’s Park Crescent East

Toronto, Ontario M7A 1Y7

T: 416-325-8017

E: cindy.veinot@ontario.ca

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image001.pdf

TBS

logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.pdf

KOSKIE
MINSKY

JUSTICE MATTERS

RE_ A few mins late .rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: RE: A few mins late
Date: Tuesday, May 02, 2017 12:01:32

---

ok

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: May 2, 2017 12:01 PM
To: Virani, Shyrose (TBS)
Subject: A few mins late

Hi Shyrose,

My apology, we are a few minutes behind and on our way. Be there soon.

Regards,

Christina

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États-Unis.

RE_ Another request.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Another request
Date: Wednesday, September 06, 2017 11:02:45

Perfect – thank you, Cindy.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, September 6, 2017 10:38 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Another request

Thanks Uros – your changes have been made – please see attached.

Cindy

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: September 6, 2017 9:49 AM
To: Veinot, Cindy (TBS)
Cc: Donaldson, Mark (TBS); Hosick, Sarah (TBS)
Subject: RE: Another request

Hi Cindy,

I think this looks very good as is, but I have a few minor suggestions for your consideration:

· Slide 4: Consider adding a bullet at the bottom saying “No onerous funding requirements exist for OTPP or OPSEUPP”. I don’t think we need to get any deeper on the contribution requirements or the ‘regardless of any surplus’ discussion, but I think it is important to conceptually state that no onerous funding requirements are present.

· Slide 5: the slide can stand as is; or alternatively we can take the first bullet point and **add the words** as follows: “Net pension asset, **without any valuation allowance**, should be recognized in the Province’s financial statements”. I would then retitle this section to “Recognition and measurement of the asset” and remove the last two bullets on this page. But then I would add, either as a separate slide or at the bottom of this slide, the slide 13 from our original presentation entitled “Overall”. I think those points speak to the common-sense logic of recognizing this asset and would be good concluding remarks.

I hope this makes sense. Looking forward to the call at 3:30pm.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Uros Karadzic
Sent: Tuesday, September 5, 2017 5:07 PM
To: 'Veinot, Cindy (TBS)' <Cindy.Veinot@ontario.ca>
Cc: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Another request

Thanks Cindy. I will look at this later tonight or very early tomorrow and let you know any comments in advance of the dry run tomorrow afternoon.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, September 5, 2017 3:59 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Another request

Uros – here is a first cut at the slides – these would follow the slide that I had previously shared with you that references the Panel's work, Deloitte's opinion and EY's recent work.

I have also included a copy of the final deck that we have from the February briefing that you and Tricia provided.

I may have condensed the measurement section too much. If we end up with 5-6 slides (there are 4 now, assuming we include the panel members in an appendix), I think that is fine.

Thanks again,

Cindy

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: September 5, 2017 3:04 PM
To: Veinot, Cindy (TBS)
Cc: Donaldson, Mark (TBS); Hosick, Sarah (TBS)
Subject: RE: Another request

Hi Cindy,

Thank you for the note. I'd love to help out. I will move some meetings around so I am available for the dry run tomorrow at 3:30pm, and then also for Thursday afternoon.

When you are able, please send me the slides that the page references relate to (there weren't any attached to the email below). I would not charge for this time, as it is really related to the personal work I did as part of the Panel. It will only be a few hours in any event, and I am happy to do that on good-will basis.

Looking forward to the further details, but you can count on my participation.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, September 5, 2017 2:52 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: Another request

Hi Uros,

Another request has come in re: our technical briefing for Public Accounts, which is to have a member of the Pension Panel speak to 1-2 slides re: the Panel's report (essentially the basis for its conclusion). The planned release date is September 7th in the afternoon. We did reach out to Tricia, however, she is in Ottawa Thursday and then headed to the UK for a couple of weeks.

The specific ask would be:

- Availability for a dry run tomorrow afternoon at 3:30 (which you could dial into)
- Availability on Thursday afternoon (specific timing TBD)

If the timing doesn't work for you, and you are open to participating, could you let us

know if you are available other dates in September before September 27th , as there is a keen desire to have someone from the Panel at the technical briefing.

Regarding participating in the presentation, my understanding from our Public Appointments Secretariat is that because the Panel has concluded its work, the Panel member speaking would not be covered by the indemnification provided or paid. While that could have been an issue for Tricia, I'm wondering if given you are currently engaged by the province, this would be an issue for you.

Some other particulars – the other speakers will include the Deputy Ministries of Treasury Board and of Finance, the CFO of IESO and myself.

The balance of the deck speaks to:

n The results for the 2016-17 year (deputies will speak to this section)

n Accounting changes made in the year (Kim Marshall and I will speak to this section, with the exception of the Panel slides)

If the timing this week works, we could pull together the slides, which we would take from the briefing you and Tricia completed in February.

Thanks for considering this on short notice.

I'm technically on vacation until the 18th, but will monitoring emails and will be in the office on Thursday should this timing work.

Cindy

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RE_ Availability for a call tomorrow_.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Availability for a call tomorrow?
Date: Monday, June 05, 2017 21:26:39

Thanks Lucy! Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: June-05-17 9:26 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: Re: Availability for a call tomorrow?

Hi Nadine,

It's good to hear from you. We can definitely arrange a call for tomorrow. I have good availability after 11:30- let me know what time works for you.

I may have to do some digging re: TTC so may not have all the answers on that tomorrow, but we can set up a call anyway on cap and trade and I'll see what I can find out on the pensions prior.

Lucy

Sent from my iPhone

On Jun 5, 2017, at 9:01 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> I hope that this note finds you well. I was hoping that you might have some insights on a couple of items, or alternatively that you might be able to direct me in the right direction on a couple of items:

1. We were wondering if you might have some info on how companies are accounting for cap & trade when they are the buyer of the EAs. Specifically, if a company chooses not to purchases anything at the auction, are they recognizing an expense and an accrual? If they buy the EA, how are they accounting for it – e.g. setting it up as a prepaid and expensing it when they pay the amount or amortizing it?

2. Secondly, we understand that the TTC is taking a valuation allowance on its net pension assets but we haven't been able to locate details on the rational for the allowance in the notes to the TTC's f/s. We noticed that PwC is the organization's auditor, and we wondered if you might be able to provide some additional context.

If you have some availability tomorrow, perhaps we can touch base.

Take care,

Nadine

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RE_ CSRA Number Pensions PWC - Security Clearance.rtf

From: Virani, Shyrose (TBS) []
To: Bernard, Dena (TBS) [Dena.Bernard@ontario.ca]
Subject: RE: CSRA Number Pensions PWC - Security Clearance
Date: Friday, September 23, 2016 10:17:19
Attachment 1: image001.jpg

---

lucy.durocher@ca.pwc.com;

martin.boucher@ca.pwc.com;

sean.cable@ca.pwc.com;

micheal.walke@ca.pwc.com

From: Bernard, Dena (TBS)
Sent: September 23, 2016 9:56 AM
To: Virani, Shyrose (TBS)
Subject: FW: CSRA Number Pensions PWC - Security Clearance

Hi Shyrose, Do we have the email addresses for the following people?

· Lucy Durocher- No record can be found of CSS having conducted a screening check for the individual.

· Martin Boucher- C-0035796, Clearance Expired 2016-04-14

· Sean Cable- No record can be found of CSS having conducted a screening check for the individual.

· Michael Walke- No record can be found of CSS having conducted a screening check for the individual.

Thanks

Dena

From: Bernard, Dena (TBS)
Sent: September 23, 2016 9:25 AM
To: Askcontractorscreening (TBS)
Subject: RE: CSRA Number Pensions PWC - Security Clearance

Thank you so much Thanusha. I really appreciate it.

Dena

From: Askcontractorscreening (TBS)
Sent: September 23, 2016 9:23 AM
To: Bernard, Dena (TBS)
Cc: Askcontractorscreening (TBS)
Subject: RE: CSRA Number Pensions PWC - Security Clearance

Hello Dena,

Please find the requested information below.

· Lucy Durocher- No record can be found of CSS having conducted a screening check for the individual.

· Martin Boucher- C-0035796, Clearance Expired 2016-04-14

· Sean Cable- No record can be found of CSS having conducted a screening check for the individual.

· Michael Walke- No record can be found of CSS having conducted a

screening check for the individual.

Thank you,

Thanusha Gopalapillai
Program Analyst
Program and Policy Enablement Branch
Supply Chain Ontario | Ministry of Government and Consumer Services
222 Jarvis St., 7th Floor, Section A, Toronto M7A 0B6
416-212-4319

thanusha.gopalapillai@ontario.ca

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From: Bernard, Dena (TBS)

Sent: September 22, 2016 9:16 PM
To: Askcontractorscreening (TBS)
Subject: FW: CSRA Number Pensions PWC - Security Clearance

CSRA – 4oiope

Title – Pensions – PWC

Can you please tell me if the following people have clearance?

PWC

Lucy Durocher

Martin Boucher

Sean Cable

Michael Walke

I apologise in advance but hoping you can let me know as soon as possible. Can I call someone in the morning?

Thanks

Dena

From: Contractor Security Screening [mailto:AskContractorScreening@Ontario.ca]

Sent: September 22, 2016 9:06 PM
To: Bernard, Dena (TBS)
Subject: CSRA Number

Your CSRA number for the procurement, Complex Accounting - Pensions Asset Ceiling PWC, is: 4oiope. Please retain this number for your records. You will need to reference this number when submitting new Contractor Security Screening checks.

image001.pdf

MG
CS

RE_ Declined_ Touch base @ Wed Sep 28, 2016 1_30pm - 2pm (EDT) (lucy.durocher@pwc.com).rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@pwc.com [lucy.durocher@pwc.com]
Subject: RE: Declined: Touch base @ Wed Sep 28, 2016 1:30pm - 2pm (EDT) (lucy.durocher@pwc.com)
Date: Wednesday, September 28, 2016 09:27:42

When is good time for you?

-----Original Appointment-----
From: Google Calendar [mailto:calendar-notification@google.com] **On Behalf Of** lucy.durocher@pwc.com
Sent: September 28, 2016 9:27 AM
To: Virani, Shyrose (TBS); Lloyd, Patti (TBS)
Subject: Declined: Touch base @ Wed Sep 28, 2016 1:30pm - 2pm (EDT) (lucy.durocher@pwc.com)
When: September 28, 2016 1:30 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Lucy to call Nadine

lucy.durocher@pwc.com has declined this invitation.

Touch base
Hi Lucy.
Sorry about my CRAZY schedule. I have good news (I think). Let's plan to talk tomorrow. Nadine

When	Wed Sep 28, 2016 1:30pm – 2pm Eastern Time - Toronto
Where	Lucy to call Nadine (map)
Calendar	lucy.durocher@pwc.com
Who	• •

Invitation from Google Calendar

You are receiving this courtesy email at the account nadine.petsche@ontario.ca because you are an attendee of this event.

To stop receiving future updates for this event, decline this event. Alternatively you can sign up for a Google account at https://www.google.com/calendar/ and control your notification settings for your entire calendar.

Forwarding this invitation could allow any recipient to modify your RSVP response. Learn More.

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RE_ Deloitte proposal _ TBS- OTB - OPCD - 20.rtf

From: Virani, Shyrose (TBS) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Deloitte proposal / TBS- OTB - OPCD - 20
Date: Tuesday, January 17, 2017 12:39:42
Attachment 1: image001.jpg

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done

From: Petsche, Nadine (TBS)
Sent: January 17, 2017 11:31 AM
To: Virani, Shyrose (TBS)
Subject: Fw: Deloitte proposal / TBS- OTB - OPCD - 20

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

Sent: Tuesday, January 17, 2017 11:27 AM

To: Petsche, Nadine (TBS)

Subject: Deloitte proposal / TBS- OTB - OPCD - 20

Dear Nadine,

Please find enclosed the documents prepared for the RFS related to Actuarial support services.

As requested under the RFS, the pricing schedule is provided as a separate file and not within the technical proposal.

Should you have any question in regards to those documents, you can reach out directly to my attention.

We look forward in working with the OPC on this mandate.

Have a nice day.

Technical Proposal

Pricing Proposal

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

Deloitte

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

Tel / Direct : 514-393-7367

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image001.pdf

TEAM·ÉQUIPE
OFFICIAL SUPPLIER
FOURNISSEUR OFFICIEL

RE_ Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20).rtf

From: Sarah Anderton [Sarah.Anderton@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)
Date: Monday, February 06, 2017 17:12:29
Attachment 1: image001.gif
Attachment 2: SOW - Actuarial Support Services.pdf

Hi Shyrose,

Please see attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | Enterprise Support Services | People Advisory Services

Ernst and Young LLP

Office: 416-943-3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 6, 2017 2:59 PM
To: Sarah Anderton <Sarah.Anderton@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Thanks, Sarah, can you please add Christina Chan's name in the SOW and then I will have Nadine sign off.

Thanks

Shyrose

From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: February 6, 2017 1:33 PM
To: Petsche, Nadine (TBS)
Cc: Anna Pesme; Uros Karadzic; Virani, Shyrose (TBS)
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Hello,

Please see the draft SOW for Actuarial Support Services attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | People Advisory Services

Ernst and Young LLP

Ernst and Young Tower, 222 Bay Street, P.O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416-943-3143 | sarah.anderton@ca.ey.com

Website: http://www.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 03, 2017 11:08 AM

To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Ms. Pesme,

As discussed, please find attached the draft Statement of Work related to Actuarial Support Services.

We look forward to working with your team on this engagement.

Regards,

Nadine Petsche

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division

416 325 8027

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image001.pdf

SOW - Actuarial Support Services.pdf

FORM OF STATEMENT OF WORK – OPS ENTITY

Statement of Work for Management Consulting Services

This Statement of Work No. **RFS TBS-OTB-OPCD-20 made in duplicate and effective February 3, 2017 ending on September 30, 2017.**

Ernst & Young LLP (the vendor" or "EY") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of June 16, 2014 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$ $150,000 does not include HST

4. *Project Start Date:* February 3, 2017

5. *Project End Date:* September 30, 2017

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following

    1. Taking into account public sector accounting principles, advice and guidance on complex accounting and reporting matters related to accounting for pensions on the Working with management of the Office of the Provincial Controller's Accounting Policy and Financial Reporting Branch (APFR), the Vendor will provide actuarial services related to the following possible areas:
        - Review APFR's calculation of estimated accounting valuations based on actuarial input for pension plans reflected on the Province's consolidated financial statements (Ontario Public Service Employees Union Pension Plan, Ontario Teachers' Pension Plan, College of Applied Arts and Technology, Health Care of Ontario Pension Plan and Public Service Pension Plan) as well as post-retirement benefits.
        - Conduct related sensitivity and/or scenario analysis as requested by APFR.
        - Participate in discussions and meetings with internal and external stakeholders, as required.

    2. Working with management of the Office of the Provincial Controller, through the Accounting Policy and Financial Reporting Branch (APFR), provide actuarial services related to the following possible areas relating to the Ontario Public Sector Employees Union Pension Plan and Ontario Teachers' Pension Plan:
        - Design and execute various valuation models, as requested by APFR, relating

to the ceiling test requirements in the CPA Canada public sector accounting handbook (PS3250.050 to PS3250.059).
- Conduct sensitivity and/or scenario analysis as requested by APFR.
- Provide advice to APFR, for accounting purposes, on the ceiling tests and sensitivity analysis.
- Participate in discussions and meetings with internal and external stakeholders, as required.

7. *Ownership and Licences* – Attachment D of the Master Agreement forms a part of this Statement of Work.

8. *Communications and Reporting* - The structure of Ernst & Young's working relationship with OPCD is vital to the success of their engagement. The Project Lead that will handle OPCD work is Uros Karadzic. Ernst & Young's communication strategy will be centred on periodic project update meetings, the frequency of which will be determined by the OPCD and Ernst & Young.

9. *Work Location* - All meetings will be within Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive.

    If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Fixed Price or Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. *Billing and Payment Process* – The Vendor shall provide the Client with quarterly billing statements that outline the per diem charges no later than 10 Business Days after the end of each quarter.

    Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Name of Individual	**Level**
Uros Karadzic	Senior Consultant/Project Lead
Shayan Jafrani	Intermediate Consultant/Sr. Analyst
Christina Chan	Consultant/Analyst

Note that participation of Uros Karadzic will commence only upon completion of his engagement with the Pension Asset Expert Advisory Panel.

14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

    Client: Treasury Board Secretariat
    Office of the Provincial Controller Division

Branch: Accounting Policy and Financial Reporting
Representative: Nadine Petsche
Title: Director, Accounting Policy and Financial Reporting
Phone Number: 416 325 8027
Email: Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Client's designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Indemnity* – the indemnity set out in the Master Agreement applies to this assignment.

18. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416 325 8027**
E-mail:	**Nadine.petsche@ontario.ca**

19. *Vendor Representative and Receipt of Notices*

Uros Karadzic, Partner
Ernst & Yojng LLP
Ernst & Young Tower
P O Box 251
222 Bay Street
Toronto ON M5K 1J7

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

Her Majesty the Queen in right of Ontario as represented by The President of the Treasury Board

Per:

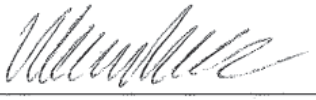
Signature:

Name: **Nadine Petsche**

Title: **Director, Accounting Policy and Financial Reporting**

Pursuant to delegated authority.

Per:

Signature: 

Name: UROS KARADZIC

Title: PARTNER

I have the authority to bind the Vendor.

RE_ Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20).rtf

From: Anna Pesme [anna.pesme@ca.ey.com]
To: Sarah Anderton [Sarah.Anderton@ca.ey.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)
Date: Monday, February 06, 2017 16:51:17
Attachment 1: image001.gif

Thanks Sarah.

Confirming receipt.

--

Anna Pesme | Associate Partner | Advisory

Ernst & Young LLP

222 Bay Street, Toronto, ON M5K1J7, Canada

Office: 1 416 943 2992 | Cell: 1 416 735 7820 | anna.pesme@ca.ey.com

Website: http://www.ey.com

Gale Moniz | Phone: 1 416 943 3911 | gale.moniz@ca.ey.com

From: Sarah Anderton
Sent: Monday, February 06, 2017 1:33 PM
To: Nadine.Petsche@ontario.ca
Cc: Anna Pesme <anna.pesme@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Shyrose.Virani@ontario.ca
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Hello,

Please see the draft SOW for Actuarial Support Services attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | People Advisory Services

Ernst and Young LLP

Ernst and Young Tower, 222 Bay Street, P.O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416-943-3143 | sarah.anderton@ca.ey.com

Website: http://www.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 03, 2017 11:08 AM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

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We look forward to working with your team on this engagement.

Regards,

Nadine Petsche

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division

416 325 8027

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RE_ Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20).rtf

From: Virani, Shyrose (TBS) []
To: Sarah Anderton [Sarah.Anderton@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)
Date: Monday, February 06, 2017 15:58:32
Attachment 1: image001.gif

Thanks, Sarah, can you please add Christina Chan's name in the SOW and then I will have Nadine sign off.

Thanks

Shyrose

From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: February 6, 2017 1:33 PM
To: Petsche, Nadine (TBS)
Cc: Anna Pesme; Uros Karadzic; Virani, Shyrose (TBS)
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Hello,

Please see the draft SOW for Actuarial Support Services attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | People Advisory Services

Ernst and Young LLP

Ernst and Young Tower, 222 Bay Street, P.O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416-943-3143 | sarah.anderton@ca.ey.com

Website: http://www.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 03, 2017 11:08 AM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Draft SOW for Actuarial Support Services (RFS # TBS-OTB-OPCD-20)

Ms. Pesme,

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We look forward to working with your team on this engagement.

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Nadine Petsche

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division

416 325 8027

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image001.pdf

RE_ EY review of ceiling tests on OTPP and OPSEUPP.rtf

From: Petsche, Nadine (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: RE: EY review of ceiling tests on OTPP and OPSEUPP
Date: Friday, March 10, 2017 17:09:36
Attachment 1: image001.png

Hi Shayan.

With regards to the last item on your list, please see Shyrose for a reference binder with background materials on both plans.

Nadine

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: March 10, 2017 3:33 PM
To: Petsche, Nadine (TBS); Patel, Bharat (TBS)
Cc: Virani, Shyrose (TBS); Fong, Pauline (TBS); Christina Chan
Subject: RE: EY review of ceiling tests on OTPP and OPSEUPP

Hi Nadine and Bharat,

We have some of the items we need for our work on the asset ceiling for OTPP and OPSEUPP.

Could we also request the following additional items?

1) Actuarial funding valuation reports for each plan

2) Any calculations or supporting documentation related to the asset ceiling determination

3) Funding policy statement

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, March 10, 2017 1:15 PM
To: Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: EY review of ceiling tests on OTPP and OPSEUPP

Bharat,

Just wanted to let you know that Shayan and Christina of EY will be planning to come to our offices on Monday afternoon to start their work on the asset ceiling test for OTPP and OPSEUPP.

They will use John Psinas' old office as they did last time.

Shayan will send a listing of required files this afternoon. Hoping we'll be able to collect all of the necessary info for them to start their work. Please note that they won't be using our system, so the details will need to be provided in a USB.

Thanks.

Nadine

p.s. (Shyrose— please confirm that both Shayan and Christina have their access passes and if registration downstairs is required).

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001.pdf

RE_ EY review of ceiling tests on OTPP and OPSEUPP.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: EY review of ceiling tests on OTPP and OPSEUPP
Date: Friday, March 10, 2017 16:33:00
Attachment 1: image001.png

Hi Nadine and Bharat,

We have some of the items we need for our work on the asset ceiling for OTPP and OPSEUPP.

Could we also request the following additional items?

1) Actuarial funding valuation reports for each plan

2) Any calculations or supporting documentation related to the asset ceiling determination

3) Funding policy statement

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630

EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, March 10, 2017 1:15 PM
To: Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: EY review of ceiling tests on OTPP and OPSEUPP

Bharat,

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Thanks.

Nadine

p.s. (Shyrose— please confirm that both Shayan and Christina have their access passes and if registration downstairs is required).

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001.pdf

RE_ Following up on cap and trade meeting.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Following up on cap and trade meeting
Date: Thursday, November 03, 2016 13:46:37

---

ok

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: November 3, 2016 1:46 PM
To: Provis, Ian (TBS)
Cc: michael.hawtin@ca.pwc.com; Virani, Shyrose (TBS)
Subject: Re: Following up on cap and trade meeting

Ok.
I can't make it in person as I have another call running close up to that time. I will dial in.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Provis, Ian (TBS)" <Ian.Provis@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: Michael Hawtin/CA/ABAS/PwC@Americas-CA, "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: 11/03/2016 12:43 PM
Subject: Re: Following up on cap and trade meeting

We invited Cindy but I need to confirm if she can make it. Nadine

said we are going ahead no matter what. Are we doing it in person?

Thanks
Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: lucy.durocher@ca.pwc.com
Sent: Thursday, November 3, 2016 10:51
To: Provis, Ian (TBS)
Cc: michael.hawtin@ca.pwc.com; Virani, Shyrose (TBS)
Subject: Following up on cap and trade meeting

Hi Ian,

Further to my voicemail I was wondering if the call for tomorrow morning was still a go ahead (that Cindy can make it) or if you would like to reschedule it.

Please let me know,

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

_____
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RE_ Following up on cap and trade meeting.rtf

From: Virani, Shyrose (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]
Subject: RE: Following up on cap and trade meeting
Date: Thursday, November 03, 2016 13:21:13

Cindy has a conflict, therefore won't be attending meeting

From: Provis, Ian (TBS)
Sent: November 3, 2016 12:43 PM
To: lucy.durocher@ca.pwc.com
Cc: michael.hawtin@ca.pwc.com; Virani, Shyrose (TBS)
Subject: Re: Following up on cap and trade meeting

We invited Cindy but I need to confirm if she can make it. Nadine said we are going ahead no matter what. Are we doing it in person?

Thanks

Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: lucy.durocher@ca.pwc.com

Sent: Thursday, November 3, 2016 10:51

To: Provis, Ian (TBS)

Cc: michael.hawtin@ca.pwc.com; Virani, Shyrose (TBS)

Subject: Following up on cap and trade meeting

Hi Ian,

Further to my voicemail I was wondering if the call for tomorrow morning was still a go

ahead (that Cindy can make it) or if you would like to reschedule it.

Please let me know,

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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RE_ Fw_ TTC Pension Accounting Inquiry.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Fw: TTC Pension Accounting Inquiry
Date: Friday, June 09, 2017 15:06:54

Thanks Lucy.

We'll likely reach out next week, in advance of a call with Mike to discuss.

Have a great weekend.

Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: June-09-17 1:34 PM
To: Petsche, Nadine (TBS)
Subject: Re: Fw: TTC Pension Accounting Inquiry

Hi Nadine,

Not much more information from Mike, although I have a few quick thoughts. There seems like an absence of expectation to benefit, regardless of the terms of the plan, which is informative as the basic definition of an asset still has to be based on an expectation of future benefit (and increasing benefits to employees is not a future benefit of the entity). It's not clear from his e-mail what he means by "ad hoc", but if the increases are one-offs with no mechanism to renegotiate or re-agree at any certain intervals then this could be a substantive difference between their plan and OTPP, as the in-place contributions levels might very well be considered to be minimum contributions in this case.

Happy to chat again in advance of any call if you would like.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP

PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 06/08/2017 08:06 AM
Subject: Fw: TTC Pension Accounting Inquiry

Hi Lucy. Please see below. I've asked Cindy if she would like me to set up a call with Mike. I assume she'll want one. Perhaps we can chat in advance. Thanks. N
From: Mike St. Amant <Mike.St.Amant@toronto.ca>
Sent: Wednesday, June 7, 2017 9:34 PM
To: Petsche, Nadine (TBS)
Subject: RE: TTC Pension Accounting Inquiry

Thanks Nadine.

The short answer is that it's complicated.

TTC
My understanding of the TTC's accounting for the surplus is that, as a jointly sponsored plan, the surplus is not available to the TTC and therefore is completely allowed for. The fund itself, is an anomaly as its jointly sponsored by the TTC and the union. However, as plan increases are ad hoc, any surplus will likely be used for future inflation, and unlikely to be used to decrease.
http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94497.pdf

City 5 Legacy pension funds
The city has 5 pre-OMERS funds that each have surpluses for accounting purposes. Although some of the funds have documents that show that the City has access to the surplus, differing legal opinions, and funding requirements based on solvency valuations, have resulted in non-recognition of surpluses – although this year (statements to be released in about 2 weeks) we are considering reflecting that the City has a contingent asset, amount to be determined once mergers

with OMERS are further along.

I had thought that the province restructured the plans from provincially sponsored, to jointly sponsored, in order to avoid responsibility for deficits, and that therefore surpluses would be treated similarly.

You may wish to contact someone from the Public Sector Accounting Discussion Group, who have carriage of this issue: http://www.frascanada.ca/standards-for-public-sector-entities/public-sector-accounting-discussion-group/about-the-group/item74241.aspx

I'm back tomorrow, if you wish to discuss.

…Mike

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: June 6, 2017 2:30 PM
To: Mike St. Amant <Mike.St.Amant@toronto.ca>
Subject: TTC Pension Accounting Inquiry

Hi Mike.
It was good to see you again at the IIA event in April. I hope that this note finds you well.
At a recent CD Howe event, the topic of pension accounting came up and reference was made to the TTC's pension plan for which a pension allowance is recorded under PSAS. I was hoping to get some additional details on the accounting treatment, since the person who raised it appears to think that the facts related to the TTC accounting treatment are the same as Ontario's jointly sponsored pension plans (Ontario Teacher's Pension Plan and the Ontario Public Sector Employee Union Pension Plan).
I understand that you are away from the office for a couple of days. Hoping we might be able to touch base when you are back, or that you might be able to share some additional details in the meantime.
Thanks in advance.
Nadine Petsche
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
Ontario Treasury Board Secretariat
416 325 8027

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RE_ Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP.rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP
Date: Tuesday, January 16, 2018 14:55:01

Will do

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: January 16, 2018 1:43 PM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston
Subject: FW: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP

Hi Shyrose,

Would you add us to the visitor list for next Monday?

As discussed, I will bring my now expired pass and have it renewed? Can we also arrange for Greg to receive a contractor pass?

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, January 16, 2018 12:40 PM
To: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Christina Chan <Christina.Chan@ca.ey.com>; Gregory Winston <gregory.winston@ca.ey.com>
Cc: Chan, Vanessa W. (TBS) <Vanessa.W.Chan@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: RE: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP

Hi Christina,

Monday 1:00 p.m. works for us.

I will send out a meeting invite.

See you.

Alicia

From: Ma, Patricia (TBS)
Sent: January 16, 2018 12:13 PM
To: Christina Chan; Sun, Alicia (TBS); Gregory Winston
Cc: Chan, Vanessa W. (TBS); Patel, Bharat (TBS)
Subject: RE: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP

Hi Christina,

We'll let you know on a good time for a call this week, tomorrow (Vanessa is away today).

Thanks,

Patricia

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: January-16-18 11:56 AM
To: Sun, Alicia (TBS); Gregory Winston
Cc: Chan, Vanessa W. (TBS); Ma, Patricia (TBS); Patel, Bharat (TBS)
Subject: RE: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP

Hi Alicia,

We are happy to come in early next week. We are available any time after 1pm on Monday, or whenever works best for you on Tuesday. Let us know your preference.

Vanessa/Patricia, would you be available for a call sometime this week to connect so we will be well prepared for the meeting to follow?

I also have it in my notes that we are expecting the assumptions (i.e. "basis") to be finalized around the 3rd week of January. Please let us know once the basis is chosen so we can provide our comments on the assumptions as requested.

Thanks,

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, January 16, 2018 11:51 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Chan, Vanessa W. (TBS) <Vanessa.W.Chan@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Subject: Getting Ready for Pension Work - HOOPP, PSPP, and CAATPP

Hi Christina,

How are you?

Our pension work for the Budget is about to start, and we are expecting to receive actuarial letters from pension plans around Jan. 26. I wonder whether you can come in early next week to go through a few items for PSPP and HOOPP to get the models ready.

We probably need an hour and a half. If you need more background on what we are looking for, please feel free to contact Vanessa or Patricia.

Please let me know what time works for you.

Thank you very much and see you soon.

Alicia

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RE_ Information Request _ Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3.rtf

From: Virani, Shyrose (TBS) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3
Date: Wednesday, August 01, 2018 14:19:36
Attachment 1: SOW - Signed by Uros Karadzic.pdf

From: Donaldson, Mark (TBS)
Sent: August 1, 2018 2:11 PM
To: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

Thanks – what about the current EY contract re: pension consulting?

From: Virani, Shyrose (TBS)
Sent: August 1, 2018 10:08 AM
To: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>
Subject: RE: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

From: Donaldson, Mark (TBS)
Sent: July 31, 2018 1:14 PM
To: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FW: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

Shyrose, can we re-pull contract documents for pension work that we would've entered into in the past couple of years?

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Date: Tuesday, Jul 31, 2018, 12:18 PM

To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>, Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>

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

Subject: FW: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

Hi Sarah & Mark,

Would Shyrose be able to pull the bolded part of this request?

a. Third party advice to government, as well as **related engagement letters / terms of reference.**

Thanks

From: Veinot, Cindy (TBS)
Sent: July 31, 2018 11:44 AM
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>; Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>
Subject: FW: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

Hi all,

Assuming 5a is an Energy lead.

5b – Mark – assuming we will point to the financial statement note – anything else you can think of? There are accounting memos on the initial sale, and transactions related to the sales to the unions.

If you don't have them, I would check with Bharat and I can also check my files.

Let me know,

Cindy

From: Skoberne, Vivienne (TBS)
Sent: July 31, 2018 11:36 AM
To: Kennedy, Nancy (TBS) <Nancy.Kennedy@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Cc: Ue, Allison (TBS) <Allison.Ue@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

Hello again,

For this request, Brandon just called to add 2015-16 to the Public Accounts transactions. Brandon asked for 2015-16 to be provided a quickly as possible.

5. As related to the initial public offering and secondary offering of Hydro One shares:

a. Final advice and documents provided to cabinet/committees or a Minister in respect of the initial public offering.

b. Transactions within the 2015-16 and 2016-17 Public Accounts including impacts to expense, revenue and debt.

Also, Brandon acknowledged the significant volume of the request and advised that we can share material in bits and pieces (perhaps we can give him a high level schedule of when we can get stuff to them) and that they are happy to move pieces to a briefing with the Commissioners if that is easier.

Thanks.

Vivienne Skoberne

T: 416-325-9084 | C: 647-287-3429

From: Skoberne, Vivienne (TBS)
Sent: July 31, 2018 8:09 AM
To: Kennedy, Nancy (TBS) <Nancy.Kennedy@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Cc: Ue, Allison (TBS) <Allison.Ue@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FW: Information Request | Accounting and Electricity Matters MATERIALS REQUEST DUE AUG 3

As per the email below, we have been asked to provide the following material to the Commission of Inquiry by **August 3**:

1. As related to the accounting for Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP), provide the following information from 2014/15 to date:

a. All formal correspondence and management responses related to the Auditor General's positions, recommendations and audit opinions.

b. Internal government documentation (e.g. final briefing notes, position papers or formal correspondence) supporting the development of management positions in respect of accounting treatments.

c. Final advice and documents provided to cabinet/committees or a Minister in respect of the accounting treatments.

d. Third party advice to government, as well as related engagement letters / terms of reference.

2. All actuarial reports/information and correspondence to and from the Ministry of Finance, Treasury Board Secretariat and OPTrust and OTPP related to the assumptions underpinning the Province's pension valuation calculations in each of the past 5 years.

3. As related to the consolidation of the Independent Electricity System Operator market account assets and liabilities and/or the recognition of rate-regulated assets in the Province's consolidated financial statements, provide the following information from 2014/15 to date:

a. All formal correspondence and management responses related to the Auditor General's positions, recommendations and audit opinions.

b. Internal government documentation (e.g. final briefing notes, position papers or formal correspondence) supporting the development of management positions in respect of accounting treatments.

c. Final advice and documents provided to cabinet/committees or a Minister in respect of the accounting treatments.

d. Third-party advice and consulting reports to government or consolidated entities, including Ontario Power Generation or the Independent Electricity System Operator, as well as related engagement letters / terms of reference.

e. All documentation related to the indemnification of the Independent Electricity Sector Operator Board of Directors by the Government of Ontario.

4. As related to the Ontario Fair Hydro Plan's Global Adjustment Refinancing initiative:

a. Final advice and documents provided to cabinet/committees or a Minister in respect of the Global Adjustment Refinancing or the Fair Hydro Plan more generally.

b. Third-party advice and consulting reports to government, Ontario Power Generation or the Independent Electricity System Operator, where available that informed the development of advice, including an assessment of the 30-year duration of the global adjustment refinancing.

c. Background information on the Change of Law Protection Agreement and copies of the Agreements, as available.

d. Internal analysis on the cost of borrowing to refinance the Global Adjustment, and analysis of the cost of borrowing / value for money relative to a scenario in which the financing was arranged entirely through the Province's borrowing program.

e. Background and summary details on the Feed-in-Tariff program, including the number, value and terms of contracts.

5. As related to the initial public offering and secondary offering of Hydro One shares:

a. Final advice and documents provided to cabinet/committees or a Minister in respect of the initial public offering.

b. Transactions within the 2016-17 Public Accounts including impacts to expense, revenue and debt.

This request has also been sent to the Ministry of Finance and Ministry of Energy, Northern Development and Mines.

Please let me know if you need assistance in coordinating with the other ministries or other parts of TBS.

Please factor in time for DM review of the materials before they are sent to the Commission.

Thanks.

Vivienne Skoberne

T: 416-325-9084 | C: 647-287-3429

From: Chaput, Brandon (IFCI)
Sent: July 30, 2018 6:37 PM
To: Skoberne, Vivienne (TBS) <Vivienne.Skoberne@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Pearce, James (IFCI) <James.Pearce2@ontario.ca>; Jaffer, Zahra (IFCI) <Zahra.Jaffer2@ontario.ca>; Wan, Janet (IFCI) <Janet.Wan2@ontario.ca>; Tharratt, Julia (IFCI) <Julia.Tharratt2@ontario.ca>; Skubel, Chris (IFCI) <Chris.Skubel2@ontario.ca>; Nicholson, Robert (IFCI) <Robert.Nicholson2@ontario.ca>
Subject: Information Request | Accounting and Electricity Matters

By Order in Council 1005/2018 dated July 17, 2018, the Lieutenant Governor in Council established the Independent Financial Commission of Inquiry (the Commission) under the *Public Inquiries Act, 2009* (the Act). The Commission's mandate is to provide analysis and advice to inform the 2017-18 Public Accounts and an assessment of the Province's budgetary position, and in particular:

- To perform a retrospective assessment of government accounting practices, including pensions, electricity refinancing, and any other matters deemed relevant to inform the finalization of the 2017-18 consolidated financial statements of the Province; and

- Review, assess and provide an opinion on the Province's budgetary position as compared to the position presented in the 2018 Budget, in order to establish the baseline for future fiscal planning.

The Commission is required to deliver a final report to the Minister of Finance and the Attorney General by August 30, 2018. The Order in Council directs all ministries, agencies, boards and commissions to assist the Commission to the fullest extent

possible, including producing documents in a timely manner.

By virtue of the Order in Council and the Act, the Commission may require the provision or production of information and documents under a person's power or control, including information that is confidential or inadmissible under any Act or regulation (such as the *Freedom of Information and Protection of Privacy Act*). However, the Commission is not entitled to receive information which is privileged under the law of evidence or audit working papers belonging to the Office of the Auditor General.

Pursuant to this authority, please deliver the documents or information identified in the attached appendix in electronic format to this e-mail address.

If, on review, you believe the request needs to be clarified or adjusted, should you believe the requested information would be more appropriately delivered through a briefing, or you are unable to provide the documents or information in accordance with proposed timeline, please contact me at (416) 562-4958.

Thank you for your prompt attention to this matter,

Sincerely,

Brandon Chaput on behalf of the Independent Financial Commission of Inquiry

+++

Date Issued: **July 30, 2018**

Date Requested: **As available and by August 3, 2018**

Ministries: **Treasury Board Secretariat, Ministry of Finance, Ministry of**

Energy, Northern Development and Mines

1. As related to the accounting for Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP), provide the following information from 2014/15 to date:

a. All formal correspondence and management responses related to the Auditor General's positions, recommendations and audit opinions.

b. Internal government documentation (e.g. final briefing notes, position papers or formal correspondence) supporting the development of management positions in respect of accounting treatments.

c. Final advice and documents provided to cabinet/committees or a Minister in respect of the accounting treatments.

d. Third party advice to government, as well as related engagement letters / terms of reference.

2. All actuarial reports/information and correspondence to and from the Ministry of Finance, Treasury Board Secretariat and OPTrust and OTPP related to the assumptions underpinning the Province's pension valuation calculations in each of the past 5 years.

3. As related to the consolidation of the Independent Electricity System Operator market account assets and liabilities and/or the recognition of rate-regulated assets in the Province's consolidated financial statements, provide the following information from 2014/15 to date:

a. All formal correspondence and management responses related to the Auditor General's positions, recommendations and audit opinions.

b. Internal government documentation (e.g. final briefing notes, position papers or formal correspondence) supporting the development of management positions in respect of accounting treatments.

c. Final advice and documents provided to cabinet/committees or a Minister in respect of the accounting treatments.

d. Third-party advice and consulting reports to government or consolidated entities,

including Ontario Power Generation or the Independent Electricity System Operator, as well as related engagement letters / terms of reference.

e. All documentation related to the indemnification of the Independent Electricity Sector Operator Board of Directors by the Government of Ontario.

4. As related to the Ontario Fair Hydro Plan's Global Adjustment Refinancing initiative:

a. Final advice and documents provided to cabinet/committees or a Minister in respect of the Global Adjustment Refinancing or the Fair Hydro Plan more generally.

b. Third-party advice and consulting reports to government, Ontario Power Generation or the Independent Electricity System Operator, where available that informed the development of advice, including an assessment of the 30-year duration of the global adjustment refinancing.

c. Background information on the Change of Law Protection Agreement and copies of the Agreements, as available.

d. Internal analysis on the cost of borrowing to refinance the Global Adjustment, and analysis of the cost of borrowing / value for money relative to a scenario in which the financing was arranged entirely through the Province's borrowing program.

e. Background and summary details on the Feed-in-Tariff program, including the number, value and terms of contracts.

5. As related to the initial public offering and secondary offering of Hydro One shares:

a. Final advice and documents provided to cabinet/committees or a Minister in respect of the initial public offering.

b. Transactions within the 2016-17 Public Accounts including impacts to expense, revenue and debt.

--

Brandon Chaput | 416.562.4958

Project Director

Independent Financial Commission of Inquiry

SOW - Signed by Uros Karadzic.pdf

Treasury Board Secretariat

Office of the Treasury Board
Office of the Provincial Controller Division
Accounting Policy & Financial Reporting Branch
Frost Building South, 2nd Floor
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel. (416) 325-8027

Secrétariat du Conseil du Trésor

Bureau du Conseil du Trésor
Bureau du contrôleur provincial
Direction de la méthode comptable et des rapports financiers
Édifice Frost Sud, 2e étage
7 Queen's Park Cr.
Toronto ON M7A 1Y7
Téléphone: 416-325-8027

Ontario

December 1, 2017

Ms. Anna Pesme
Ernst & Young LLP
222 Bay Street
Toronto ON
M5K 1J7

Ms. Pesme

RE: RFS-TBS-OTB-OPCD-22

The Ministry is pleased to advise that you are the selected proponent pursuant to the above-noted procurement process.

Enclosed please find two (2) copies of the Agreement for your signature. Please return one copy of the executed Agreement within five (5) business days of receipt of this notice:

Please be advised that this notice of selection letter should not be construed as permission from the Ministry to begin the work detailed in the Agreement. The Ministry will not be responsible or liable for any expenses related to the Deliverables, and the selected proponent is not to accept work requests prior to the execution of the Agreement by the Ministry. Work may begin pursuant to the Agreement when:

(a) the Agreement signed by both parties is returned to the selected proponent, and

(b) written permission is expressly given to the Supplier by the Ministry Representative to begin work under the Agreement.

.../2

If you have any questions concerning this process, please feel free to contact me at 416-325-8027.

Sincerely,

Mark Donaldson
Director, Accounting Policy and Financial Reporting Branch
Office of the Provincial Controller Division

FORM OF STATEMENT OF WORK – OPS ENTITY

Statement of Work for Management Consulting Services

This statement of Work No. **RFS-TBS-OTB-OPCD-22** made in **duplicate and effective December 11, 2017 ending on June 15, 2019.**

Ernst & Young LLP (the "vendor" or "EY") and her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of June 16, 2014 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* – The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term of provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* – The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price* - C$75,000.00 does not include HST.

4. *Project Start Date* – December 11, 2017

5. *Project End Date* – June 15, 2019

6. *Scope of Services and Deliverables* – The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

    - Working with management of the Office of the Provincial Controller's Accounting Policy and Financial Reporting Branch (APFRB), the provider will provide actuarial/accounting services related to the following possible areas:
        - Review the economic assumptions (i.e. management best estimates) used for the accounting valuations of the pension plans and non-pension benefits reported by the Province.
        - Review the actual and forecast numbers prepared by APFR staffs for the Province's various pension and non-pension benefits, including assessing the reasonableness

and completeness of assumptions used by APFRB staff in the models, including any sensitivity analysis as required.
    - From time to time provide recommendations, if any on improvements in the pension and non-pension benefits accounting models.
    - Perform ceiling test requirements in accordance with PS3250.50 to PS3250.59 for all sole sponsor or joint sponsor pension plans that are in an accrued benefit asset position.
    - Provide advice on any accounting issues related to pension and non-pension benefits, as required.
    - Participate in discussions with internal and external stakeholders, as required.

- The Vendor will participate in meetings as necessary to support the engagement objectives.

7. *Ownership and Licenses* – Attachment D of the Master Agreement forms a part of this Statement of Work.

8. *Communications and Reporting* – The structure of Ernst & Young's working relationship with OPCD is vital to the success of their engagement. The Project Lead that will handle OPCD work is Uros Karadzic. Ernst & Yong's communication strategy will be centered on periodic project update meetings, the frequency of which will be determined by the OPCD and Ernst & Young.

9. *Work Location* – All meetings will be within Greater Toronto.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:30 a.m. to 4:30 p.m. Monday to Friday inclusive.

    If required by the Client, the Vendor must provide Services outside of the normal working hours and/or non-Business days. The Vendor will not be entitled to charge more than the Fixed Price or Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. *Billing and Payment Process* – The Vendor shall provide the Client with quarterly billing statements that outline the per diem charges no later than 10 Business Days after the end of each quarter.

    Billing statements should include all billing information as set out in the Master Agreement.

13. Names of Roles of Vendor's Personnel:

Name of Individual	Level
Uros Karadzic	Senior Consultant/Project Lead
Christina Chan	Intermediate Consultant/Project Analyst

14. *Invoices* – Invoices for payment of any charges under this Statement of Work shall be sent to:

    Client: Treasury Board Secretariat
    Office of the Provincial Controller
    Accounting Policy and Financial Reporting Branch
    Mark Donaldson
    Director, Accounting and Policy Reporting
    Tel: 416 325 8027
    E mail: mark.donaldson@ontario.ca

15. *Knowledge Transfer* – The Vendor will work closely with the Client to ensure knowledge transfer to the Client's designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* – The Vendor shall destroy all information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Indemnity* – the indemnity set out in the Master Agreement applies to this assignment.

18. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	Treasury Board Secretariat
Client Representative:	Mark Donaldson
Telephone Number:	416 325 8027
E-mail:	mark.donaldson@ontario.ca

19. *Vendor Representative and Receipt of Notices*

    Uros Karadzic, Partner
    Ernst & Young LLP
    Ernst & Young Tower
    P O Box 251
    222 Bay Street
    Toronto ON M5K 1J7

    IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

Her Majesty the Queen in right of Ontario as
represented by the President of the Treasury Board

Per:

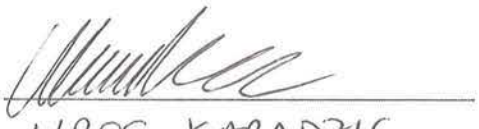
Signature:

Name: Mark Donaldson

Title: Director, Accounting Policy and
Financial Reporting

Pursuant to delegated authority

Per:

Signature: 

Name: UROS KARADZIC

Title: PARTNER

I have the authority to bind the Vendor

RE_ Invoice - pension panel. .rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Bernard, Dena (MOF) [Dena.Bernard@ontario.ca]
Subject: RE: Invoice - pension panel.
Date: Friday, April 07, 2017 10:07:39

Hi Lucy:

can you please give me the exact amount?

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Sent: April 6, 2017 8:39 PM
To: Virani, Shyrose (TBS)
Subject: Invoice - pension panel.

Hi Shyrose,

The invoice was in my inbox for approval. I approved it today and you should receive it shortly.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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RE_ Invoice for Services Rendered Enclosed.rtf

From: Virani, Shyrose (TBS) []
To: Sarah Anderton [Sarah.Anderton@ca.ey.com]
Subject: RE: Invoice for Services Rendered Enclosed
Date: Wednesday, March 22, 2017 15:49:39
Attachment 1: image001.jpg

These should be sufficient,

Thank you

From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: March 22, 2017 3:41 PM
To: Shayan Jafrani
Cc: Uros Karadzic; Christina Chan
Subject: FW: Invoice for Services Rendered Enclosed

Hi Shayan,

Please see finalized invoice attached.

Thank you,

Sarah

--

Sarah Anderton | Executive Assistant | Enterprise Support Services | People Advisory Services

Ernst and Young LLP

Office: 416-943-3143 | sarah.anderton@ca.ey.com

From: EY Invoices [mailto:EY.Invoices@ca.ey.com]

Sent: Wednesday, March 22, 2017 3:40 PM
To: Sarah Anderton <Sarah.Anderton@ca.ey.com>
Subject: Invoice for Services Rendered Enclosed

Dear Nadine Petsche

Attached is the invoice for the service rendered from 01 February 2017 to 28 February 2017

Please reference the attachment for the details.

Best Regards,

Uros Karadzic

Note: This email is sent from our automated mailbox, so please do not directly respond to this email.

image001.pdf

RE_ Invoice.rtf

From: Virani, Shyrose (TBS) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: Invoice
Date: Thursday, October 19, 2017 14:27:41
Attachment 1: image001.gif

---

yes

From: Donaldson, Mark (TBS)
Sent: October 19, 2017 2:19 PM
To: Virani, Shyrose (TBS)
Subject: FW: Invoice

Do you look after this?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: October 19, 2017 2:05 PM
To: Veinot, Cindy (TBS); Donaldson, Mark (TBS)
Cc: Christina Chan; Gregory Winston
Subject: Invoice

Hi Cindy and Mark,

We have issued our final invoice today, and I am attaching a soft copy of it here for your convenience. This invoice covers the period to the conclusion of our contact, at 30 September 2017. You will note that the sum of all of our invoices (approx. $268k) has come in under the overall budget for the contract (approx. $299k).

Cindy, as you and I discussed last month, I believe there is a need and an opportunity to further improve pension reporting by the province. In particular, we discussed the work around assumption setting processes and documentation. This is the most important and strategic piece, but I think there is also further work that needs to be done on variance reconciliation and reporting, improvements how actuarial information is obtained and used, and further work related to OPEB plans.

Most of this work is continuation of the work we've been doing so far, and we would be available to continue supporting you in this regard. I recall that you were going to set up a meeting with Nancy Kennedy – please let me know if that still makes sense.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001.pdf

RE_ Invoice.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: Invoice
Date: Tuesday, June 26, 2018 10:05:45
Attachment 1: image001.jpg
Attachment 2: Invoice-C100153487.pdf

Hi Shyrose,

I've attached an electronic copy of the invoice for your reference. A hard copy will also be mailing out today.

Let us know if you have any questions.

Regards,

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Christina Chan
Sent: June-22-18 4:07 PM
To: Shyrose Virani (shyrose.virani@ontario.ca) <shyrose.virani@ontario.ca>
Cc: Gregory Winston <Gregory.Winston@ca.ey.com>
Subject: Invoice

Hi Shyrose,

Hope all is well.

I would like to advise you that we are preparing the invoice for EY services from 1 March 2018 to 15 June 2018. We will provide you with a copy early next week.

Thanks,

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP
EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
Christina.Chan@ca.ey.com
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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de

fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001.pdf

Invoice-C100153487.stub.pdf

Security settings or invalid file format do not permit using Invoice-C100153487.pdf (243355 Bytes).

RE_ Invoices.rtf

From: Virani, Shyrose (TBS) []
To: Carolyn Roberts [carolyn.roberts@ca.ey.com]
CC: Suzie Gignac [suzie.r.gignac@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Invoices
Date: Tuesday, March 07, 2017 15:54:37
Attachment 1: image001.jpg

Hi Carolyn

You can send me the invoice on March 31st

Thanks

shyrose

From: Carolyn Roberts [mailto:carolyn.roberts@ca.ey.com]
Sent: March 2, 2017 12:27 PM
To: Virani, Shyrose (TBS)
Cc: Suzie Gignac; Uros Karadzic
Subject: RE: Invoices

For the complex accounting code, we continue to work with the Province on accounting issues so I suspect there will be another invoice before the end of March. Can you let me know the latest date you will need to receive the March invoice by to meet your year-end invoice cut off? Billing can also occur for the actuarial services at that time if this works at your end.

Uros, the PO is OSS 227152.

Shyrose, please advise if these arrangements are satisfactory for your deadlines. Thanks.

Best regards,

--

Carolyn Roberts | Executive Coordinator

Ernst & Young LLP

99 Bank Street, Suite 1200, Ottawa, Ontario K1P 6B9, Canada

Office: 1-613-598-4844 | Fax: 1-613-232-5324 | carolyn.roberts@ca.ey.com

EY/Comm: 3025243

Website: http://www.ey.com

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image001.pdf

RE_ Invoices.rtf

From: Carolyn Roberts [carolyn.roberts@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Suzie Gignac [suzie.r.gignac@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: Invoices
Date: Thursday, March 02, 2017 13:26:34
Attachment 1: image003.jpg

For the complex accounting code, we continue to work with the Province on accounting issues so I suspect there will be another invoice before the end of March. Can you let me know the latest date you will need to receive the March invoice by to meet your year-end invoice cut off? Billing can also occur for the actuarial services at that time if this works at your end.

Uros, the PO is OSS 227152.

Shyrose, please advise if these arrangements are satisfactory for your deadlines. Thanks.

Best regards,

--

Carolyn Roberts | Executive Coordinator

Ernst & Young LLP

99 Bank Street, Suite 1200, Ottawa, Ontario K1P 6B9, Canada

Office: 1-613-598-4844 | Fax: 1-613-232-5324 | carolyn.roberts@ca.ey.com

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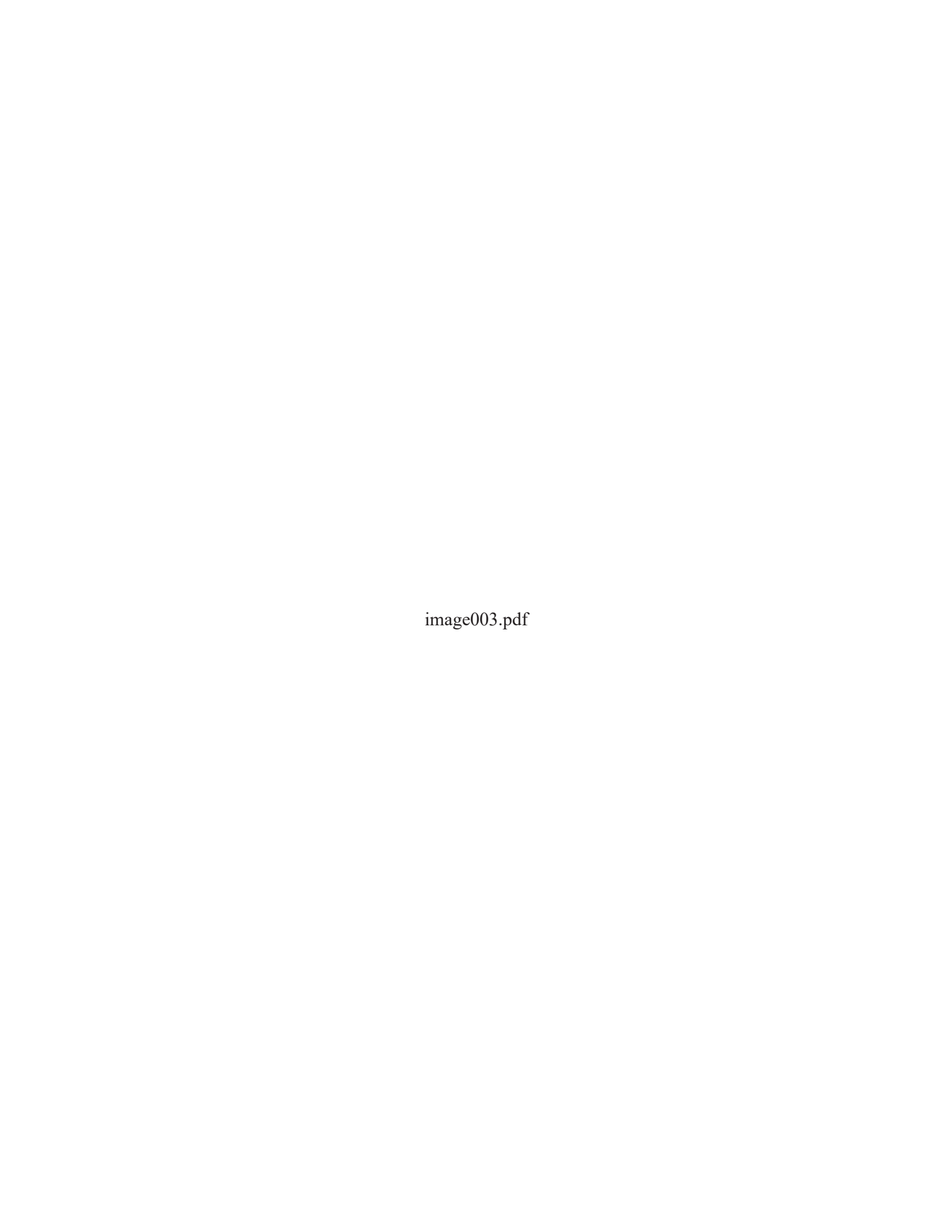
image003.pdf

RE_ Letter and Agreement - Uros Karadzic.rtf

From: Sarah Anderton [Sarah.Anderton@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: Letter and Agreement - Uros Karadzic
Date: Wednesday, December 06, 2017 13:50:26
Attachment 1: Confidentiality Agreement - Signed by Gregory Winston.pdf
Attachment 2: Confidentiality Agreement - Signed by Christina Chan.pdf

---

Hi Shyrose,

Please see attached the confidentiality agreements signed by Christina and Greg.

~Sarah

--
Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP
Office: 416-943-3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Tuesday, December 5, 2017 3:39 PM
To: Sarah Anderton <Sarah.Anderton@ca.ey.com>
Subject: RE: Letter and Agreement - Uros Karadzic

Thanks, Sarah.

You will receive originals in the mail. Can you please make sure that Uros sign the original agreement and send it to me. Also, I would like to have Christina sign the confidentiality agreement before the work begins.

Thanks
shyrose

-----Original Message-----
From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: December 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Cc: Uros Karadzic
Subject: Letter and Agreement - Uros Karadzic

Hi Shyrose,

Please see the signed documents attached.

1. Confidentiality Agreement
2. Signed SOW
3. Tax Declaration Form

Thank you,
Sarah

--

Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP
Office: 416-943-3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, December 1, 2017 1:53 PM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: letter and agreement

Hi Anna:

Attached, please find:

1. Covering letter
2. Agreements (2 copies)
3. Tax Declaration Form
4. Confidentiality Agreement

Kindly have Uros sign the agreement and e-mail it back to me at your earliest. Original agreements are in the mail, once you receive it, please have Uros sign the original and send it to me via mail. Also, please have Uros sign the Tax Declaration form and Confidentiality Agreement, Christina has to sign Confidentiality Agreement as well.

Thanks
Shyrose Virani

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Confidentiality Agreement - Signed by Gregory Winston.pdf

Confidentiality Agreement

During and following the term of the Agreement between **Ernst & Young LLP** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and Listed Entities, and "**OPS**" has the same meaning.

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Name: Gregory Winston

Signature: Gregory Winston

Date: December 06, 2017

Witness: SARAH ANDERTON

Signature: SA

Date: DEC 6, 2017

Confidentiality Agreement - Signed by Christina Chan.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

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Name: CHRISTINA CHAN

Signature: Christina Chan

Date: DEC 06, 2017

Witness: SARAH ANDERTON

Signature: SA

Date: DEC 6, 2017

RE_ Letter and Agreement - Uros Karadzic.rtf

From: Virani, Shyrose (TBS) []
To: Sarah Anderton [Sarah.Anderton@ca.ey.com]
Subject: RE: Letter and Agreement - Uros Karadzic
Date: Tuesday, December 05, 2017 16:38:51

Thanks, Sarah.

You will receive originals in the mail. Can you please make sure that Uros sign the original agreement and send it to me. Also, I would like to have Christina sign the confidentiality agreement before the work begins.

Thanks
shyrose

-----Original Message-----
From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: December 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Cc: Uros Karadzic
Subject: Letter and Agreement - Uros Karadzic

Hi Shyrose,

Please see the signed documents attached.

1. Confidentiality Agreement
2. Signed SOW
3. Tax Declaration Form

Thank you,
Sarah

--
Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP
Office: 416-943-3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, December 1, 2017 1:53 PM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: letter and agreement

Hi Anna:

Attached, please find:

1. Covering letter
2. Agreements (2 copies)
3. Tax Declaration Form
4. Confidentiality Agreement

Kindly have Uros sign the agreement and e-mail it back to me at your earliest. Original agreements are

in the mail, once you receive it, please have Uros sign the original and send it to me via mail. Also, please have Uros sign the Tax Declaration form and Confidentiality Agreement, Christina has to sign Confidentiality Agreement as well.

Thanks
Shyrose Virani

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To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

RE_ Letter and Agreement - Uros Karadzic.rtf

From: Sarah Anderton [Sarah.Anderton@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: Letter and Agreement - Uros Karadzic
Date: Wednesday, December 06, 2017 13:50:26
Attachment 1: Confidentiality Agreement - Signed by Gregory Winston.pdf
Attachment 2: Confidentiality Agreement - Signed by Christina Chan.pdf

---

Hi Shyrose,

Please see attached the confidentiality agreements signed by Christina and Greg.

~Sarah

--
Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP
Office: 416-943-3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Tuesday, December 5, 2017 3:39 PM
To: Sarah Anderton <Sarah.Anderton@ca.ey.com>
Subject: RE: Letter and Agreement - Uros Karadzic

Thanks, Sarah.

You will receive originals in the mail. Can you please make sure that Uros sign the original agreement and send it to me. Also, I would like to have Christina sign the confidentiality agreement before the work begins.

Thanks
shyrose

-----Original Message-----
From: Sarah Anderton [mailto:Sarah.Anderton@ca.ey.com]
Sent: December 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Cc: Uros Karadzic
Subject: Letter and Agreement - Uros Karadzic

Hi Shyrose,

Please see the signed documents attached.

1. Confidentiality Agreement
2. Signed SOW
3. Tax Declaration Form

Thank you,
Sarah

--

Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP
Office: 416-943-3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, December 1, 2017 1:53 PM
To: Anna Pesme <anna.pesme@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: letter and agreement

Hi Anna:

Attached, please find:

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Kindly have Uros sign the agreement and e-mail it back to me at your earliest. Original agreements are in the mail, once you receive it, please have Uros sign the original and send it to me via mail. Also, please have Uros sign the Tax Declaration form and Confidentiality Agreement, Christina has to sign Confidentiality Agreement as well.

Thanks
Shyrose Virani

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Confidentiality Agreement - Signed by Gregory Winston.pdf

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Name: Gregory Winston

Signature: Gregory Winston

Date: December 06, 2017

Witness: SARAH ANDERTON

Signature: SA

Date: DEC 6, 2017

Confidentiality Agreement - Signed by Christina Chan.pdf

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Name: CHRISTINA CHAN

Signature: Christina Chan

Date: DEC 06, 2017

Witness: SARAH ANDERTON

Signature: SA

Date: DEC 6, 2017

RE_ amendment form attached.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: amendment form attached
Date: Wednesday, October 19, 2016 15:48:44

Yes, I have scheduled it for 10:00 a.m.

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 19, 2016 3:45 PM
To: Virani, Shyrose (TBS)
Subject: Re: amendment form attached

Hi Shyrose.

I will get this done tomorrow for you. I have been out of the office for a couple of days.

Nadine was going to ask you to reschedule a pension call for Friday. I mentioned that any time other than 12-2pm would work. Can you confirm a time? It is for myself, Nadine and Cindy.

Lucy

Sent from my iPhone

> On Oct 18, 2016, at 12:17 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:
>
> Hi Lucy
>
> Attached, please find an amendment form. Kindly sign and send it back to me.
>
> Thanks
> shyrose
> <Scanned from a Xerox multifunction device.pdf>

This e-mail is intended only for the person to whom it is addressed (the "addressee") and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use that a person other than the addressee makes of this communication is prohibited and any reliance or decisions made based on it, are the responsibility of such person. We accept no responsibility for any loss or damages

suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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RE_ as discussed.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Keates, James (TBS) [James.Keates@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: as discussed
Date: Friday, March 17, 2017 16:44:17

Thanks Lucy. We'll likely be in touch on Monday with a suggested time. Have a great weekend. Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March-17-17 4:33 PM
To: Petsche, Nadine (TBS)
Cc: Keates, James (TBS); Tam, Nelson (TBS); Virani, Shyrose (TBS)
Subject: RE: as discussed

Hi Nadine,

I don't think I responded to this e-mail yet.
I am available for a call Wednesday morning next week between 9-12 or Thursday afternoon between 2:30-4:30, or on Friday, if Shyrose can set something up. I'll also understand if the fires get a little out of control and we need to push this back.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Keates, James (TBS)" <James.Keates@ontario.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: 03/14/2017 03:00 PM

Subject: RE: as discussed

Thanks Lucy.
I have asked the staff to start drafting our accounting policy document which would also cover the financial reporting/disclosure related aspects. I am copying Nelson and James on this response as they will be the individuals working on the policy document. There are quite a few 'fires' that we are dealing with right now, so I don't anticipate that they will have time to chat about this item until mid-next week at the earliest.
Perhaps we can arrange for meeting/call for next Wed/Thurs, depending on your availability?
Thanks,
Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March-14-17 2:52 PM
To: Petsche, Nadine (TBS)
Subject: Re: as discussed

Thanks Nadine.

It succinctly articulates her view point (albeit without explaining why the resource provider (participant) cannot use the EAs to obtain benefits in ways other than solely settling an obligation, such as through a sale within the jurisdiction or a potential sale inter-jurisdictionally as the programs are expected to be linked).

To confirm our conversation, it does not seem to me that the compliance period of the EAs would affect her rationale for revenue recognition. I do not believe it would affect our rationale for revenue recognition, as we discussed.

I received a request from Shyrose in respect of whether there would be additional time on the cap and trade project in FY 2017-18.

I know the memo was not as complete as we originally envisaged in terms of all the reporting aspects and subsidiaries accounted etc. Also you mentioned revisiting Teranet in light of our conclusions on cap and trade.
How would you like to proceed going forward? Would you like these aspects to be completed and if so, what format would you anticipate? We could do a supplemental memo/extend the memo to address these additional items (and discuss Teranet as a separate issue).

Let me know your thoughts on that.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/10/2017 12:22 PM
Subject: as discussed

[attachment "OAG on Cap and Trade (cert date).pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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réexpédition et la diffusion de ce message par une personne autre que son destinataire sont interdits. Nous déclinons toute responsabilité à l'égard des pertes ou des dommages subis par une personne autre que le destinataire par suite de décisions ou de mesures fondées sur le contenu de cette communication ou autrement. Si vous avez reçu ce courriel par erreur, veuillez communiquer avec son expéditeur et en détruire toutes les copies.

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RE_ as discussed.rtf

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To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Keates, James (TBS) [James.Keates@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: as discussed
Date: Friday, March 17, 2017 16:32:34

Hi Nadine,

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Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Keates, James (TBS)" <James.Keates@ontario.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: 03/14/2017 03:00 PM
Subject: RE: as discussed

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Let me know your thoughts on that.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/10/2017 12:22 PM
Subject: as discussed

[attachment "OAG on Cap and Trade (cert date).pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ as discussed.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Keates, James (TBS) [James.Keates@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: as discussed
Date: Tuesday, March 14, 2017 15:00:34

Thanks Lucy.

I have asked the staff to start drafting our accounting policy document which would also cover the financial reporting/disclosure related aspects. I am copying Nelson and James on this response as they will be the individuals working on the policy document. There are quite a few 'fires' that we are dealing with right now, so I don't anticipate that they will have time to chat about this item until mid-next week at the earliest.

Perhaps we can arrange for meeting/call for next Wed/Thurs, depending on your availability?

Thanks,

Nadine

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March-14-17 2:52 PM
To: Petsche, Nadine (TBS)
Subject: Re: as discussed

Thanks Nadine.

It succinctly articulates her view point (albeit without explaining why the resource provider (participant) cannot use the EAs to obtain benefits in ways other than solely settling an obligation, such as through a sale within the jurisdiction or a potential sale inter-jurisdictionally as the programs are expected to be linked).

To confirm our conversation, it does not seem to me that the compliance period of the EAs would affect her rationale for revenue recognition. I do not believe it would affect our rationale for revenue recognition, as we discussed.

I received a request from Shyrose in respect of whether there would be additional time on the cap and trade project in FY 2017-18.

I know the memo was not as complete as we originally envisaged in terms of all the

reporting aspects and subsidiaries accounted etc. Also you mentioned revisiting Teranet in light of our conclusions on cap and trade.
How would you like to proceed going forward? Would you like these aspects to be completed and if so, what format would you anticipate? We could do a supplemental memo/extend the memo to address these additional items (and discuss Teranet as a separate issue).

Let me know your thoughts on that.

Lucy

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From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/10/2017 12:22 PM
Subject: as discussed

[attachment "OAG on Cap and Trade (cert date).pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ hi.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: hi
Date: Friday, December 08, 2017 11:32:27

Hi Shyrose,

Hope all is well. I still have mine and will bring it next week. Although, presumably, the access may have been deactivated upon the expiration of our old contract?

Gregory did not get one and we should arrange for one if necessary.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, December 8, 2017 10:11 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: hi

Do you still have access card to our building?

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RE_ hi.rtf

From: Virani, Shyrose (TBS) []
To: Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: hi
Date: Wednesday, September 06, 2017 11:35:01

Will just await for the clearance report and then you can start working with us.

Thanks

shyrose

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: September 6, 2017 11:30 AM
To: Virani, Shyrose (TBS)
Cc: Christina Chan
Subject: RE: hi

Hi Shyrose,

I've completed the background check and Confidentiality Agreement.

Please let me know if you need anything else.

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 4494 | gregory.winston@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, September 06, 2017 10:34 AM
To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: RE: hi

Triton has resent it now, please make sure you fill it up today and also, I had sent you a Confidentiality Agreement, please fill it up and send it to me before you begin working on our files.

Thanks

shyrose

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: September 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Subject: RE: hi

Hi Shyrose,

Sorry for the delay. I'll be able to do this tomorrow. Hopefully, that is acceptable timing.

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 4494 | gregory.winston@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Tuesday, September 05, 2017 12:44 PM
To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: hi

Did you get chance to complete your security clearance for Triton?

Thanks

Shyrose

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RE_ hi.rtf

From: Gregory Winston [gregory.winston@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: hi
Date: Wednesday, September 06, 2017 11:29:59
Attachment 1: Confidentiality Agreement - Gregory Winston.pdf
Attachment 2: ShowInvoiceDetails.pdf

Hi Shyrose,

I've completed the background check and Confidentiality Agreement.

Please let me know if you need anything else.

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 4494 | gregory.winston@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, September 06, 2017 10:34 AM
To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: RE: hi

Triton has resent it now, please make sure you fill it up today and also, I had sent you a

Confidentiality Agreement, please fill it up and send it to me before you begin working on our files.

Thanks

shyrose

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: September 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Subject: RE: hi

Hi Shyrose,

Sorry for the delay. I'll be able to do this tomorrow. Hopefully, that is acceptable timing.

Greg

--

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To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: hi

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Thanks

Shyrose

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Confidentiality Agreement - Gregory Winston.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

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The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

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The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: Gregory Winston

Signature: Gregory Winston

Date: Sept. 6, 2017

Witness: Angela Chan

Signature:

Date: Sept 6, 2017

ShowInvoiceDetails.pdf

Triton Canada Inc
2235 Sheppard Ave East, Suite 1503
Toronto, Ontario
M2J 5B5

Sales Receipt

Date	Sale No.
2017-09-06	1648781

Sold To
Gregory Donald Winston

Description	Qty	Rate	Amount
Name Based Criminal Record Check	1	$14.95	$14.95
HST (ON) on sales		13%	$1.94
		Total	$16.89

GST/HST No. 821604451RT0001

RE_ hi.rtf

From: Virani, Shyrose (TBS) []
To: Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: hi
Date: Wednesday, September 06, 2017 10:34:22

Triton has resent it now, please make sure you fill it up today and also, I had sent you a Confidentiality Agreement, please fill it up and send it to me before you begin working on our files.

Thanks

shyrose

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: September 5, 2017 3:33 PM
To: Virani, Shyrose (TBS)
Subject: RE: hi

Hi Shyrose,

Sorry for the delay. I'll be able to do this tomorrow. Hopefully, that is acceptable timing.

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

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Office: +1 416 943 4494 | gregory.winston@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Tuesday, September 05, 2017 12:44 PM
To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: hi

Did you get chance to complete your security clearance for Triton?

Thanks

Shyrose

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RE_ hi.rtf

From: Gregory Winston [gregory.winston@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: hi
Date: Tuesday, September 05, 2017 15:32:55

Hi Shyrose,

Sorry for the delay. I'll be able to do this tomorrow. Hopefully, that is acceptable timing.

Greg

--

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Ernst & Young LLP

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Sent: Tuesday, September 05, 2017 12:44 PM
To: Gregory Winston <gregory.winston@ca.ey.com>
Subject: hi

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RE_ hi.rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: hi
Date: Thursday, March 30, 2017 09:28:51

---

we were directed to **restrict access to the Frost Complex of any outside contractors, consultants, movers, etc., commencing on March 29th.** As such, please defer any work planned for the Frost Complex until after release of the Spring Document. Sorry for any inconvenience caused, if you need anything from our office, please let me know.

Thanks

Shyrose

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 30, 2017 9:26 AM
To: Virani, Shyrose (TBS); Shayan Jafrani
Subject: RE: hi

Hi Shyrose,

Good morning!

Shayan should be there shortly. I needed to connect with Uros this morning (at the EY office) and will be coming in after lunch.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, March 30, 2017 9:24 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: hi

Are you folks planning to come to our location today?

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RE_ hi.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: hi
Date: Thursday, September 08, 2016 10:27:17

Nadine and Ian's availability

Tuesday between 9:00 – 10:00 and 11:15 – 12:15

Wed 9:00 – 12:00 – or 2:00 – 4:00

Fri – anytime except 10:00 – 12:00 noon

Thanks

shyrose

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 7, 2016 9:29 AM
To: Virani, Shyrose (TBS)
Subject: Re: hi

Hi Shyrose,

Can you see what the availability is for next week on Tuesday (13th), Wednesday (14th) or Friday (16th), for a 1 hour call, and I will check on my side, and hopefully we can find a time that works for all.I

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2

http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/01/2016 02:13 PM
Subject: hi

When do you want me to schedule next teleconference?

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RE_ invoces.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: david.c.greenall@ca.pwc.com [david.c.greenall@ca.pwc.com]
Subject: RE: invoces
Date: Tuesday, March 14, 2017 10:50:08

Hi Lucy

For pension - need to know how much you think you will need – expect to receive your invoice by March 31st

For Cap and trade how much between now and end of March 31, 2017 and then for next fiscal year Apr 1, 2017 till the contract ends.

Thanks

Shyrose

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: March 2, 2017 11:48 AM
To: Virani, Shyrose (TBS)
Cc: david.c.greenall@ca.pwc.com
Subject: Re: invoces

Hi Shyrose,

For pension - There will be a pension panel support invoice for the second phase (supplemental report). The work is ongoing until potentially March 31, so the invoice may be submitted shortly after year end. If you need an accrual amount by March 31, if you send me an e-mail then, I will tell you what is in the WIPs. No point in me giving you a number right now as I am doing substantive work on it this week/next, so the number is always changing.

I have copied David on this e-mail as he will be able to give you a better idea on the cap and trade element.

Kind regards,

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/02/2017 11:33 AM
Subject: invoces

Hi Lucy

Our year end is March 31st and I was wondering if I could expect to receive any invoices for:

1. Cap and Trade
2. Pension.

Your early response will be appreciated.

Thanks
Shyrose

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RE_ letter attached.rtf

From: Sarah Anderton [Sarah.Anderton@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: letter attached
Date: Friday, July 14, 2017 15:14:55
Attachment 1: 07142017-151246.pdf

Hello,

Please see the signed letter attached.

~Sarah

--

Sarah Anderton | Executive Assistant | Enterprise Support Services

Ernst and Young LLP

Office: 416-943-3143 | sarah.anderton@ca.ey.com

From: Uros Karadzic
Sent: Friday, July 14, 2017 2:07 PM
To: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Cc: Sarah Anderton <Sarah.Anderton@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: letter attached

Thanks for confirming, Shyrose.

Sarah/Shayan, can you please send the signed document I left with you yesterday?

Uros Karadzic

Partner, People Advisory Services

Office: +1 416 943 2087

Mobile: +1 416 970 2087

uros.karadzic@ca.ey.com

From: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Date: July 14, 2017 at 7:40:50 AM MDT
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: letter attached

Hi Uros

No, only the ceiling price got increased, all other terms remained unchanged.

Thanks
Shyrose

-----Original Message-----
From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: July 13, 2017 4:00 PM
To: Virani, Shyrose (TBS)
Cc: Shayan Jafrani
Subject: RE: letter attached

Thank you, Shyrose.

I only have one quick question: was the end date of the contract also meant to be extended, just in case the completion of the additional requested items extends past September 30, 2017?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, July 13, 2017 1:46 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: letter attached

Hi Uros

Attached, please find a letter and if you are in agreement, please sign and return it back to me.

Thanks
Shyrose Virani

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07142017-151246.pdf

Treasury Board Secretariat

Office of the Treasury Board
Office of the Provincial Controller Division
Accounting Policy & Financial Reporting Branch
Frost Building South, 2nd Floor
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel. (416) 325-8027

Secrétariat du Conseil du Trésor

Bureau du Conseil du Trésor
Bureau du contrôleur provincial
Direction de la méthode comptable et des rapports financiers
Édifice Frost Sud, 2e étage
7 Queen's Park Cr.
Toronto ON M7A 1Y7
Téléphone: 416-325-8027

Ontario

July 12, 2017

Ernst & Young LLP
222 Bay Street P O Box 251
Ernst & Young Tower
Toronto ON M5K 1J7

Attention: Mr. Uros Karadzic

RE: Proposed change to Statement of Work No. TBS-OTB-OPCD-20 dated February 3, 2017, as amended, ("the Statement of Work") made between Her Majesty the Queen in right of Ontario as represented by the President of Treasury Board and Ernst & Young LLP.

The purpose of this letter is to document our agreement to increase the Ceiling Price under the Statement of Work by $149,000.00 for the additional support to a new Maximum Price of $299,000.00.

This letter is sent to you in duplicate. Please indicate your receipt of this letter and your agreement to the change in Ceiling Price by signing where indicated on both copies, and returning the duplicate copy within five days of receipt of this letter.

This letter, when signed by both parties, will constitute a Change Order to the Statement of Work. The parties confirm that, except for the change referred to above, the Statement of Work will remain unchanged and unmodified.

.../2

Thank you for your continued cooperation and support.

Sincerely,

N. Petsche

Nadine Petsche
Director, Accounting Policy and Financial Reporting Branch
Office of the Provincial Controller Division

The undersigned hereby acknowledges receipt of this letter and agrees to the above on behalf of Ernst & Young LLP as of the date indicated above.

Date: 13- July - 2017

Ernst & Young LLP

Per: _____
Name: UROS KARADZIC
Title: PARTNER
Ernst & Young

I have authority to bind Ernst & Young LLP

RE_ letter attached.rtf

From: Virani, Shyrose (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: letter attached
Date: Friday, July 14, 2017 09:36:28

Hi Uros

No, only the ceiling price got increased, all other terms remained unchanged.

Thanks
Shyrose

-----Original Message-----
From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: July 13, 2017 4:00 PM
To: Virani, Shyrose (TBS)
Cc: Shayan Jafrani
Subject: RE: letter attached

Thank you, Shyrose.

I only have one quick question: was the end date of the contract also meant to be extended, just in case the completion of the additional requested items extends past September 30, 2017?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, July 13, 2017 1:46 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: letter attached

Hi Uros

Attached, please find a letter and if you are in agreement, please sign and return it back to me.

Thanks
Shyrose Virani

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RE_ letter attached.rtf

From: Virani, Shyrose (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: letter attached
Date: Friday, July 14, 2017 09:36:28

Hi Uros

No, only the ceiling price got increased, all other terms remained unchanged.

Thanks
Shyrose

-----Original Message-----
From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: July 13, 2017 4:00 PM
To: Virani, Shyrose (TBS)
Cc: Shayan Jafrani
Subject: RE: letter attached

Thank you, Shyrose.

I only have one quick question: was the end date of the contract also meant to be extended, just in case the completion of the additional requested items extends past September 30, 2017?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, July 13, 2017 1:46 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: letter attached

Hi Uros

Attached, please find a letter and if you are in agreement, please sign and return it back to me.

Thanks
Shyrose Virani

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RE_ letter attached.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: RE: letter attached
Date: Thursday, July 13, 2017 16:00:17

Thank you, Shyrose.

I only have one quick question: was the end date of the contract also meant to be extended, just in case the completion of the additional requested items extends past September 30, 2017?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, July 13, 2017 1:46 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: letter attached

Hi Uros

Attached, please find a letter and if you are in agreement, please sign and return it back to me.

Thanks
Shyrose Virani

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Re_ Availability for a call tomorrow_.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Availability for a call tomorrow?
Date: Tuesday, June 06, 2017 08:33:29

From: lucy.durocher@ca.pwc.com
Sent: June 5, 2017 9:26 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: Re: Availability for a call tomorrow?

Hi Nadine,

It's good to hear from you. We can definitely arrange a call for tomorrow. I have good availability after 11:30- let me know what time works for you.
I may have to do some digging re: TTC so may not have all the answers on that tomorrow, but we can set up a call anyway on cap and trade and I'll see what I can find out on the pensions prior.

Lucy

Sent from my iPhone

On Jun 5, 2017, at 9:01 PM, Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca> wrote:

> Hi Lucy.
>
> I hope that this note finds you well. I was hoping that you might have some insights on a couple of items, or alternatively that you might be able to direct me in the right direction on a couple of items:
>
> 1. We were wondering if you might have some info on how companies are accounting for cap & trade when they are the buyer of the EAs. Specifically, if a company chooses not to purchases anything at the auction, are they recognizing an expense and an accrual? If they buy the EA, how are they accounting for it – e.g. setting it up as a prepaid and expensing it when they pay the amount or amortizing it?

2. Secondly, we understand that the TTC is taking a valuation allowance on its net pension assets but we haven't been able to locate details on the rational for the allowance in the notes to the TTC's f/s. We noticed that PwC is the organization's auditor, and we wondered if you might be able to provide some additional context.

If you have some availability tomorrow, perhaps we can touch base.

Take care,

Nadine

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Re_ Availability for a call tomorrow_.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Availability for a call tomorrow?
Date: Monday, June 05, 2017 21:26:13

Hi Nadine,

It's good to hear from you. We can definitely arrange a call for tomorrow. I have good availability after 11:30- let me know what time works for you.
I may have to do some digging re: TTC so may not have all the answers on that tomorrow, but we can set up a call anyway on cap and trade and I'll see what I can find out on the pensions prior.

Lucy

Sent from my iPhone

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>
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Re Availability for a call tomorrow_.pdf

From:	Virani, Shyrose (TBS)
To:	lucy.durocher@ca.pwc.com; Petsche, Nadine (TBS)
Cc:	"lucy.durocher@pwc.com"
Subject:	Re: Availability for a call tomorrow?
Start:	June 6, 2017 1:00:00 PM
End:	June 6, 2017 1:30:00 PM
Location:	Lucy to call Nadine at 416 325 8027

From: lucy.durocher@ca.pwc.com
Sent: June 5, 2017 9:26 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: Re: Availability for a call tomorrow?

Hi Nadine,

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Lucy

Sent from my iPhone

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1. We were wondering if you might have some info on how companies are accounting for cap & trade when they are the buyer of the EAs. Specifically, if a company chooses not to purchases anything at the auction, are they recognizing an expense and an accrual? If they buy the EA, how are they accounting for it – e.g. setting it up as a prepaid and expensing it when they pay the amount or amortizing it?

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Take care,

Nadine

———

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Re_ Cap and Trade.rtf

From: david.c.greenall@ca.pwc.com [david.c.greenall@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]; michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]
Subject: Re: Cap and Trade
Date: Friday, September 30, 2016 09:33:47

Hi Shyrose - the invoice for effort spent since the last bill is in preparation and will be sent to you next week. As for level of effort forecast, I am not sure - suggest that we discuss this with Nadine and Ian on our next status call to get a sense as to their anticipated needs.

Thanks

David

David C. Greenall
PwC | Director, Sustainable Business Solutions
T: +1 613 782 2982
Email: david.c.greenall@ca.pwc.com
PricewaterhouseCoopers LLP
99 Bank Street, Suite 800, Ottawa ON K1P 1E4
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA, Michael Hawtin/CA/ABAS/PwC@Americas-CA, David C. Greenall/CA/ABAS/PwC@Americas-CA
Date: 09/30/2016 09:22 AM
Subject: Cap and Trade

Hello

We are in the process of preparing our budget and would like to know when your next billing on the above will arrive. So far you have billed us for $9129.27. I would really appreciate if you could provide me with the breakdown on how much you are planning to work on the above project for this fiscal which is ending on March 2017 and the next fiscal which starts from April 1, 2017 till your contract ends which would be in September 2017.

Your assistance would be greatly appreciate.

Thanks
Shyrose Virani

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dissemination or other use that a person other than the addressee makes of this communication is prohibited and any reliance or decisions made based on it, are the responsibility of such person. We accept no responsibility for any loss or damages suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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Re_ Draft SOW for your review.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Draft SOW for your review
Date: Friday, September 16, 2016 16:21:58
Attachment 1: PWC SOW Pensions Accounting Opinion 20160915.docx
Attachment 2: PWC SOW Pensions Accounting Opinion 20160915 Compare .docx

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Hi Nadine,

Please see attached draft SOW for my comments (Clean and compare version to the one Shyrose sent over.

I did a couple of questions on the SOW

- I'm not sure what "General Consultant, Level 2" and "Service Category 2" means in terms of your expectations. Based on the cap and trade SOW I believe that partners are equivalent to a "level 2" so I have left as is, but any guidance on this would be helpful.
- Names and Roles of Vendor Personnel - For an accounting opinion there will be a number of internal levels of review in addition to the technical analysis (a quality review partner and review by our Chief Accountant). Should I list the names of the partners expected to do the internal review as well, although they will not be directly involved in the reading of the source documentation and analysis. I have currently listed them. (Note the quality review partner is still TBC based on availability).
- I changes some of the references to the Master agreement to be consistent with that in our Cap and Trade SOW as I assume it is the same master agreement as for that arrangement. Please confirm. These are highlighted in the "compare" document

- In terms of making of the document available to public, we do usually request that consent is obtained from us when making use or referring to the opinion publicly. This is because it is an opinion, and we would be associated with any document that includes our report. We have certain responsibilities under the current association rules in the CPA Canada Handbook - Assurance. Therefore I am proposing the following language, which just requests that you obtain our consent before referencing our opinion, so we can ensure that the context is appropriate to the work that we performed.

The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.

- Please note I put in a maximum amount of $60,000 - I do not think that it will be this amount (or likely anywhere close), but as it is uncertain how many hours will be required and whether it will be an opinion or not, I left it with ample room. Please let me know if you would like it reduced and what your suggested cap would be.

- Please note the acknowledgements and agreements are consistent with those in the cap and trade agreement, amended where appropriate for these circumstances.

Please let me know whether this is satisfactory to you or if you have any questions on the edits. I have received the information from Shyrose and will start work this weekend, assuming the terms of the SOW

are agreed.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 09/16/2016 12:38 PM
Subject: Draft SOW for your review

Lucy,
Further to your discussion with Nadine Petsche, Director of Accounting Policy and Financial Reporting, please find attached a copy of the draft SOW for the work related to pensions accounting.
Please provide your suggested edits directly to me. Please call if you have any questions or would like to discuss.
Thanks.
Shyrose Virani
416 325 1448[attachment "PWC SOW Pensions Accounting Opinion 20160915.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

This e-mail is intended only for the person to whom it is addressed (the "addressee") and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use that a person other than the addressee makes of this communication is prohibited and any reliance or decisions made based on it, are the responsibility of such person. We accept no responsibility for any loss or damages suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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PWC SOW Pensions Accounting Opinion 20160915.pdf

Statement of Work for Management Consulting Services

This Statement of Work no. **OPCD-PWC-01** is made in duplicate and effective September 16, 2016.

PricewaterhouseCoopers LLP (the "Vendor" or "PwC") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client" or the "Province") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of March 22, 2016 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

Commented [LD1]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was March 22, 2016, so I am assuming it would be the same date for purposes of this SOW. Please confirm.

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$60,000.00, excluding HST.

4. *Project Start Date:* September 16, 2016.

5. *Project End Date:* December 31, 2016.

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

   The Vendor shall provide accounting advice (the "accounting advisory services") regarding the acceptability of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards. The accounting advice may include:

   - Review of background information, position papers developed by the Client or third parties that have been engaged by the Client to draft accounting positions on accounting for the recognition and measurement of pension assets for jointly-sponsored pension plans, and other supporting information.
   - Provide written or oral comments on draft position papers as provided by the Client with respect to the application of Canadian Public Sector Accounting Standards.
   - Participation in discussions with internal and external stakeholders and other parties as directed by the Client.

   During the course of this project, the Client will provide to PwC a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of

any relevant disagreements with the Client's auditor; and the Client's auditor will confirm to us in writing that the information the Client has provided to PwC is complete and consistent with their knowledge of the facts and circumstances of the specific transaction.

If requested to by the Client during the course of the project, the Vendor shall provide an accounting opinion (the "accounting opinion"), prepared in accordance with Section 7600, *Reports on the application of accounting principles* of the CPA Canada Handbook – Assurance ("Section 7600"), regarding the appropriateness of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards.

Vendor may be required to participate in meetings with the Client and other stakeholders, and to support the Client with respect to the Vendor's accounting advice or accounting opinion (if applicable), including discussions with the Office of the Auditor General.

The Client agrees that any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC, other than an accounting opinion prepared in accordance with Section 7600, will not be made available to any other persons or entities. However the Client may provide access to PwC's observations to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.

Acknowledgements and agreements

The Client acknowledges and agrees to the following:

a. The performance of the accounting advisory services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada ("CPA Canada") and, therefore, PwC will not express an opinion or any other form of assurance with respect to the accounting advisory services.
b. The accounting advisory services and accounting opinion (if applicable) to be provided do not include the delivery of any verbal or written advice on the application of accounting principles to a hypothetical transaction.
c. This engagement cannot be relied on to disclose internal control deficiencies, errors or fraud, should they exist.
d. PwC has no responsibility for updating the accounting advisory services or accounting opinion or for performing any additional services, except as agreed to in writing with the Client.
e. The Client's purpose for engaging PwC to perform the accounting advisory services is to supplement management's own technical accounting resources in performing accounting analysis and to assist management in making its determination as to the application of accounting principles and not to obtain an opinion from PwC as to such application, unless an accounting opinion is requested by the Client.
f. The Client shall be solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) designating one or more individuals who possess suitable skill, knowledge and/or

experience, preferably within senior management to oversee the accounting advisory services (c) evaluating the adequacy and results of the accounting advisory services; (d) accepting responsibility for the results of the accounting advisory services; and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

g. All management decisions and final conclusions reached in connection with the accounting advisory services will be the responsibility of the Client. PwC will not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of the Client.
h. PwC has no responsibility related to the Client's accounting or disclosure conclusions, whether or not such conclusions of the Client are related to the accounting advisory services and PwC has no responsibility for any disagreements between the Client and its independent auditor related to the Client's accounting.
i. The Client will be solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the accounting advisory services do not include the recording of any amounts in the Client's books or records. All amounts derived from the performance of the accounting advisory services will be reviewed and approved by, and will be the responsibility of, the Client's management.
j. The nature, scope and design of the accounting advisory services and the accounting opinion are solely the responsibility of the Client. PwC will rely, without independent verification, on the facts, information and assumptions provided by the Client. PwC will make no representation nor provide any assurance with respect to the adequacy of the services for the Client's purposes. Furthermore, PwC has no responsibility to advise the Client of other procedures that might be performed.
k. The Client will be solely responsible for providing accurate and complete information requested by PwC. PwC has no responsibility for the accuracy or completeness of the information provided by or on behalf of the client.
l. PwC's accounting and technical assistance will be based on the existing public sector generally accepted accounting principles. Should those generally accepted accounting principles be amended, superseded or revised in any manner, PwC's advice might change. PwC has no responsibility to inform the Client of any changes in generally accepted accounting principles that may occur after the completion of the engagement or any other oral or written work product prepared hereunder that would impact PwC's advice on the appropriate application of generally accepted accounting principles or to update its recommendations or any other oral or written work produce to take any such changes into account.
m. This engagement does not create a relationship between PwC and any person or party other than the Client. This engagement is not intended for the express of implied benefit of any third party.
n. The Client will identify an appropriate individual to serve as the project manager, including overseeing the accounting advisory services.

7. *Ownership and Licences* - **Attachment D** of the Master Agreement forms a part of this Statement of Work.

Commented [LD2]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was attachment D, so I am assuming it would be the same attachment for purposes of this SOW. Please confirm.

8. *Communications and Reporting* - The structure of Vendor's working relationship with OPCD is vital to the success of their engagement. Vendor's main point of contact will be Lucy Durocher who is the engagement leader.

9. *Work Location* - All meetings will be within the Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive. If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. *Charges On Per Diem Rate Basis*– The Vendor and the Client agree that Work performed under this Statement of Work will be charged on a Per Diem Rate basis. The Per Diem Rate will vary, based on the nature of the final deliverable, as follows:

Nature of final deliverable	Per Diem Rate	Service Category	Estimated hours	Per Diem Rate
Accounting Advisory	General Consultant, Level 2	Service Category 2	20-25	$390
Accounting Opinion	General Consultant, Level 2	Service Category 2	30-35	$990

13. *Billing and Payment Process* – The Vendor shall invoice the Client in accordance with the requirements of the Master Agreement. Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Individual's Legal Name	Individual's Role and Experience Level	Service Category	Per Diem Rate
Lucy Durocher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"
Martin Boucher	General Consultant, Level 2	Service Category 2	See "charges on a per diem rate basis"
Sean Cable (TBC)	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"
Michael Walke	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"

14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

Client:	Treasury Board Secretariat, Office of the Provincial Controller Division
Branch:	Accounting Policy and Financial Reporting
Representative:	Nadine Petsche
Title:	Director, Accounting Policy and Financial Reporting
Phone number:	416-325-8027
Email:	Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Clients designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all Confidential information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards

requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416-325-8027**
E-mail:	**Nadine.petsche@ontario.ca**

18. *Vendor Representative and Receipt of Notices*

Vendor's address for receipt of notices:	**PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2**
Vendor Representative:	**Lucy Durocher**
Telephone number:	**416-869-2311**
E-mail:	**Lucy.durocher@ca.pwc.com**
Backup Vendor Representative:	**Martin Boucher**
Telephone number:	**514-205-5415**
E-mail:	**Martin.boucher@ca.pwc.com**

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by The President of the Treasury Board

Per:

Signature: _____

Name: _____

Title: _____

Pursuant to delegated authority.

PRICEWATERHOUSECOOPERS LLP

Per:

Signature: _____

Name: _____

Title: _____

I have the authority to bind the Vendor.

PWC SOW Pensions Accounting Opinion 20160915 Compare .pdf

Statement of Work for Management Consulting Services

This Statement of Work no. **OPCD-PWC-01** is made in duplicate and effective ~~[insert date].~~September 16, 2016.

PricewaterhouseCoopers LLP (the "Vendor" or "PwC") and Her Majesty the Queen in right of Ontario as represented by the President of the Treasury Board (the "Client~~"~~)" or the "Province") enter into this Statement of Work pursuant to the Master Agreement for Management Consulting Services made as of ~~June 16, 2014~~ March 22, 2016 between the Vendor and Her Majesty the Queen in Right of Ontario as represented by the Minister of Government and Consumer Services (such Master Agreement, as from time to time amended, is referred to as the "Master Agreement").

Commented [LD1]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was March 22, 2016, so I am assuming it would be the same date for purposes of this SOW. Please confirm.

In consideration of their respective agreements set out below, the parties agree as follows:

1. *Structure* - The terms and conditions of the Master Agreement are hereby incorporated by reference in this Statement of Work to the same effect as if fully set out in this Statement of Work. This document and the Master Agreement together comprise a separate Statement of Work between the Vendor and the Client. All capitalized terms used in this Statement of Work without definition have the meanings ascribed to them in the Master Agreement. In the event of any conflict or inconsistency between any term or provision of this Statement of Work and any term or provision of the Master Agreement, the terms and provisions of the Master Agreement shall govern.

2. *Statement of Work* - The Vendor agrees to provide to the Client, and the Client agrees to acquire from the Vendor, the Services and Deliverables described in this Statement of Work upon and subject to the terms of this Statement of Work.

3. *Maximum Price:* C$~~xx~~060,000.00, excluding HST.

4. *Project Start Date:* September ~~15~~16, 2016.

5. *Project End Date:* December 31, 2016.

6. *Scope of Services and Deliverables* - The Services and Deliverables to be provided by the Vendor under this Statement of Work include the following:

   The Vendor shall provide ~~an accounting opinion~~accounting advice (the "accounting advisory services") regarding the acceptability of the Province's accounting treatment and measurement of pension assets for jointly-sponsored pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards. The accounting advice may include:

   - Review of background information, position papers developed by the Client or third parties that have been engaged by the Client to draft accounting positions on accounting for the recognition and measurement of pension assets for jointly-sponsored pension plans, and other supporting information.
   - Provide written or oral comments on draft position papers as provided by the Client with respect to the application of Canadian Public Sector Accounting Standards.
   - Participation in discussions with internal and external stakeholders and other parties as directed by the Client.

During the course of this project, the Client will provide to PwC a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of any relevant disagreements with the Client's auditor; and the Client's auditor will confirm to us in writing that the information the Client has provided to PwC is complete and consistent with their knowledge of the facts and circumstances of the specific transaction.

If requested to by the Client during the course of the project, the Vendor shall provide an accounting opinion (the "accounting opinion"), prepared in accordance with Section 7600, *Reports on the application of accounting principles* of the CPA Canada Handbook – Assurance ("Section 7600"), regarding the appropriateness of the Province's accounting treatment and measurement of pension assets for jointly-sponsored ~~pensions~~pension plans on the consolidated financial statements of the Province prepared under Public Sector Accounting Standards.

Vendor may be required to participate in meetings with the Client and other stakeholders, and to support the Client with respect to the Vendor's accounting advice or accounting opinion~~,~~ (if applicable), including discussions with the Office of the Auditor General.

~~Vendor~~The Client agrees that ~~the~~any accounting advisory services are solely for the information and use of the Client. Subject to the obligations in Article 27 (Privacy) of the Master Agreement the Client agrees that any written work product of PwC, other than an accounting opinion ~~or a summary of it~~prepared in accordance with Section 7600, will not be made available to any other persons or entities. However the Client may ~~be disclosed by Ontario to the public,~~provide access to PwC's observations to the Client's independent auditors solely for their informational purposes. The Client agrees to seek and obtain our written consent before including our accounting opinion (if applicable) or referring to us in any document disclosed to third parties, including disclosure of a summary of the accounting opinion or publication of the opinion in documentation that may be accessible to or intended for the public. The Vendor may, in their own discretion, waive the requirement to obtain written consent.
~~[insert other services/deliverables required.~~

Acknowledgements and ~~any terms~~agreements

The Client acknowledges and ~~conditions in respect~~ agrees to the following:

a. The performance of the accounting advisory services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada ("CPA Canada") and, therefore, PwC will not express an opinion~~.~~ or any other form of assurance with respect to the accounting advisory services.

b. The accounting advisory services and accounting opinion (if applicable) to be provided do not include the delivery of any verbal or written advice on the application of accounting principles to a hypothetical transaction.
c. This engagement cannot be relied on to disclose internal control deficiencies, errors or fraud, should they exist.
d. PwC has no responsibility for updating the accounting advisory services or accounting opinion or for performing any additional services, except as agreed to in writing with the Client.
e. The Client's purpose for engaging PwC to perform the accounting advisory services is to supplement management's own technical accounting resources in performing accounting analysis and to assist management in making its determination as to the application of accounting principles and not to obtain an

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opinion from PwC as to such application, unless an accounting opinion is requested by the Client.

f. The Client shall be solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) designating one or more individuals who possess suitable skill, knowledge and/or experience, preferably within senior management to oversee the accounting advisory services (c) evaluating the adequacy and results of the accounting advisory services; (d) accepting responsibility for the results of the accounting advisory services; and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

g. All management decisions and final conclusions reached in connection with the accounting advisory services will be the responsibility of the Client. PwC will not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of the Client.

h. PwC has no responsibility related to the Client's accounting or disclosure conclusions, whether or not such conclusions of the Client are related to the accounting advisory services and PwC has no responsibility for any disagreements between the Client and its independent auditor related to the Client's accounting.

i. The Client will be solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the accounting advisory services do not include the recording of any amounts in the Client's books or records. All amounts derived from the performance of the accounting advisory services will be reviewed and approved by, and will be the responsibility of, the Client's management.

j. The nature, scope and design of the accounting advisory services and the accounting opinion are solely the responsibility of the Client. PwC will rely, without independent verification, on the facts, information and assumptions provided by the Client. PwC will make no representation nor provide any assurance with respect to the adequacy of the services for the Client's purposes. Furthermore, PwC has no responsibility to advise the Client of other procedures that might be performed.

k. The Client will be solely responsible for providing accurate and complete information requested by PwC. PwC has no responsibility for the accuracy or completeness of the information provided by or on behalf of the client.

l. PwC's accounting and technical assistance will be based on the existing public sector generally accepted accounting principles. Should those generally accepted accounting principles be amended, superseded or revised in any manner, PwC's advice might change. PwC has no responsibility to inform the Client of any changes in generally accepted accounting principles that may occur after the completion of the engagement or any other oral or written work product prepared hereunder that would impact PwC's advice on the appropriate application of generally accepted accounting principles or to update its recommendations or any other oral or written work produce to take any such changes into account.

m. This engagement does not create a relationship between PwC and any person or party other than the Client. This engagement is not intended for the express of implied benefit of any third party.

n. The Client will identify an appropriate individual to serve as the project manager, including overseeing the accounting advisory services.

7. *Ownership and Licences* - **Attachment ~~E~~ D** of the Master Agreement forms a part of this Statement of Work.

Commented [LD2]: I do not have quick access to the copy of the Master Agreement. Per the Cap and Trade SOW this was attachment D, so I am assuming it would be the same attachment for purposes of this SOW. Please confirm.

8. *Communications and Reporting* - The structure of Vendor's working relationship with OPCD is vital to the success of their engagement. Vendor's main point of contact will be [insert name],Lucy Durocher who is the [insert title].engagement leader.

9. *Work Location* - All meetings will be within the Greater Toronto Area.

10. *Working Hours* – The Client's normal working hours are 7.25 hours per day, between 8:15 a.m. to 4:30 p.m. Monday to Friday inclusive. If required by the Client, the Vendor must provide Services outside of the normal working hours and/or on non-Business days. The Vendor will not be entitled to charge more than the Per Diem Rate.

11. *Administrative Services and Supplies* – All administrative services and supplies used by the Vendor to complete the Services will be provided to the Client at no additional charge.

12. [*Charges On Per Diem Rate Basis*– The Vendor and the Client agree that Work performed under this Statement of Work will be charged on a Per Diem Rate basis.] [TBD]. The Per Diem Rate will vary, based on the nature of the final deliverable, as follows:

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Nature of final deliverable	Per Diem Rate	Service Category	Estimated hours	Per Diem Rate
Accounting Advisory	General Consultant, Level 2	Service Category 2	20-25	$390
Accounting Opinion	General Consultant, Level 2	Service Category 2	30-35	$990

13. *Billing and Payment Process* – The Vendor shall invoice the Client in accordance with the requirements of the Master Agreement. Billing statements should include all billing information as set out in the Master Agreement.

13. *Names and Roles of Vendor's Personnel:*

Individual's Legal Name	Individual's Role and Experience Level	Service Category	Per Diem Rate [TBD]
[insert name]Lucy Durocher	General Consultant, Level 2	Service Category 2	$See "charges on a per diem rate basis"
[insert name]Martin Boucher	General Consultant, Level 2	Service Category 2	$See "charges on a per diem rate basis"
[insert name]Sean Cable (TBC)	General ConsultantQuality reviewer, Level 2	Service Category 2	$See "charges on a per diem rate basis"
Michael Walke	Quality reviewer, Level 2	Service Category 2	See "charges on a per diem rate basis"

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[Note to Draft: Confirm role and experience level and service category.]

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14. **Invoices** - Invoices for payment of any charges under this Statement of Work shall be sent to:

Client:	Treasury Board Secretariat, Office of the Provincial Controller Division
Branch:	Accounting Policy and Financial Reporting
Representative:	Nadine Petsche
Title:	Director, Accounting Policy and Financial Reporting
Phone number:	416-325-8027
Email:	Nadine.petsche@ontario.ca

15. *Knowledge Transfer:* The Vendor will work closely with the Client to ensure knowledge transfer to the Clients designated staff, and as necessary with the Auditor General.

16. *Destruction of Information* - The Vendor shall destroy all Confidential information contained on any media that was provided by the Client or at the direction of the Client, if requested to do so by the Client, except as required to be retained in accordance with professional standards requirements. The Client may choose to witness this destruction. The Vendor shall provide a certificate of destruction to the Client, if requested to do so by the Client.

17. *Client Representative and Receipt of Notices*

Client's address for receipt of notices:	**Treasury Board Secretariat**
Client Representative:	**Nadine Petsche**
Telephone number:	**416-325-8027**
E-mail:	**Nadine.petsche@ontario.ca**

18. *Vendor Representative and Receipt of Notices*

Vendor's address for receipt of notices:	~~[insert address]~~PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
Vendor Representative:	~~[insert name and title]~~Lucy Durocher
Telephone number:	~~[insert telephone number]~~416-869-2311
E-mail:	~~[insert email address]~~Lucy.durocher@ca.pwc.com
Backup Vendor Representative:	~~[insert name]~~Martin Boucher
Telephone number:	~~[insert telephone number]~~514-205-5415
E-mail:	~~[insert email address]~~Martin.boucher@ca.pwc.com

IN WITNESS WHEREOF the parties hereto have executed this Statement of Work as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by The President of the Treasury Board

Per:

Signature: _____

Name: _____

Title: _____

Pursuant to delegated authority.

PRICEWATERHOUSECOOPERS LLP

Per:

Signature:

Name: _____

Title: _____

I have the authority to bind the Vendor.

Re_ Expert Panel - writer PO# 228100.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Expert Panel - writer PO# 228100
Date: Wednesday, March 15, 2017 16:55:21

Hi Shyrose,

For this PO, the balance to be billed before the end of March 2017 is expected to be $7,200 plus HST (an additional 4.5 days @$1,600 per day).
The amount may be slightly higher or lower depending on the remaining work in the next week, but should not differ substantially.

It is not expected that any funds will be required on this PO for 2017/18.

I hope this helps. Please let me know if you need more information on the above.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/14/2017 11:02 AM
Subject: Expert Panel - writer PO# 228100

Hi Lucy

One more question on the above

Contract ceiling = $65,000
Billed to date = $19,200 (excluding HST) Estimate to year end (March 31/2017) Will funds be required for 2017/18?

Thanks
Shyrose

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Re_ amendment form attached.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: amendment form attached
Date: Wednesday, October 19, 2016 15:50:49

Great. Please circulate dial in details in advance.

Many thanks.

Lucy

Sent from my iPhone

On Oct 19, 2016, at 3:48 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:

> Yes, I have scheduled it for 10:00 a.m.
>
> **From:** lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
> **Sent:** October 19, 2016 3:45 PM
> **To:** Virani, Shyrose (TBS)
> **Subject:** Re: amendment form attached
>
> Hi Shyrose.
>
> I will get this done tomorrow for you. I have been out of the office for a couple of days.
>
> Nadine was going to ask you to reschedule a pension call for Friday. I mentioned that any time other than 12-2pm would work. Can you confirm a time? It is for myself, Nadine and Cindy.
>
> Lucy
>
> Sent from my iPhone
>
> > On Oct 18, 2016, at 12:17 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:
> >
> > Hi Lucy

>
> Attached, please find an amendment form. Kindly sign and send it back to me.
>
> Thanks
> shyrose
> <Scanned from a Xerox multifunction device.pdf>

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toutes les copies.

Re_ invoces.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: david.c.greenall@ca.pwc.com [david.c.greenall@ca.pwc.com]
Subject: Re: invoces
Date: Thursday, March 02, 2017 12:48:07

Hi Shyrose,

For pension - There will be a pension panel support invoice for the second phase (supplemental report). The work is ongoing until potentially March 31, so the invoice may be submitted shortly after year end. If you need an accrual amount by March 31, if you send me an e-mail then, I will tell you what is in the WIPs. No point in me giving you a number right now as I am doing substantive work on it this week/next, so the number is always changing.

I have copied David on this e-mail as he will be able to give you a better idea on the cap and trade element.

Kind regards,

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 03/02/2017 11:33 AM
Subject: invoces

Hi Lucy

Our year end is March 31st and I was wondering if I could expect to receive any invoices for:

1. Cap and Trade
2. Pension.

Your early response will be appreciated.

Thanks

Shyrose

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Ernst & Young LLP
Toronto, ON

Invoice

Treasury Board Secretariat
Mark Donaldson
Director
Office of the Provincial Controller Div.
Office of the Treasury Board
Frost Bldg S, 7 Queen's Park Cres E
Toronto, ON M7A 1Y7
Canada

Invoice No.: CA01C100153487
Please include this number with payment

Invoice Date:	26 June 2018
Due Date:	Upon receipt
Client No.:	0011426981
Engagement No.:	E-65170600

Remit To:
P.O. Box 57104, Postal Station A
Toronto, Ontario M5W 5M5
A/R Queries:
EYCanadaInvoiceInquiry@ca.ey.com

Fees for professional services rendered in connection with: Review of Public Accounts Assumption Rationale; preparation of letters documenting the calculation of future economic benefit and accrued benefit asset recognition for OTPP and OPSEUPP; assistance with reconciliation of actual vs budget expense for PSSP.

		Net	Tax	Rate	Tax Amount	CAD Total
Fee		7,957.00	HST	13 %	1,034.41	8,991.41
		7,957.00			**1,034.41**	**8,991.41**
Invoice summary		**7,957.00**				
Tax :	13% HST				1,034.41	
Total:		**7,957.00**			**1,034.41**	**8,991.41**

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Terms: Payment due upon receipt. Interest is charged at the rate of 12 % per annum on balances unpaid after 30 days from date of invoice. Any disbursements not charged to your account on the date of this invoice will be billed later.
GST/HST: R130866262 **QST:** 1006241791

Electronic payment instructions:
Send direct and pay to: Bank of Montreal, International Banking, H.O. Montreal, SWIFT BIC Address BOFMCAM2, Ernst & Young LLP, 6 King Street West, Toronto, Ontario, Canada, M5H 1C3.

Wire transfer instructions: Transit #2411 Account #24111000237. Reference the name and address of remitter, invoice number and engagement number.

Electronic fund transfer instructions: Bank ID: 0001 Transit# 24112 Account# 1000237. To ensure accurate allocation of funds, please email gss.canadaaccountsreceivable@xe02.ey.com and include amount paid, invoice number and company name.

RE_ Meeting Request - This week.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Jack, Shannon (TBS) [Shannon.Jack@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Meeting Request - This week
Date: Wednesday, August 23, 2017 14:37:28

Great – thank you for arranging.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Jack, Shannon (TBS) [mailto:Shannon.Jack@ontario.ca]
Sent: Wednesday, August 23, 2017 2:36 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: RE: Meeting Request - This week

Hi Uros,

Great, thanks. I will send out a meeting invitation for 1:00pm on Friday.

As I will be away on Friday, please call Sarah Hosick at 416-325-8512 after you register with security, who will come down to meet you.

Thanks,

Shannon

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: August 23, 2017 2:28 PM
To: Jack, Shannon (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: Meeting Request - This week

Hi Shannon,

1:00-1:20 works well for me. If Cindy is in the office, I can meet her there as I will be in that area for another meeting just before.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Jack, Shannon (TBS) [mailto:Shannon.Jack@ontario.ca]
Sent: Wednesday, August 23, 2017 2:14 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: Meeting Request - This week

Good afternoon Uros,

Cindy Veinot has asked me to schedule a 20 minute call with you this week.

Could you let me know if you are available during any of the following times on Friday (25th)?

Between 11:00am and 12:00pm

1:00-1:20pm

3:00-3:20pm

After 4:00pm

Thanks,

Shannon Jack

Administrative Coordinator

Assistant Deputy Minister's Office

Office of the Provincial Controller Division
Treasury Board Secretariat

416-327-2727

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RE_ Meeting this Thursday_.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Meeting this Thursday?
Date: Wednesday, November 09, 2016 14:12:58

I will let you know soon

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: November 9, 2016 1:03 PM
To: Virani, Shyrose (TBS)
Cc: Provis, Ian (TBS); michael.hawtin@ca.pwc.com
Subject: Meeting this Thursday?

Hi Shyrose,

I have two calendar invitations in the coming week for the cap and trade project - tomorrow at 1-2pm and also on Tuesday at 10-11am. The Tuesday one is important, but in light of it I thought we were going to cancel the Thursday one? I don't think we need both. Please confirm.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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RE_ On our way to Queens Park. .rtf

From: Virani, Shyrose (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Stretovitch, Ana (TBS) [Ana.Stretovitch@ontario.ca]
Subject: RE: On our way to Queens Park.
Date: Wednesday, May 10, 2017 14:40:49
Attachment 1: image001.png

Ok, thanks, please call Ana Stretovitch at 416 327 4685

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May 10, 2017 2:33 PM
To: Virani, Shyrose (TBS)
Cc: Uros Karadzic
Subject: On our way to Queens Park.

Hi Shyrose,

Uros and I are about to leave for our 3pm meeting at QP shortly. I have my access card but we will likely need someone to sign Uros in.

We'll call from security.

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada

Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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image001.pdf

RE_ On our way to Queens Park. .rtf

From: Virani, Shyrose (TBS) []
To: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Stretovitch, Ana (TBS) [Ana.Stretovitch@ontario.ca]
Subject: RE: On our way to Queens Park.
Date: Wednesday, May 10, 2017 14:40:49
Attachment 1: image001.png

Ok, thanks, please call Ana Stretovitch at 416 327 4685

From: Shayan Jafrani [mailto:Shayan.Jafrani@ca.ey.com]
Sent: May 10, 2017 2:33 PM
To: Virani, Shyrose (TBS)
Cc: Uros Karadzic
Subject: On our way to Queens Park.

Hi Shyrose,

Uros and I are about to leave for our 3pm meeting at QP shortly. I have my access card but we will likely need someone to sign Uros in.

We'll call from security.

Thanks,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada

Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
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image001.pdf

RE_ Pension Planning.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Chan, Vanessa W. (TBS) [Vanessa.W.Chan@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]
Subject: RE: Pension Planning
Date: Tuesday, December 12, 2017 10:04:44

Hi everyone,

Stay warm everyone. Unfortunately, Thursday is not an ideal day for us. Would any of the following time slot work?

Tomorrow: anytime from 11:30 to 1:30 Or Friday before noon.

Let us know.

Thanks!
Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP
Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

-----Original Appointment-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Tuesday, December 12, 2017 8:54 AM
To: Christina Chan; Sun, Alicia (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS); Ma, Patricia (TBS); Chan, Vanessa W. (TBS)
Cc: Gregory Winston
Subject: Pension Planning
When: December-14-17 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: TBS-R-7 Queen's Park Crescent-OTB.OPCD.FS.2ndFl.APFR.Boardroom

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pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

RE_ Pension paper.rtf

From: Virani, Shyrose (TBS) []
To: 'lucy.durocher@ca.pwc.com' [lucy.durocher@ca.pwc.com]
Subject: RE: Pension paper
Date: Friday, August 24, 2018 10:26:58

Thank you

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: August 24, 2018 10:09 AM
To: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Re: Pension paper

Hi Shyrose,

This was the latest version of the paper that I worked on. As it's a management paper, I don't know whether it was "finalized" or changed after this version, as this version is a still marked as draft.
It would be management's responsibility to finalize the paper and remove the Draft references, when comfortable with the content.

Hope this helps,

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 08/24/2018 08:58 AM

Subject: Pension paper

Hi Lucy:

Thank you for returning my call. Basically I am looking for the above paper in final version. Would you be able to provide it to me?

Thanks
Shyrose

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RE_ Perpetuity Request.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Perpetuity Request
Date: Tuesday, June 06, 2017 12:00:17

Hi Nadine,

I'm in Vancouver today for some meetings, but could get on a call at 1:30, 2:30 or 3:00pm Toronto time. Would any of those work?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, June 05, 2017 9:48 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Perpetuity Request

Hi Uros.

I was hoping that you might have a few minutes to chat tomorrow regarding the AG's request to run the asset ceiling test under a perpetuity assumption.

Thanks,

Nadine

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RE Perpetuity Request.pdf

From:	Virani, Shyrose (TBS)
To:	Petsche, Nadine (TBS); "Uros Karadzic"
Subject:	RE: Perpetuity Request
Start:	June 6, 2017 2:30:00 PM
End:	June 6, 2017 3:00:00 PM
Location:	Uros to call Nadine at 416 325 8027

From: Uros Karadzic <uros.karadzic@ca.ey.com>
Sent: June 6, 2017 12:00 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: RE: Perpetuity Request

Hi Nadine,

I'm in Vancouver today for some meetings, but could get on a call at 1:30, 2:30 or 3:00pm Toronto time. Would any of those work?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | <mailto:uros.karadzic@ca.ey.com> uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | <mailto:sue.lentze@ca.ey.com> sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, June 05, 2017 9:48 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: Perpetuity Request

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Thanks,

Nadine

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RE_ Province - confidentiality agreement.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Province - confidentiality agreement
Date: Monday, December 05, 2016 13:33:47

Done, come and see me in your break time

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: December 5, 2016 12:31 PM
To: Virani, Shyrose (TBS)
Subject: Fwd: Province - confidentiality agreement

Can you print the below and I will witness it for Michael at the next break.

Lucy

Sent from my iPhone

Begin forwarded message:

> **From:** "Michael Hawtin" <michael.hawtin@ca.pwc.com>
> **To:** "Lucy Durocher" <lucy.durocher@ca.pwc.com>
> **Subject: Re: Fwd: Province - confidentiality agreement**
>
> Lucy, I signed - see attached below. Can you please sign the witness section and then scan and send over.
>
> Michael Hawtin
> PwC | Partner, Assurance
> T: +1 416 815 5003
> Email: michael.hawtin@ca.pwc.com
> Assistant: Nicole Hoffmann | T: +1 905 815 6500 ext. 63464
> PricewaterhouseCoopers LLP
> PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
> http://www.pwc.com/ca

From: Lucy Durocher/CA/ABAS/PwC
To: Michael Hawtin/CA/ABAS/PwC@americas-ca
Date: 12/05/2016 10:38 AM
Subject: Fwd: Province - confidentiality agreement

Province needs another confidentiality agreement for everyone on the SOW. Please can you sign attached again for the panel work. If possible today and scan to Shyrose.

Lucy

Sent from my iPhone

Begin forwarded message:

From: "Lucy Durocher" <lucy.durocher@ca.pwc.com>
Date: December 2, 2016 at 11:13:16 AM EST
To: "Mandy Tam" <mandy.tam@ca.pwc.com>
Subject: Province - confidentiality agreement

Hi Mandy,

I have listed you on a statement of work we are doing for the Province relating to a pension issue. I may or may not need you to help out (I'm not entirely sure of the exact scope/expectations involved) but as the Province has strict requirements about who can work on their accounts for confidentiality/legal reasons I would rather have you listed now then you are available. I can give you more details on what would be involved when I find out more next week.

However in the meantime if you can sign the attached today and scan it back to me if possible that would be great. It needs to be witnessed, but anyone can do that for you.

Thanks,
Lucy

(See attached file: confidentiality agreement.doc)

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311

Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca [attachment "confidentiality agreement.doc" deleted by Michael Hawtin/CA/ABAS/PwC]

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RE_ Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx.rtf

From: Hosick, Sarah (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx
Date: Wednesday, September 06, 2017 15:31:00

Pw = Confederation17

From: Hosick, Sarah (TBS)
Sent: September 6, 2017 3:31 PM
To: 'Uros Karadzic'
Cc: Veinot, Cindy (TBS)
Subject: FW: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Hi Uros,

I've attached the decks for the 3:30pm meeting. Please keep confidential and do not distribute as the Public Accounts results have not been released yet.

Password to follow.

Thanks

Sarah

Sarah Hosick

Executive Assistant & Special Policy Advisor (A)

Assistant Deputy Minister's Office | Office of the Provincial Controller

Office of the Treasury Board | Treasury Board Secretariat

7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7

416-212-8512

RE_ Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx
Date: Wednesday, September 06, 2017 15:48:45

Got it – thank you. Also noted the confidentiality comment.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, September 6, 2017 3:48 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Confederation17

Let me know if any issues

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: September 6, 2017 3:40 PM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

What is the password?

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, September 6, 2017 3:31 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: FW: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Hi Uros,

I've attached the decks for the 3:30pm meeting. Please keep confidential and do not distribute as the Public Accounts results have not been released yet.

Password to follow.

Thanks

Sarah

Sarah Hosick

Executive Assistant & Special Policy Advisor (A)

Assistant Deputy Minister's Office | Office of the Provincial Controller

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7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7

416-212-8512

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From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx
Date: Wednesday, September 06, 2017 18:03:14

That works great. See you tomorrow at 12:30 in the lobby of Frost Building.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, September 6, 2017 5:46 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Hi Uros,

They just released the media advisory:

https://news.ontario.ca/tbs/en/2017/09/technical-briefing-1.html

You will see in the advisory that the briefing itself will take place in the Huron room at MacDonald Block starting at 1pm.

If you would like you can meet us in the lobby at the Frost Building (where we normally get you from security @ 7 Queens Park Cres E), and we can walk over together at

12:30pm.

Let me know if that works for you.

Thanks

Sarah

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: September 6, 2017 4:20 PM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Hi Sarah,

When you can, could you please let me know what works for tomorrow in terms of time and place to meet?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Wednesday, September 6, 2017 3:48 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

Confederation17

Let me know if any issues

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: September 6, 2017 3:40 PM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: Public Accounts Technical Briefing 201617_Sept 5_Draft_v6_speaking notes_cv edits.pptx

What is the password?

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

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Sarah Hosick

Executive Assistant & Special Policy Advisor (A)

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RE_ Regroup on pension items (misc).rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Regroup on pension items (misc)
Date: Tuesday, April 25, 2017 23:08:48
Attachment 1: image001.png

Hi Nadine,

Tuesday May 2nd at noon works for us.

We will draft a document with the suggested accounting treatment for non-controlled/non-consolidated employers for the various types of pension plans.

We are pleased to assist and look forward to continuing to work with you and your team in the coming days.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, April 25, 2017 10:06 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>
Subject: Regroup on pension items (misc)

Hi Shayan.

As we look forward to post-Budget release, we would like to schedule some time to regroup on the matters noted in your email of April 11th to Pauline Fong. We have had a chance to discuss your comments internally, and look further to reviewing our analysis with you to determine next steps and timing.

To support consistency in our accounting for each type of pension plan impacting our financials (i.e. sole sponsor, joint sponsor, multi-employer), it would be helpful to have a summary by type of plan that reflects the relevance and appropriate accounting treatment for non-controlled/non-consolidated employers. We were hoping that your team could assist in drafting such a document. Please feel free to connect with Pauline for further clarification of this request.

In terms of timing, we will continue to have busy days over the coming weeks, but we hoped that we could meet with you next Tuesday at noon? Cindy's current schedule would allow her to participate in the discussion as well.

Please let Shyrose know if that time would work for your team. We look forward to meeting with you again, and to working together to enhance OPCD's pension related processes.

Thanks again to you and your team for your support and advice.

Regards,

Nadine

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image001.pdf

RE_ Report and exec summary finished.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Patricia O'Malley [plomalley@outlook.com]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Report and exec summary finished
Date: Monday, January 23, 2017 17:21:43
Attachment 1: Executive Summary final.docx
Attachment 2: PENSION ASSET EXPERT ADVISORY PANEL REPORT Final.docx

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Hi Cindy,

Please see attached the final version of the Report and the Executive summary.

Regards,
Lucy

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From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: "Patricia O'Malley" <plomalley@outlook.com>
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>
Date: 01/23/2017 04:18 PM
Subject: RE: Report and exec summary finished

Hi Tricia – thanks for the update. If you send the report to myself and copy Sarah Hosick, we will get it to the appropriate folks.

Cindy

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: January-23-17 11:13 AM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Lucy Durocher
Subject: Report and exec summary finished

Hi Cindy

Both are done and final versions are signed off by all Panel members. Lucy will send to Communications today to begin translation etc. Nelson has provided the email addresses as he is ill and not in the office.

Also wanted to check with you who else should get copies at this point. I assume you and Karen should. If so, Lucy can forward at the same time.

Not sure if you have been advised about panel member schedules. Paul is available only week of Feb 6. Murray is in Asia until after mid-Feb. He can participate by phone in morning meetings. Uros and I are fairly open and flexible.

Best
Tricia

Tricia O'Malley
Mobile +1(416) 570 1924

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Executive Summary final.pdf

Executive Summary

Introduction

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

The Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP). This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit).

The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, setting out their respective understanding of the facts and their conclusions. The Panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure we fully understood their thinking. The Panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

Both OTPP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor – in these cases, the Ontario Teachers Federation or OPSEU – and an Employer Sponsor – the government. In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including valuation assumptions, how shortfalls (deficits) are to be made up and how the benefits of overfunding (surpluses) are to be shared.

The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the surpluses in the plans can be used by reducing the contributions the government is

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required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.

- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal. The Panel concluded that these conditions are not relevant to assessing the ability of a sponsor to reduce contributions because:

- The legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plan sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel concluded that the accounting answer should reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be

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reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following the guidance in the standard shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public sector pension accounting standard each year.

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PENSION ASSET EXPERT ADVISORY PANEL REPORT Final.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

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

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

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

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

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

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

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arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

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

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

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

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

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

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

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

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

Decision making

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

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

Funding arrangements

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

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

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

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

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sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to negotiation by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

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

Decision making

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

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

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

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

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

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

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

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however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

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

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

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

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

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

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits*

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(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

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

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

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

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standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

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

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

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events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

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

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

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

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

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

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> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

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

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

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS?

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

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be

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financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210 repeats this definition and expands on the guidance provided by PS 1000.

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

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

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

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measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

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

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they must be certain. PS 1000.56 states that:

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

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel analysis

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

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

CONFIDENTIAL

Recognition issues

Recognition - Issue 1

Application of defined benefit accounting to joint defined benefit plans

PS 3250.81 states “When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans”.

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

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

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

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

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

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unilateral control and decision-making over a portion of the entire plan.) A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining the government's portion of that net pension asset or net pension liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which would reflect the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

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The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel view – Issue 1

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

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

Recognition - Issue 2

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

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

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Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP. Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

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

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

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

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus. It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

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or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

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

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

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

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

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extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with a net pension asset is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

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

Panel view – Issue 2

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

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

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economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

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

If a jointly controlled resource can never meet the criteria to be recognized as an asset, it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL

Panel view – Issue 3

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

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

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

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

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

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL

Panel view – Issue 4

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

Panel view – Recognition issues

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

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

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

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, they have a reasonable expectation that, if there is any surplus in the plan generated from those contributions, future contributions could be reduced. That reduction would free up revenue to be used to meet other government obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms to achieve these future contribution reductions.

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

Measurement issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

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that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 set out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors’ recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

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

> A government determines its expected future benefit as the sum of:
>
> a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
>
> b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL

Measurement – Issue 1

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

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b)) or through reduced contributions (addressed in PS 3250.056 (a)).

As the Panel concluded that the Ontario Provincial Government does not currently have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may expect a future benefit based on the withdrawal of surplus.

If a net pension asset could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would essentially amount to a recognition issue. Without a legally enforceable right to withdraw surplus, there would be no expected future benefits – a full valuation allowance would be required. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to 'legally enforceable rights' and 'regulatory approvals' are not applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is

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generally permissive in regards to contribution holidays. It requires nothing in the way of regulatory approvals or consent in order for a sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

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

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

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

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

Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel view – Issue 1

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

Measurement – Issue 2

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

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

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

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unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

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

Panel view – Issue 2

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

Measurement – Issue 3

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

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

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

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

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As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan certainly affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when they must be specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

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OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

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

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

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB’s initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

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In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL

Appendix A – Pension Plan Governing Arrangements

OTPP

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

OPSEU

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

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Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

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

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

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[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial statement objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative characteristics

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

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

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

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

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impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

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

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

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

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

(b) **Accountability value**

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

(c) **Timeliness**

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

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

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adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

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

(b) **Completeness**

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

(c) **Neutrality**

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

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

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

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

Comparability

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

Understandability and clear presentation

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

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

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

.36 Assets have three essential characteristics:

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

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

CONFIDENTIAL

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

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

(a) no future economic benefit;

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

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

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

PS 1000.52-.56 Recognition

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

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

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

.55 The recognition criteria are as follows:

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

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

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

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

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

.20 **Objective 2**

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

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

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

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

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

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

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

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

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

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

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

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

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

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

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

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

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

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

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

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

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

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

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

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

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

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

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

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

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

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

CONFIDENTIAL

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

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

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

PS 1150.14 Primary sources of GAAP

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

PS 1150.18-.20 Other sources

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

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL

PS 3060.11-22 – Elements that define a government partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

CONFIDENTIAL

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

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

.04 Assets have three essential characteristics:

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

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

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

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

PS 3210.06-.10 Economic resources

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

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

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

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

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

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

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

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

.09 Economic resources can be:

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

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

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

PS 3210.11-.15 Future economic benefits

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

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

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

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

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

PS 3210.16-.21 Control

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

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

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

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

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

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

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

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

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

PS 3320, Contingent Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of contingent assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

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

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 Limit on the carrying amount of an accrued benefit asset

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

CONFIDENTIAL

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expensxes are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

CONFIDENTIAL

PS 3250.79-.82 Joint defined benefit plans

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

PS 3250.GLOSSARY (select definitions)

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

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

CONFIDENTIAL

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

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONV

RE_ Report and exec summary finished.rtf

From: Veinot, Cindy (TBS) []
To: Patricia O'Malley [plomalley@outlook.com]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Lucy Durocher [lucy.durocher@ca.pwc.com]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: Report and exec summary finished
Date: Monday, January 23, 2017 17:17:03

Hi Tricia – thanks for the update. If you send the report to myself and copy Sarah Hosick, we will get it to the appropriate folks.

Cindy

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: January-23-17 11:13 AM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Lucy Durocher
Subject: Report and exec summary finished

Hi Cindy

Both are done and final versions are signed off by all Panel members. Lucy will send to Communications today to begin translation etc. Nelson has provided the email addresses as he is ill and not in the office.

Also wanted to check with you who else should get copies at this point. I assume you and Karen should. If so, Lucy can forward at the same time.

Not sure if you have been advised about panel member schedules. Paul is available only week of Feb 6. Murray is in Asia until after mid-Feb. He can participate by phone in morning meetings. Uros and I are fairly open and flexible.

Best

Tricia

Tricia O'Malley
Mobile +1(416) 570 1924

RE TBS - Actuarial Support Services (TBS-OTB-OPCD-20) VOR OSS-00426611.pdf

From:	Virani, Shyrose (TBS)
To:	onlinebidding@deloitte.ca; Petsche, Nadine (TBS)
Cc:	"Raymond, Martin (CA - Montreal)"; "Colley, Matthew (CA - Toronto)"
Subject:	RE: TBS - Actuarial Support Services (TBS-OTB-OPCD-20) VOR OSS-00426611
Start:	February 13, 2017 3:00:00 PM
End:	February 13, 2017 3:30:00 PM
Location:	Jane to call Nadine at 416 325 8027

From: CA Ontario Online Bidding (CA) <onlinebidding@deloitte.ca>
Sent: February 7, 2017 8:04 AM
To: Virani, Shyrose (TBS)
Subject: RE: TBS - Actuarial Support Services (TBS-OTB-OPCD-20) VOR OSS-00426611

Good morning Shyrose,

We would like to request for a debrief regarding this RFS submission.

Thank you,

--
Jane Lau
Deloitte
22 Adelaide St. W, Toronto, ON, M5H 0A9
D: +1 (416) 874-3269
onlinebidding@deloitte.ca | deloitte.ca
--

LinkedIn | Facebook | Twitter | YouTube
--
Please consider the environment before printing.

-----Original Message-----
From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 6, 2017 10:37 AM
To: CA Ontario Online Bidding (CA) <onlinebidding@deloitte.ca>
Subject: TBS - Actuarial Support Services (TBS-OTB-OPCD-20) VOR OSS-00426611 [CRM: 1-VPZV6Z]

Hi Ms. Cho

Attached, please find a letter from Nadine Petsche.

thanks
Shyrose Virani
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RE_ TBS - Security Clearance.rtf

From: Donaldson, Mark (TBS) []
To: Gregory Winston [gregory.winston@ca.ey.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: TBS - Security Clearance
Date: Friday, August 25, 2017 16:50:59
Attachment 1: image001.gif

Thanks Greg … looking forward to reconnecting.

I will ensure this information gets passed on so we can obtain the necessary clearance for you.

Have a great weekend!

Mark

Mark Donaldson, CPA, CMA

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division, Treasury Board Secretariat

7 Queen's Park Cres, 2nd Floor

Toronto, Ontario

M7A 1Y7

Phone: 416.325.8027

Email: mark.donaldson@ontario.ca

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: August 25, 2017 3:57 PM

To: Donaldson, Mark (TBS)
Cc: Virani, Shyrose (TBS); Christina Chan; Uros Karadzic
Subject: TBS - Security Clearance

Good afternoon Mark,

As you know, I will be stepping in to support Christina and Uros on the upcoming actuarial services work as a result from Shayan Jafrani's departure from EY. I believe our paths have crossed once before; we chatted briefly in May 2016 to discuss the provincial cost-of-borrowing rate that hospitals can use under PS 3255. It's great to reconnect.

I've been ask to contact you to obtain clearance to support the team in this work. If it is useful, I currently hold a Federal Reliability level security clearance with a file number of 95758337 and an expiry date of 2022/01/26.

Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

EY Tower

100 Adelaide Street West, PO Box 1

Toronto, ON M5H 0B3

Office: +1 416 943 4494 | Mobile: +1 416 885 1554 | gregory.winston@ca.ey.com

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image001.pdf

RE_ TBS - Security Clearance.rtf

From: Virani, Shyrose (TBS) []
To: gregory.winston@ca.ey.com [gregory.winston@ca.ey.com]
CC: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: TBS - Security Clearance
Date: Wednesday, August 30, 2017 11:06:57
Attachment 1: image001.gif
Attachment 2: confidentiality agreement.doc

Hi Greg:

Triton will be in touch with you regarding some personal questions for clearance that is required. Also, attached, please find a Confidential Agreement that you have to sign before you start the project with us. Kindly fill in the form and send it to me at your earliest. Once I receive your security clearance, I will notify you.

Thanks

Shyrose Virani

From: Gregory Winston <gregory.winston@ca.ey.com>

Date: Friday, Aug 25, 2017, 3:56 PM

To: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>

Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>, Christina Chan <Christina.Chan@ca.ey.com>, Uros Karadzic <uros.karadzic@ca.ey.com>

Subject: TBS - Security Clearance

Good afternoon Mark,

As you know, I will be stepping in to support Christina and Uros on the upcoming actuarial services work as a result from Shayan Jafrani's departure from EY. I believe our paths have crossed once before; we chatted briefly in May 2016 to discuss the provincial cost-of-borrowing rate that hospitals can use under PS 3255. It's great to reconnect.

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Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

EY Tower

100 Adelaide Street West, PO Box 1

Toronto, ON M5H 0B3

Office: +1 416 943 4494 | Mobile: +1 416 885 1554 | gregory.winston@ca.ey.com

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confidentiality agreement.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

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The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: _____ Signature: _____

Date: _____

Witness: _____ Signature: _____

Date: _____

RE_ TBS - Security Clearance.rtf

From: Donaldson, Mark (TBS) []
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: TBS - Security Clearance
Date: Monday, August 28, 2017 19:11:56
Attachment 1: image001.gif

Hi Shyrose,

Just confirming this has been actioned.

Much appreciated.
Mark

From: Gregory Winston <gregory.winston@ca.ey.com>
Date: Friday, Aug 25, 2017, 3:56 PM
To: Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>, Christina Chan <Christina.Chan@ca.ey.com>, Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: TBS - Security Clearance

Good afternoon Mark,

As you know, I will be stepping in to support Christina and Uros on the upcoming actuarial services work as a result from Shayan Jafrani's departure from EY. I believe our paths have crossed once before; we chatted briefly in May 2016 to discuss the provincial cost-of-borrowing rate that hospitals can use under PS 3255. It's great to reconnect.

I've been ask to contact you to obtain clearance to support the team in this work. If it is useful, I currently hold a Federal Reliability level security clearance with a file number of 95758337 and an expiry date of 2022/01/26.

Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

EY Tower

100 Adelaide Street West, PO Box 1

Toronto, ON M5H 0B3

Office: +1 416 943 4494 | Mobile: +1 416 885 1554 | gregory.winston@ca.ey.com

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RE_ TBS - Security Clearance.rtf

From: Donaldson, Mark (TBS) []
To: Gregory Winston [gregory.winston@ca.ey.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: TBS - Security Clearance
Date: Friday, August 25, 2017 16:50:59
Attachment 1: image001.gif

Thanks Greg … looking forward to reconnecting.

I will ensure this information gets passed on so we can obtain the necessary clearance for you.

Have a great weekend!

Mark

Mark Donaldson, CPA, CMA

Director, Accounting Policy and Financial Reporting

Office of the Provincial Controller Division, Treasury Board Secretariat

7 Queen's Park Cres, 2nd Floor

Toronto, Ontario

M7A 1Y7

Phone: 416.325.8027

Email: mark.donaldson@ontario.ca

From: Gregory Winston [mailto:gregory.winston@ca.ey.com]
Sent: August 25, 2017 3:57 PM

To: Donaldson, Mark (TBS)
Cc: Virani, Shyrose (TBS); Christina Chan; Uros Karadzic
Subject: TBS - Security Clearance

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Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

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RE_ TBS-OTB-OPCD-22.rtf

From: Anna Pesme [anna.pesme@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: TBS-OTB-OPCD-22
Date: Monday, October 23, 2017 15:36:08

Hello again. I just wanted to let you know that Uros Karadzic will be responsible for our response. If you could please copy him on any further updates around this RFS that would be greatly appreciated.

Thank you.

Cheers.

--

Anna Pesme | Associate Partner | Advisory

Ernst & Young LLP

Mobile: 1 416 735 7820 Office: 1 416 943 2992 | anna.pesme@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, October 23, 2017 11:14 AM
To: Anna Pesme <anna.pesme@ca.ey.com>
Subject: TBS-OTB-OPCD-22

Ms. Pesme:

Attached, please find a Request for Proposal for Public Sector Pension and

Non-Pension Benefit Advice at the Treasury Board Secretariat, Office of the Provincial Controller Division.

The submission deadline is **November 3, 2017.**

Please feel free to contact me if you have any questions.

Thank you

Shyrose Virani

Administrative Coordinator

416-325-1448

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RE_ Treasury Board Secretariat - Confidentiality Agreement .rtf

From: Virani, Shyrose (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Weakley, Donna (CA - Toronto) [dweakley@deloitte.ca]; Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Grindley, Clair (CA - Toronto) [clgrindley@deloitte.ca]; Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: RE: Treasury Board Secretariat - Confidentiality Agreement
Date: Wednesday, October 19, 2016 12:01:25

Hi Matt

Can you please send me the copies of confidentiality agreement for yourself, Trevor and Max. As for Clair and Kerry they can date it when they actually started to work (i.e. sometime in Sept?)

Thanks

Shyrose

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: October 19, 2016 11:57 AM
To: Weakley, Donna (CA - Toronto); Gary, Trevor (CA - Toronto); Grindley, Clair (CA - Toronto); Bazile, Max (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Cc: Virani, Shyrose (TBS)
Subject: RE: Treasury Board Secretariat - Confidentiality Agreement

I have the confidentiality agreements for Trevor and Max as we signed those at the beginning of that engagement back in July. I don't think Clair and Kerry should sign those agreements for July 21st because the accounting opinion work didn't start then. I think the date of the confidentiality agreements for the accounting opinion work should be tied to the date of the engagement letter if people are comfortable back dating.

From: Weakley, Donna (CA - Toronto)
Sent: Wednesday, October 19, 2016 11:51 AM

To: Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Grindley, Clair (CA - Toronto) <clgrindley@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Virani, Shyrose (FIN) (Shyrose.Virani@ontario.ca) <Shyrose.Virani@ontario.ca>
Subject: Treasury Board Secretariat - Confidentiality Agreement

I received this request from Shyrose at the Treasury Board. She does not have your email addresses, so if you would see her request below and return directly to her it would be appreciated.

Thanks,

Donna

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, October 19, 2016 11:27 AM
To: Weakley, Donna (CA - Toronto) <dweakley@deloitte.ca>
Subject: Confidentiality Agreement

Hi Donna

As per our telephone conversation, attached, please find a confidentiality agreement. Please give to:

1. Trevor Gary
2. Matt Colley
3. Clair Grindley
4. Max Bazile

5. Kerry Danyluk

Project date was July 21, 2016 so if they can please back date it according to that date, that would be wonderful. Kindly return it back to me at your earliest.

Thanks

Shyrose

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RE_ Treasury Board Secretariat - Confidentiality Agreement .rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Weakley, Donna (CA - Toronto) [dweakley@deloitte.ca]; Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Grindley, Clair (CA - Toronto) [clgrindley@deloitte.ca]; Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Treasury Board Secretariat - Confidentiality Agreement
Date: Wednesday, October 19, 2016 11:57:01

I have the confidentiality agreements for Trevor and Max as we signed those at the beginning of that engagement back in July. I don't think Clair and Kerry should sign those agreements for July 21st because the accounting opinion work didn't start then. I think the date of the confidentiality agreements for the accounting opinion work should be tied to the date of the engagement letter if people are comfortable back dating.

From: Weakley, Donna (CA - Toronto)
Sent: Wednesday, October 19, 2016 11:51 AM
To: Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Grindley, Clair (CA - Toronto) <clgrindley@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Cc: Virani, Shyrose (FIN) (Shyrose.Virani@ontario.ca) <Shyrose.Virani@ontario.ca>
Subject: Treasury Board Secretariat - Confidentiality Agreement

I received this request from Shyrose at the Treasury Board. She does not have your email addresses, so if you would see her request below and return directly to her it would be appreciated.

Thanks,

Donna

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, October 19, 2016 11:27 AM

To: Weakley, Donna (CA - Toronto) <dweakley@deloitte.ca>
Subject: Confidentiality Agreement

Hi Donna

As per our telephone conversation, attached, please find a confidentiality agreement. Please give to:

1. Trevor Gary
2. Matt Colley
3. Clair Grindley
4. Max Bazile
5. Kerry Danyluk

Project date was July 21, 2016 so if they can please back date it according to that date, that would be wonderful. Kindly return it back to me at your earliest.

Thanks

Shyrose

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RE_ Triton.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Triton
Date: Monday, February 06, 2017 16:07:30

Hi Shyrose,

I've completed the form regardless – it's pretty basic, so I did not think it was necessary to hold it up. But if there is a way for them to check if we're already covered by Ontario security clearance (I think I am, but Shayan and Christina are probably not), then that may save some time on the back end.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 06, 2017 1:49 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: RE: Triton

I will call Triton and find out, but I have a feeling that we have to do our own (provincial) one with a special number assigned.

I will keep you informed

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: February 6, 2017 1:46 PM
To: Virani, Shyrose (TBS); Shayan Jafrani; Christina Chan
Subject: RE: Triton

Thanks Shyrose,

I suspect that some of us already have Ontario security clearance (certainly Shayan and I have federal security clearance). Will Triton be able to look this up first before processing a new application, in case one is not necessary?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 06, 2017 1:43 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: Triton

Hi

Triton Company will be getting in touch with you regarding security clearance. Kindly provide them with all the necessary information.

Thanks

Shyrose Virani

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RE_ Triton.rtf

From: Virani, Shyrose (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Triton
Date: Monday, February 06, 2017 14:49:11

I will call Triton and find out, but I have a feeling that we have to do our own (provincial) one with a special number assigned.

I will keep you informed

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: February 6, 2017 1:46 PM
To: Virani, Shyrose (TBS); Shayan Jafrani; Christina Chan
Subject: RE: Triton

Thanks Shyrose,

I suspect that some of us already have Ontario security clearance (certainly Shayan and I have federal security clearance). Will Triton be able to look this up first before processing a new application, in case one is not necessary?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 06, 2017 1:43 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: Triton

Hi

Triton Company will be getting in touch with you regarding security clearance. Kindly provide them with all the necessary information.

Thanks

Shyrose Virani

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RE_ Triton.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: Triton
Date: Monday, February 06, 2017 14:46:17

Thanks Shyrose,

I suspect that some of us already have Ontario security clearance (certainly Shayan and I have federal security clearance). Will Triton be able to look this up first before processing a new application, in case one is not necessary?

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, February 06, 2017 1:43 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Subject: Triton

Hi

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provide them with all the necessary information.

Thanks

Shyrose Virani

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RE_ pls. see letter attached.rtf

From: Anna Pesme [anna.pesme@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Uros Karadzic [uros.karadzic@ca.ey.com]; Mark MacDonald [Mark.MacDonald@ca.ey.com]
CC: Kevin Paquin [Kevin.Paquin@ca.ey.com]
Subject: RE: pls. see letter attached
Date: Wednesday, November 29, 2017 12:44:39

Thank you so much confirming receipt. I'm copying my colleagues who submitted the response.

Thank you for selecting EY.

--

Anna Pesme | Associate Partner | Advisory

Ernst & Young LLP

Mobile: 1 416 735 7820 Office: 1 416 943 2992 | anna.pesme@ca.ey.com

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From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, November 29, 2017 9:57 AM
To: Anna Pesme <anna.pesme@ca.ey.com>
Subject: pls. see letter attached

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RE_ security clearance.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: robert.urbanoski@ca.pwc.com [robert.urbanoski@ca.pwc.com]
Subject: RE: security clearance
Date: Monday, October 24, 2016 09:22:37

Ok, will do

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 24, 2016 9:18 AM
To: Virani, Shyrose (TBS)
Cc: robert.urbanoski@ca.pwc.com
Subject: Re: security clearance

Hi Shyrose,

I was not aware that a security check was going to be performed by a third party.

I did receive an e-mail from Triton Canada Inc, however because I was not aware that a security check request would be coming from a company Triton via e-mail I thought it was a Phishing e-mail as it asks for detailed personal information and also a credit card number and did not specifically reference the "application" to which the request relates. This is not the kind of information that I give in response to unexpected e-mail requests so I had reported it to our internal Phishing mailbox.

I deleted the e-mails, so it may be a good idea to ask Triton to re-send requests to all of us.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Mario Chasse/CA/ABAS/PwC@Americas-CA, "sean.cable@pwc.com" <sean.cable@pwc.com>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, "michael.walke@pwc.com" <michael.walke@pwc.com>, Martin Boucher/CA/ABAS/PwC@Americas-CA
Cc: Robert Urbanoski/CA/INF/PwC@Americas-CA
Date: 10/23/2016 02:38 PM
Subject: security clearance

Hi

Hi

I just need to find out if you have been screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks
Shyrose Virani

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RE_ security screenings.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: security screenings
Date: Sunday, November 06, 2016 20:36:23
Attachment 1: image001.png
Attachment 2: tax declaration form.pdf
Attachment 3: Confidentiality Agreeement.pdf

Shyrose

Find enclosed

Sorry for the delay, needed to find the proper individual to sign the tax form.

Let me know if you need more info.

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

Deloitte

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

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Envoyé : 27 octobre 2016 15:30
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Objet : RE: security screenings

Thank you, also I need you to sign the Tax declaration form and confidential agreement form. I have attached it for you

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: October 27, 2016 3:25 PM
To: Virani, Shyrose (TBS)
Subject: RE: security screenings

Just completed it

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

Deloitte

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

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Envoyé : 23 octobre 2016 14:24
À : Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; cgrindley@deloitte.ca; Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Warburton, Cara (CA - Toronto) <cawarburton@deloitte.ca>
Objet : security screenings

Hi

I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

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tax declaration form.stub.pdf

Security settings or invalid file format do not permit using tax declaration form.pdf (104290 Bytes).

Confidentiality Agreeement.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

During and following the term of the Agreement between **Deloitte Inc.** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and Listed Entities, and "**OPS**" has the same meaning.

The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: Martin Raymond

Signature: _____

Date: Nov. 3, 2016

Witness: Lahoque

Signature: Lahoque

Date: Nov. 3 2016

RE_ security screenings.rtf

From: Virani, Shyrose (TBS) []
To: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
Subject: RE: security screenings
Date: Thursday, October 27, 2016 15:30:01
Attachment 1: tax declaration form.docx
Attachment 2: tax declaration form.docx
Attachment 3: confidentiality agreement.doc

Thank you, also I need you to sign the Tax declaration form and confidential agreement form. I have attached it for you

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: October 27, 2016 3:25 PM
To: Virani, Shyrose (TBS)
Subject: RE: security screenings

Just completed it

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

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Envoyé : 23 octobre 2016 14:24
À : Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; cgrindley@deloitte.ca; Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Warburton, Cara (CA - Toronto) <cawarburton@deloitte.ca>
Objet : security screenings

Hi

I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

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tax declaration form.pdf

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tax declaration form1.pdf

Appendix D – Tax Compliance Declaration Form

The Ontario Government expects all suppliers to meet their Ontario tax obligations on a timely basis. In this regard, proponents are advised that their Ontario tax obligations, if any, must be in good standing in order to be considered for a contract award (see Section 3.2.3 of the RFP). In order to be considered for a contract award, the proponent must submit the following tax compliance status statement and the following consent to disclosure:

Declaration

I/WE hereby certify that **Deloitte Inc**. (the "Proponent") at the time of submitting its proposal, is in full compliance with all applicable Ontario tax statutes, whether administered by the Treasury Board Secretariat or by the Canada Revenue Agency, and that, in particular, all returns required to be filed have been filed and all taxes due and payable under those statutes have been paid or satisfactory arrangements for their payment have been made and maintained; or the Proponent will take all necessary steps prior to being considered for contract award in order to be in full compliance with all applicable Ontario tax statutes.

(Please check applicable box)

The Proponent ❑ is / ❑ is not a corporation subject to Ontario corporate tax under the *Taxation Act, 2007* (Ontario).

(Please insert Proponent's Business Number) _____

Consent to Disclosure

The Proponent consents to the Ministry of Finance releasing the taxpayer information to the Ministry of Finance as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

The Proponent consents to the Ministry of Finance releasing taxpayer information to the Requesting Ministry as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

Dated at _____ this _____ day of _____ 20 _____

_____

(Authorized signing officer)

_____

(Print Name) **(Title)**

I have authority to bind the Proponent.

confidentiality agreement.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

During and following the term of the Agreement between **Deloitte Inc.** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and Listed Entities, and "**OPS**" has the same meaning.

The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: _____ Signature: _____

Date: _____

Witness: _____ Signature: _____

Date: _____

RE_ security screenings.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: security screenings
Date: Thursday, October 27, 2016 15:24:32
Attachment 1: image001.png

Just completed it

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

Deloitte

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

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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

De : Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Envoyé : 23 octobre 2016 14:24
À : Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; cgrindley@deloitte.ca; Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Warburton, Cara (CA - Toronto) <cawarburton@deloitte.ca>

Objet : security screenings

Hi

I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

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image001.pdf

TEAM·ÉQUIPE
OFFICIAL SUPPLIER
FOURNISSEUR OFFICIEL

RE_ security screenings.rtf

From: Virani, Shyrose (TBS) []
To: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
Subject: RE: security screenings
Date: Sunday, October 23, 2016 14:40:34

Thank you

From: Bazile, Max (CA - Toronto) [mailto:mbazile@deloitte.ca]
Sent: October 23, 2016 2:38 PM
To: Virani, Shyrose (TBS)
Cc: Gary, Trevor (CA - Toronto); Raymond, Martin (CA - Montreal)
Subject: Re: security screenings

Hi Shyrose

Martin and I received this screening email from Triton, but weren't sure whether it was spam.

We will complete soon.

Thanks,

Max

Sent from my iPhone

On Oct 23, 2016, at 2:24 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:

> Hi
>
> I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

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RE_ security screenings.rtf

From: Virani, Shyrose (TBS) []
To: Warburton, Cara (CA - Toronto) [cawarburton@deloitte.ca]
CC: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
Subject: RE: security screenings
Date: Monday, November 14, 2016 16:50:07
Attachment 1: image001.png

Already re-issued it, Triton has already contacted Max

From: Warburton, Cara (CA - Toronto) [mailto:cawarburton@deloitte.ca]
Sent: November 11, 2016 10:51 AM
To: Virani, Shyrose (TBS)
Cc: Bazile, Max (CA - Toronto)
Subject: RE: security screenings

Hi Shyrose

Max timed out on his Trion application, please can you reissue it.

Thanks

Cara

--

Cara Warburton

Senior Manager | Company Security Officer

22 Adelaide Street West, Suite 200, Toronto, ON, M5H 0A9, Canada

D: (416) 601 5763 | M: (647) 300 9400

--

Please consider the environment before printing.

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Sunday, October 23, 2016 2:24 PM
To: Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; cgrindley@deloitte.ca; Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc: Warburton, Cara (CA - Toronto) <cawarburton@deloitte.ca>
Subject: security screenings

Hi

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Thanks

Shyrose Virani

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image001.pdf

Canada's Top
100
Employers
2015
Deloitte.

RE_ security screenings.rtf

From: Warburton, Cara (CA - Toronto) [cawarburton@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
Subject: RE: security screenings
Date: Friday, November 11, 2016 11:50:34
Attachment 1: image003.png

Hi Shyrose

Max timed out on his Trion application, please can you reissue it.

Thanks

Cara

--

Cara Warburton

Senior Manager | Company Security Officer

22 Adelaide Street West, Suite 200, Toronto, ON, M5H 0A9, Canada

D: (416) 601 5763 | M: (647) 300 9400

--

Please consider the environment before printing.

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Sunday, October 23, 2016 2:24 PM
To: Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>; Bazile, Max (CA - Toronto) <mbazile@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>; cgrindley@deloitte.ca; Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc: Warburton, Cara (CA - Toronto) <cawarburton@deloitte.ca>
Subject: security screenings

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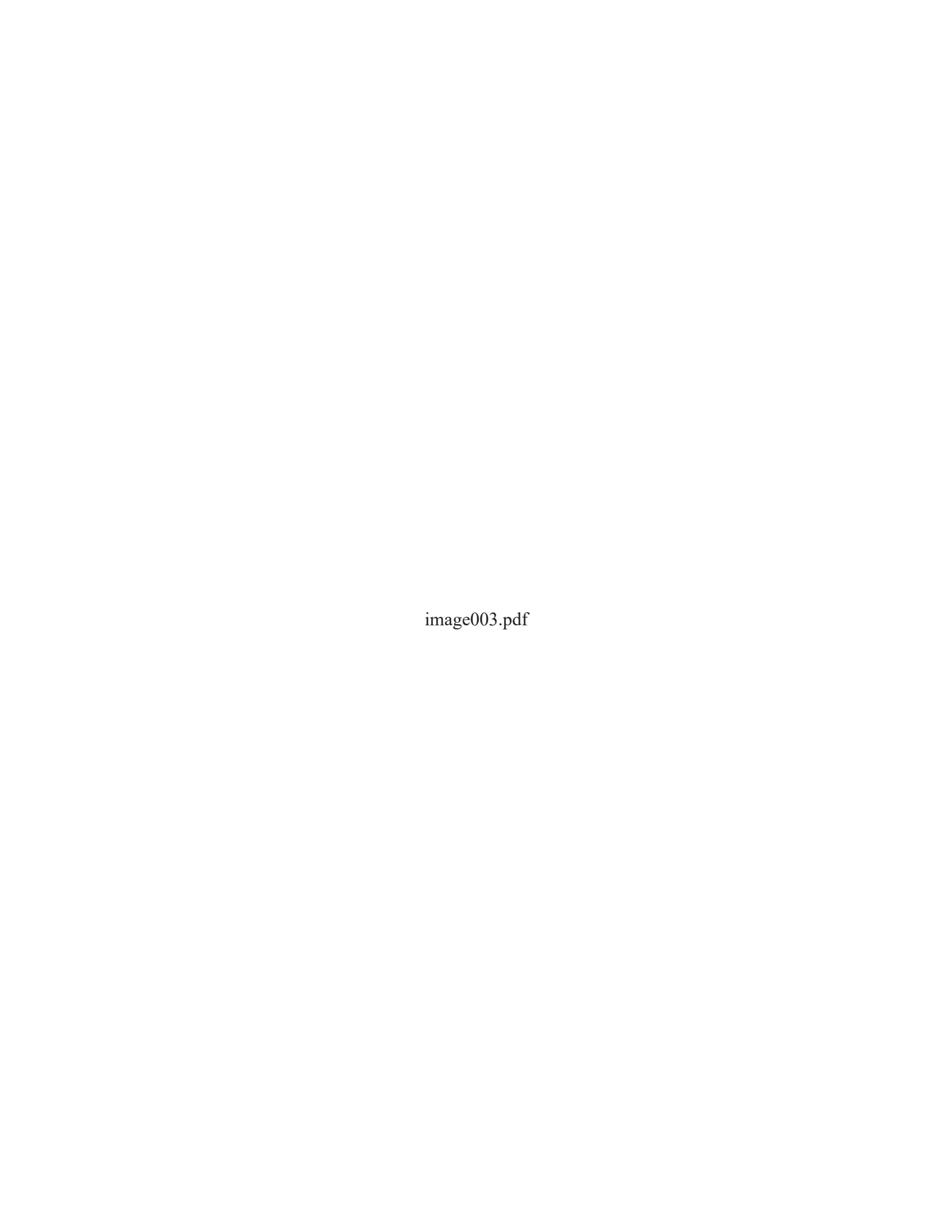
image003.pdf

Canada's Top
100
Employers
2015
Deloitte.

RE_ security screenings.rtf

From: Virani, Shyrose (TBS) []
To: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
Subject: RE: security screenings
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We will complete soon.

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Sent from my iPhone

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RE_ tax declaration form.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: tax declaration form
Date: Monday, October 24, 2016 11:14:49

Hi Lucy

Not a problem, I will wait for it till Monday, thank you

Shyrose

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: October 24, 2016 10:41 AM
To: Virani, Shyrose (TBS)
Subject: Re: tax declaration form

Hi Shyrose,

This declaration will be signed by our Chief Operating Officer, who has the appropriate knowledge to be able to make the declaration.

He is unfortunately out of the country until Friday. What is the timing on getting this declaration back to you. If it can wait until next Monday that would be ideal. If not, I'm sure we can find some workaround to get his signature. Please let me know.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA

Date: 10/23/2016 03:23 PM
Subject: tax declaration form

Hi Lucy

Can you please sign the above form for Pension file and return it to me.

Thanks
Shyrose

p.s. also, can you please provide me with an email address for Sean Cable.[attachment "tax declaration form.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ teleconference this morning.rtf

From: Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Danek, Mary (TBS) [Mary.Danek@ontario.ca]
Subject: RE: teleconference this morning
Date: Thursday, September 08, 2016 10:00:08
Attachment 1: image001.png

---

514 393-7367

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

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

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De : Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Envoyé : 8 septembre 2016 08:33
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Danek, Mary (TBS) <Mary.Danek@ontario.ca>
Objet : teleconference this morning

Hi Raymond

Cindy will be calling you around 10ish since she is at the off-site meeting, can I please have your phone number.

Thanks

Shyrose

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Re_ Outline of position paper proposed allocations Oct 7.docx.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Outline of position paper proposed allocations Oct 7.docx
Date: Sunday, October 16, 2016 23:43:18

Thanks Lucy. I am copying Shyrose on this response. I think we would likely just need his name and to get the necessary clearance in place. Shyrose will be in touch if further details are required.
Regards,
Nadine

From: lucy.durocher@ca.pwc.com
Sent: Sunday, October 16, 2016 11:22 AM
To: Petsche, Nadine (TBS)
Subject: Re: Outline of position paper proposed allocations Oct 7.docx

Hi Nadine,

In respect of one of the sections discussing the differences between the funding valuations/OTPP financial statements and the Province's financial statements, I think it would be helpful if I could get our actuary to read through the write up, particularly in respect of the funding valuation differences. Currently the SOW does not list our actuary as someone performing work (to date all my conversations with him have been high level and theoretical). However, I would like to get him added to the SOW as vendor personnel.

Individual's Legal Name
Individual's Role and Experience Level
Service Category
Per Diem Rate

Mario Chassé
General Consultant (Actuarial), Level 2
Service Category 2
See “charges on a per diem rate basis”

I can ask him to sign a confidentiality agreement.
What else should be done to ensure that the SOW reflects that he will be providing some work under the contract?

Thanks,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/07/2016 04:02 PM
Subject: Outline of position paper proposed allocations Oct 7.docx

---

Hi Lucy.
As discussed, the attached version of the paper outline includes proposed section allocations. Please let me know if any of the notes are inconsistent with your understanding.
Thanks and have a wonderful Thanksgiving weekend!
Nadine[attachment "Outline of position paper proposed alloations Oct 7.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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Re_ Pension - PWC.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Pension - PWC
Date: Wednesday, October 05, 2016 12:59:11

Hi Shyrose,

To date I have $16,000 in our WIPs based on time incurred to dates at the rate in our engagement letter.

It would be a good time to send an interim bill, so I will get that arranged also.

Lucy

Lucy Durocher
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Email: lucy.durocher@ca.pwc.com
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From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/04/2016 03:23 PM
Subject: Pension - PWC

Hi Lucy

We are forecasting our budget and would like to know how much monies have already been spent as of last Friday (Sep 30th) Please advise asap.

Thanks
Shyrose

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Re_ Pension paper.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: Pension paper
Date: Friday, August 24, 2018 10:08:48
Attachment 1: 20180823150724654.pdf
Attachment 2: Draft Pension Asset Position Paper November 14 PwC clean.docx

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Hi Shyrose,

This was the latest version of the paper that I worked on. As it's a management paper, I don't know whether it was "finalized" or changed after this version, as this version is a still marked as draft.
It would be management's responsibility to finalize the paper and remove the Draft references, when comfortable with the content.

Hope this helps,

Regards,
Lucy

Lucy Durocher
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From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 08/24/2018 08:58 AM
Subject: Pension paper

Hi Lucy:

Thank you for returning my call. Basically I am looking for the above paper in final version. Would you be able to provide it to me?

Thanks
Shyrose

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20180823150724654.pdf

Position paper for Ontario Teachers' Pension Plan

Preamble

This document addresses the accounting for pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, HOOPP and CAAT.

Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP.

As described in PSAS, a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the asset balance (or plan surplus for accounting purposes) in OTPP is an asset to the province and it is suitable to reflect it in the financial results.

The OAG disagrees with this position. The OAG has indicated that because the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and in the absence of that right, because the Province does not have an agreement in place with the Ontario Teachers' Federation (OTF) with respect to how the surplus would be utilized such that it would provide a benefit to the Province, a pension asset in the Public Accounts is not appropriate.

Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals. There has been no change to the relevant PSAS (i.e. RETIREMENT BENEFIT, Section PS 3250) over the past 14 years.

A regulation was filed to allow the public service to sign-off on the impact of the OAG's view on accounting for pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for pension assets of its two jointly-sponsored pension plans (OTPP and

OPSEUPP) for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's accounting, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

Background

Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1.

The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the Ontario Teachers' Federation represented by its Executive (the "OTF") (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. The OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for the OTPP ;

---

[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
a. It provides defined benefits.
b. The defined benefits are contributory benefits.
c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners Agreement (FMP);
f) The Ontario Teachers' Pension Plan; and
g) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under the OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

Despite this general principle, under the TPA the Province is required to make additional contributions to the OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. [5] The Province is also permitted to make additional contributions in respect of a solvency deficiency[6] (although, as noted above, solvency funding is not required under the OTPP). Notwithstanding that subsection 5(1.1) of the OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under the OTPP since the OTPP became jointly sponsored (and

Commented [CV1]: Let's discuss this next section – its new to me – was it in one of the legal opinions?

Yes, per the Osler September 20, 2016 letter – pages 7 and 8 – included in this section as we discuss that OTPP qualifies as a JSPP

Also – I'm confused by the footnotes below – 3. And 4. And then 2.3.4.?

The characteristics of a JSPP in footnote 1 includes 4 parts which were the first series of 1, 2, 3 and 4 – I have changed to a, b, c and d

Commented [CV2]: Does this have any impact on the JSPP status of the plan

I believe it is consistent with the characteristics of a JSPP- characteristic c

LD – I think there are a number of ways to interpret this clause It could be argued that the clause is there to ensure that there is sufficient money from a liquidity perspective. This does not necessarily negate the broader agreement to share on an equitable basis – i.e. it's not clear if this injection by the Province would be balanced by the OTF in some other form – one might argue that the rest of the arrangement (partner's agreement) would require it to.
The TPA does require that the assets of the pension fund should be maintained at a level that is reasonably sufficient to meet the liabilities. Therefore, if this requirement has been met then the requirements of subsection 5(3) would only be for liquidity/short term in nature and not for long term funding.

I can see how one might also argue that it indicates that residual risk is with the Province – for example, does this clause kick in when the pension plan has no more active members and runs out of assets to pay for the liabilities then is the Province on the hook. Again – the rest of the Plan's terms would indicate that this should not happen, While "should not" might not be the same as "cannot" it could be countered that the majority of the funding risk is not with the province, because the other requirements in the Partners' Agreement require shared funding.
However this would likely be a matter of interpreting the arrangement as a whole.

I don't know what the original thinking by mgt/OAG was when this was agreed upon to be a JDBP, but the above would be my guess as to how it was considered.

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).
[5] TPA, subsection 5(3).
[6] TPA, subsection 5(7).

for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Currently, the Sponsors are required to mutually agree upon how any plan deficits are to be addressed. [8] While not binding upon the Sponsors, the FMP indicates that deficits may be addressed through increases to the contribution rates, lowering the amount of indexation and/or other decreases in benefits.

Commented [CV3]: Not sure what we are referring re: the use of also

Section 3.11 of the FMP discusses options available to the partners to eliminate any deficit in the plan (i.e. change benefits, contributions, or both)

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the FMP requires the Sponsors to negotiate and agree upon decisions relating to surplus utilization. Accordingly, the Sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the Sponsors are included in appendix E. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. We note that the Sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the Sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

---

[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/101791209401-l5e47lc2b-23f1-44e6-b5cld22e3e50dbc3lHow+ Contribution+Rates*HaverEvolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20lo versus l0.4yo/l2Vo, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.

[8] See, for example, Section 3.09 and 3.11 of the FMP.

Draft Pension Asset Position Paper November 14 PwC clean.pdf

Contents

1.0 Preamble 1
2.0 Issue to be considered 1
3.0 Conclusions 1
4.0 Background Information 2
4.1 Accrued benefit asset 2
4.2 Overiew of OTPP 4
4.3 Accounting for OTPP by the Province 8
4.4 Applicability of PS 3250 as primary source of GAAP 10
5.0 Question 1 – Classification of a pension asset 11
5.1 PSAS 3250 RETIREMENT BENEFITS 11
5.1.1 PS 3250 – Purpose and Scope 11
5.1.2 PS 3250 – Types of pension plans 12
5.2 Conclusion on classification 14
6.0 Question 2 – Recognition of a pension asset for a JDBP 14
6.1 Standards in the PSA Handbook 14
6.2 Concept of Shared Control and Asset Recognition 16
6.3 Concept of Contingent Asset 18
6.4 Conclusion on recognition 19
7.0 Question 3 – Measurement of a pension asset 19
7.1 Standards in the PSA Handbook 19
7.2 Calculating the limit on the carrying amount of an accrued benefit asset 25
7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b)) 26
7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a)) 27
7.5 Other guidance in the PSA Handbook on measurement 32
7.6 Impact of valuation allowance 33
7.7 Comparability of Ontario's accounting for JDBPs with other Provinces 34
7.8 Conclusion on measurement 35

DRAFT

Appendix A – Historial Reporting of pension liability (asset) and expense reported by the Province of Ontario for OTPP 36

Appendix B – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities 38

Appendix C – Overview of a Valuation Allowance on Pension Assets 43

Appendix D – Summary of different valuation methodologies for pension valuations 46

Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP 50

Appendix F – Comparison of definitions of a Joint Defined Benefit Plan and Government Partnership ... 54

Appendix G – History of Surplus Utilization for OTPP 57

Appendix H – Illustrative impact of 100% valuation allowance on OTPP on key indicators for prior 10 years 59

Appendix J – Summary of OTPP Funding Rate Assumptions and Provincial Discount Rates vs. Actual Performance

DRAFT

DRAFT

1.0 Preamble

This document addresses the accounting for the net pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

2.0 Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed on an appropriate application of Public Sector Accounting Standards (PSAS) to net pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP. This position paper addresses the analysis for OTPP. A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, as well as HOOPP and CAAT.

This position paper addresses the following three questions in relation to the accounting for OTPP:

1. For accounting purposes, what type of pension plan is OTPP (i.e. how should OTPP be classified under Public Sector Accounting Standards (PSAS))?
2. As a result of the classification, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?
3. How should the pension asset of OTPP be measured in the Public Accounts of the Province of Ontario?

3.0 Conclusions

The following conclusions were reached regarding each of the above questions:

1. Classification of OTPP - The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTPP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

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2. Recognition of a pension asset for a joint defined benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets be subject to unilateral control. Shared control is relevant and appropriate for a situation involving a joint defined benefit plan. The Province's share of OTPP's pension surplus meets the definition of an accrued benefit asset under Section PS 3250 which requires the Province to recognize its portion of the plan (50% for OTPP).
3. Measurement of a pension asset - The Province has concluded that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surpluses to reduce contributions in the future. The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should be recorded on the books of the Province. The Province recognizes that professional judgement must be applied in deriving an estimate of a potential valuation allowance under Section PS 3250.

4.0 Background Information

4.1 Accrued benefit asset

As described in PSAS, an accrued benefit asset (net pension asset) arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. An Accrued Benefit Asset (AcBA) includes the effect of net unamortized experience gains or losses. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation. OTPP currently has net unamortized experience gains. The following illustration reflects the compilation of the net pension asset (accrued benefit asset) reported on the Province's books for the OTPP.

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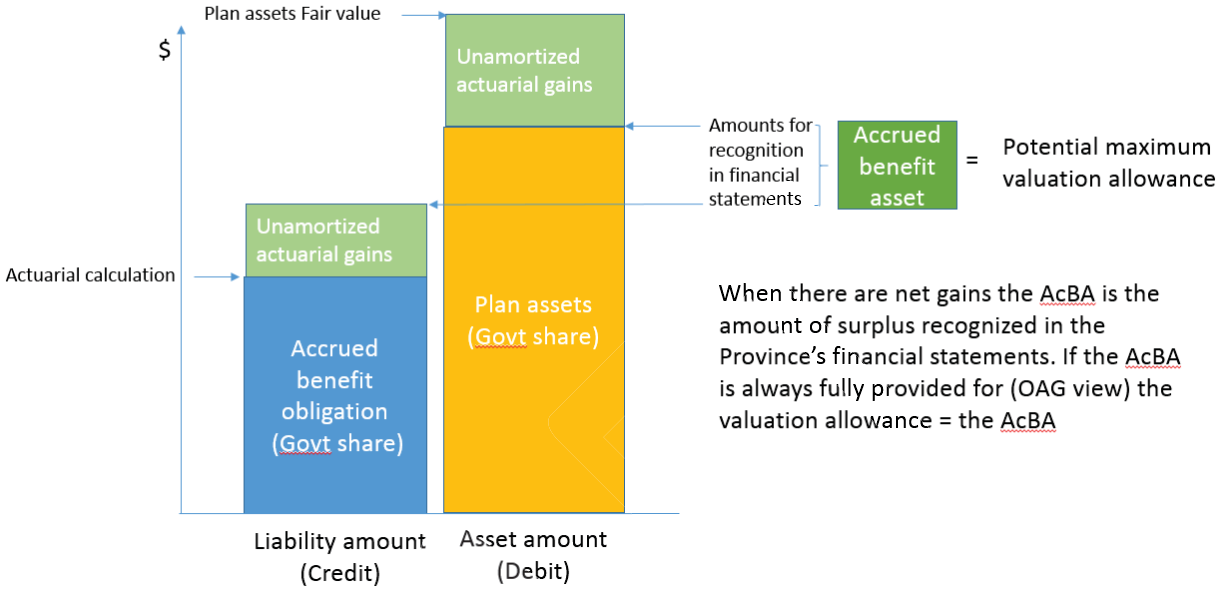
An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



It is important to note that contributions to the plan are based on funding objectives of the plan. In contrast, benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the net asset balance (plan surplus for accounting purposes) in OTPP is an asset to the Province and it is appropriate to reflect it in the financial results in accordance with PSAS. The Province has also concluded that no valuation allowance under PSAS is required against the asset as at March 31, 2016.

The OAG disagrees with the Province's position. Specifically, the OAG has indicated that the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and as such that the Province does not control the assets which the OAG interprets PSAS as requiring. Further, the OAG considers the lack of an enforceable agreement at year-end with the Ontario Teachers' Federation (OTF as the joint sponsor of the plan) that would provide for lower contributions in the future as requiring that a full asset valuation allowance be taken against the net asset under PSAS.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook, addresses the accounting of obligations for employee retirement benefits in government financial statements. Since 2001, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the period is reflected in Appendix A. Unqualified audit reports have been received for each of the years from the

OAG on the Public Accounts. The pension accounting initially adopted by the Province for OTPP had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

In light of the contrasting views on interpretation of PS 3250 to the Province's jointly sponsored pension plans, a regulation was necessary to allow the public service to sign-off on the impact of the OAG's view on accounting for net pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for net pension assets of its two jointly-sponsored pension plans (OTPP and OPSEUPP) for 2015-16 in a manner that is consistent with the interpretation proposed by the Auditor General. The change in accounting treatment for 2015-16 resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the 2015-16 annual deficit of $1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's interpretation, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt and would have only been appropriate if the government had agreed with the Auditor General's interpretation of PSAS which would have acknowledged errors in the prior year's comparative results.

4.2 Overview of OTPP

OTPP is a jointly sponsored pension plan[1] (JSPP) as defined in the *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario),* R.S.O. 1990, c. T.1. The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the OTF (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

[1] **Jointly sponsored pension plans**
(2) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:
a. It provides defined benefits.
b. The defined benefits are contributory benefits.
c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. OTPP is governed by:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for OTPP ;
d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
e) A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP); and
f) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:
1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. [2]
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. [3]
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. [4]

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under OTPP:

> *5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.*

Despite this general principle, under the TPA the Province is required to make additional contributions to OTPP in the event that there are insufficient assets to make required payments out of the plan in any

[2] PBR, subsection 3.1(1).
[3] PBR, subsection 1.3.1(3).
[4] PBA, subsection 1(2) and subsection 55(4).

particular year. [5] This clause has been interpreted as a short term solvency protection clause, rather than a clause that transfers substantive residual risk to the Province, as the rest of the arrangement is structured such that the risk of these payments is minimal and the risks of the long term funding of the plan must still be equitably shared. The Province is also permitted to make additional contributions in respect of a solvency deficiency[6] (although, as noted above, solvency funding is not required under OTPP). Notwithstanding that subsection 5(1.1) of OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under OTPP since OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917). [7] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Joint governance and cost sharing form two of the core features of OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the sponsors. In this regard, the Partner's Agreement requires the sponsors to negotiate and agree upon decisions relating to surplus or deficit utilization, which currently is outlined in the FMP. [8] The FMP indicates that deficits (or surpluses) may be addressed through increases (decreases) to the contribution rates, lowering (increasing) the amount of indexation and/or other decreases (increases) in benefits. While not binding upon the sponsors, as the sponsors can change the FMP at any time, any changes are required to have the mutual consent of both sponsors. Accordingly, the sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the sponsors are included in appendix B. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both

[5] TPA, subsection 5(3).
[6] TPA, subsection 5(7).
[7] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf As noted above, for the period from January l, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20% versus 10.4%/12%, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.
[8] See, for example, Section 3.09 and 3.11 of the FMP.

upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the sponsors regarding how any surpluses are to be utilized. We note that the sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the sponsors to agree upon the manner in which surplus is to be utilized, neither sponsor has a legally enforceable right to unilaterally utilize surplus in OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. Negotiations on the use of the surplus occur as specified in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding valuation shows a funding surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is to be resolved prior to filing the funding valuation.

4.3 Accounting for OTPP by the Province

Since fiscal year 2001-2002, the Province has recorded a net pension asset for OTPP on the Statement of Financial Position in accordance with Section PS 3250. A net pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus recognized investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense (see illustrative examples in Appendix J). The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

The various valuations prepared for the OTPP – i.e. those for the Province's public accounts, those for the funding valuation and those for the OTPP stand-alone financial statements, can create confusion when assessing the Province's accounting. Therefore, this next section sets out the differences in those valuations.

With regards to any comparisons between surplus or deficit amounts reported in the Province's financial statements verses OTPP's financial statements or funding reports, it is important to acknowledge the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

> *.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.*
>
> *.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. …*
>
> *.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.*

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Section PS 3250 paragraph .051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: “Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons…”

OTPP’s most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website (https://www.otpp.com/home). The Province’s relative portion of this surplus would be $6.6 billion. OTPP’s published stand-alone financial statements showed a deficit for accounting purposes of $1.8 billion in its financial statements as at December 31, 2015, for which the Province’s portion would be a deficit of $900 million. The following background helps to clarify the reasons for these different results. OTPP’s financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook (“Part IV”), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes.

Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a “funding valuation” on a going concern basis also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP’s accounting valuation and the Province’s accounting valuation is shown in Appendix D.

Specifically, the discount rate used to value the obligations of the plan has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money results in the value the promises made today that will be paid out in the future cheaper. OTPP uses a discount rate based on corporate/government bond rates in its financial statements, as permitted by Part IV. The Province uses a discount rate based on the expected asset return, as permitted by PSAS. The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets then simple corporate bonds. Both a discount rate based on the expected asset return and one based on corporate/government bonds are “best estimate” rates; they must both be based on management’s best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more “right” or “wrong” relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

Typically the funding discount rate used for the funding valuation falls between the bond discount rate and the expected asset return, but it differs in that it does not purport to be the "best estimate" of the discount rate, rather it is designed to indicate the contributions that are required to fund the promised benefits with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta there are seven plans which prepare their financial statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix E. The analysis demonstrates that in their stand-alone financial statements, a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is actually in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability for financial reporting purposes.

The above analysis explains how different discount rates impact the net surplus/deficit reported on OTPP's financial statements, OTPP's funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the 50% of the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under PSAS does not impact the net pension asset amount or pension expense reported by the Province for OTPP.

To further clarify, that there is a deficit reported in OTPP's stand-alone financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, **if** OTPP had chosen (as an acceptable accounting policy choice) to use a discount rate more consistent with its counterparts in other jurisdictions (see Appendix E) such as a discount rate based on an expected asset return which would be closer to that used by the Province, it would eliminate much of the existing difference between the reported net surplus/deficit amounts in OTPP's stand-alone financial statements and the Province's share of OTPP reported for accounting purposes in the Province's Public Accounts.

4.4 Applicability of PS 3250 as primary source of GAAP

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of GAAP are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of generally accepted accounting principles (GAAP) that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity

consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to shared control, as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- CONTINGENT ASSETS, Section 3320 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception of ASSETS, PS 3210 and CONTINGENT ASSETS, Section PS 3320 which are more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

5.0 Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSAS under Section PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

5.1 RETIREMENT BENEFITS PSAS 3250

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

> *.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.*

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

> *.003 Obligations for **retirement benefits** result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.*

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

5.1.2 PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

> *A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*
>
> *(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;*
>
> *(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;*
>
> *(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and*

> *(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.*
>
> *The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.*

Additional guidance on identifying joint defined benefit plans (JDBPs) is in Section PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP as follows:

> *.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.*
>
> *.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.*

It should be noted that the definition of a JDBP under Section PS 3250 is not the same as the definition of a JSPP under the PBA, although there are some overlapping concepts between the two. A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. The Province has concluded that OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. OTPP is a contractual arrangement between the Province and OTF in which:

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

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 10(1)3 of the TPA for example).

The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a JDBP.

The classification of OTPP as a JDBP for accounting purposes [and a JSPP under the PBA] by the Office of the Provincial Controller has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

5.2 Conclusion on classification

The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTPP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

6.0 Question 2 – Recognition of a pension asset for a JDBP

6.1 Standards in the PSA Handbook

RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

> *.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]*
>
> *.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially*

> *curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.*

Section PS 3250 paragraph .081 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a shared control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to shared control and not unilateral control Section PS 3250 paragraph .081 would have made this clear. This paper discusses the question of measurement separately in Question 3.

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250 paragraphs .016 to .017:

> *.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]*
>
> *.017 The components of the retirement benefit liability are:*
>
> > *(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;*
> >
> > *(b) plan assets, if any; and*
> >
> > *(c) unamortized actuarial gains and losses.*

As OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the net impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an "Accrued benefit asset" (ABA). An ABA is defined in Section PS 3250 as follows:

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

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan; the

ABA is calculated by reference to accrued benefit obligation and plan assets, both determined based on the best estimate assumptions and the methodologies required by with Section PS 3250 for these items. As noted above an ABA is defined as the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan, this is the government's accumulated cash contributions less the government's share of the current and prior years' benefit expenses that are attributable to the government under the JDBP. The Province's portion of OTPP resulted in an ABA of $10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (and the interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Section PS 3250 paragraph .080 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph .050 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as the limit could result in an ABA being measured at anything from $nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .050-.059 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (when the accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the Province does not share equitably in the risks and rewards of OTPP because they bear only the risk of increased liabilities without being able to bear any rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a JDBP.

6.2 Concept of Shared Control and Asset Recognition

Included in the definition of a JDBP is the concept of shared control. Points (b) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of shared control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under Section PS 1000 would suggest that the government must control the economic resource and access to the future economic benefits. Since shared control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under shared control and specifically for plan assets of JDBPs for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with JDBPs and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for JDBP assets, no further source of PSAS guidance need be considered.

- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, shared control is sufficient for asset recognition.

- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. With the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that the Public Sector Accounting Board (PSAB) did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix F to this paper, and further support Section PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (Section PS 3060 paragraph .20), yet the accounting model required by Section PS 3060 for non- GBPs[9] is that of proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership. JDBPs (or pension plans in general) are not specifically excluded from the scope of Section PS 3060 (Section PS

[9] Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

3060 paragraph .05 lists a number of exclusions from its scope and pension plans are not noted), however some may interpret that they are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (Section PS 3060 paragraph .06 footnote 3). The Province of Ontario and OTF, which represents employees of the Province (Teachers), share control of OTPP. This interpretation indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to shared control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is shared control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a JDBP. In other words, Section PS 3250 is a primary source of GAAP and provides sufficient and complete guidance on how to account for assets related to JDBPs.

6.3 Concept of Contingent Asset

CONTINGENT ASSETS, Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset (Section PS 3320 paragraph .04). It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, being the impact of cumulative contributions and benefit expense. The fact that shared control exists with regards to access to the assets of the plan does not create additional uncertainty that would impact asset recognition under PSAS. The Province anticipates that in a broad sense, any OTPP surplus would be shared in an "equitable manner" under the terms of the arrangement, and this is enabled through the ability to negotiate the utilization of the surplus including the ability to prevent the utilization of the surplus in a manner that does not benefit the Province. This expectation is further supported by past history of surplus utilization (see Appendix G). The method, extent and timing during which the Province will obtain the expected future benefits (contributions reductions vs increase in benefits) is not certain. However Section PS 3320 also states "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof" (Section PS 3320 paragraph .07). Based on past history of surplus utilization for OTPP and based on the constating documents, expected future benefits for the Government are present. The uncertainty as with many types of assets relates to measurement uncertainty which will be discussed below.

6.4 Conclusion on recognition

Therefore the Province has concluded that PSAS supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, discussed in Question 3 of this position paper.

7.0 Question 3 – Measurement of a pension asset

7.1 Standards in the PSA Handbook

Section PS 3250 addresses how to measure a pension asset. This is a two-step process for OTPP. Firstly the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset when it is a net asset (a Debit) amount. When the resulting amount is an asset, the standard requires a second step to test that the asset is not impaired. It should be noted that impairment testing in some form is required for all assets recognized under PSAS standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset. The amount that is tested is the "adjusted benefit asset". When there are net unamortized gains the ABA is equal to the adjusted benefit asset. When there are net unamortized losses the ABA is reduced by those net unamortized losses to calculate the adjusted benefit asset. A graphical illustration of the calculation of the Accrued Benefit Asset (AcBA) and the Adjusted Benefit Asset (AdBA) are shown in appendix C. Section PS 3250 paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA or adjusted benefit asset. Note that for OTPP the accrued benefit asset equals the adjusted benefit asset as there are net unamortized actuarial gains.

Section PS 3250 paragraphs .050-.059 are included here for completeness and ease of reference:

> ***Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)***
>
> *.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]*

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in Section PS 3250 paragraph .050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to

calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Section 3250 paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an ABA and why a valuation allowance may be needed, rather than detailing the test to be applied. Part of this justification is to note that that an ABA may be impaired when "the government is not entitled to benefit from [the ABA] fully". Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

Section PS 3250 paragraph .059 gives additional guidance to apply when an entity contemplates realizing future benefits <u>through a surplus withdrawal</u>: "A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal". This introduces the concept of a legally enforceable right but only in the context of a government's withdrawal of surplus and <u>not in the context of contribution holidays</u>. If the standard setters had intended legal enforceability

to be the test throughout the standard, they would not have raised it only in the context of a withdrawal of surplus, but as a more fundamental notion in the guidance on expected future benefit. [10]

It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTPP is by nature a JDBP subject to shared control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Section 3250 paragraph .052 does not state that being "entitled to benefit" means having a legally enforceable right as at the reporting date to take contribution holidays. When considering the ability to realize expected future benefits under Section PS 3250 paragraph .052, the Province's legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts. Pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". Expected does not equate to certainty or the absence of uncertainty (Section PS 3250 paragraph .056).

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with (which includes the option of parking the surplus in the contingency reserve) so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words

[10] Per page 10 of the October 2, 2016 dated letter from Deloitte LLP addressed to Ms. Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat

it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Further, Section PS 3250 paragraph .055 indicates "The objective of the standard in Section PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of principles and it is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate[11]:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) from exceeding the amount of contributions paid by or on behalf of active members in respect of credited service for the year[12] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

[11] Per pages 3 to 6 of the September 20, 2016 dated letter from Osler, Hoskin & Harcourt LLP addressed to Len Hatzis and Paul Kaufman, Treasury Board Secretariat Legal Services
[12] TPA, subsection 5(1.1)

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[13])[14], and the requirement to negotiate and agree (or in the absence of agreement, mediate and/or arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, reduced indexation for current retirees was matched by an increase in payments by the Province for the first 50% of the indexation reduction. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners’ Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would

[13] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.
[14] FMP, section 6.03

engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS 3250 paragraph .052.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the expected future benefit as the sum of:

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

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

Each of these is discussed separately.

7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates “The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal.”

The TPA for OTPP does not specify a method for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

> 10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:
>
> 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

> Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that"...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution. The Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus.

7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a))

Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per Section PS 3250 paragraph.081 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

Section PS 3250 paragraph .055 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the pension asset value to be recorded in the accounts. For example, if the pension asset were $150, but the expected future benefit calculated as described above were $100, a valuation allowance of $50 would be recorded against the pension asset and the asset recorded in the government's financial statements would be reduced to $100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significant diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for

judgment in the above calculation is in this second part of the calculation. Note that consistent with the calculation of the expected future accruals for service, no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (Section PS 3250 paragraph .056(a)). There is no further guidance in Section PS 3250 as to how the calculation of minimum required contributions should be performed and what restrictions or parameters should be factored into this calculation. Typically for defined benefit plans minimum contributions include those that are required by the pension regulator to be made for funding. However, minimum contributions regardless of any surplus, may be required by plan text, legislation or other agreements with employees. For OTPP a key element of judgment is determining what contributions are required by the current plan arrangements "regardless of any surplus". The constating agreements for OTPP require that the parties negotiate every 3 years as a minimum, and when there is a funding surplus.

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements (there is no minimum contributions stipulated in the Plan text, legislation or Partners' Agreement) including the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.
- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be

argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (Section PS 2130 paragraph .03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in Section PS 2130 paragraph .13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external consultants to conduct asset ceiling tests to assess the requirement for a valuation allowance against the $10.1 billion of net pension assets reported by the Province for OTPP . The results of those reports are summarized in Table 1 below.

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current	$12.9	The ITA surplus limit is reached at

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year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.		the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

For purposes of OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

In addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between $19.9 Billion and $22.3 Billion); therefore indicating that no valuation allowance is required.

The determination of the minimum contribution levels required as input to the calculation of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans,

by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty' or the absence of uncertainty.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (Section PS 3250 paragraph .042) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (Section PS 3250 paragraph .041). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. Section PS 3250 paragraph .057 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on plan assets, which is one of the acceptable references suggested on Section PS 3250 paragraph .044.

The OAG and the Province differ in their interpretation regarding whether it needs to be "expected" that the Province will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in Section PS3250 paragraph .059. The Province considers that it needs to be expected that future economic benefits are to be obtained reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to benefit from a plan surplus.

7.5 Other guidance in the PSA Handbook on measurement

MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the financial statements. Section PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

> *.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would*

be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.

The estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the net pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is an acceptable alternative under PSAB and consistent with rates followed by other senior Canadian governments. Actual historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets reported in the Public Accounts. Appendix J includes a comparison of the OTPP funding rate assumptions, the Provincial discount rate for OTPP and the actual performance of OTPP from 2005 to 2016. Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP.

7.6 Impact of valuation allowance

The current Auditor General's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of Section PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no net pension asset should be recognized in the Province's Public Accounts for JDBPs until the joint sponsors agree to a change in the plan text to provide for unilateral authority to the Province to access surplus or reduce future contributions or the sponsors enter into an agreement by year-end enabling the government to take a contribution holiday. In the absence of meeting either the criteria set out by the Auditor General, any ABA would therefore be fully provided for through a valuation allowance, impacting each year's

statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in which increased funding is made and also higher when poor investment returns create actuarial losses that have not yet been amortized into the statement of operations. These examples are illustrated in Appendix C.

For information purposes, refer to Appendix H for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS. Of particular note is the impact in 2008 when the deficit would have been lower by $3 billion in a year when pension asset values fell significantly because of the financial crisis.

7.7 Comparability of Ontario's accounting to other Provinces defined benefit plans

Not all of the jurisdictions noted in this comparative overview have joint defined benefit plans. Furthermore, the specific terms and conditions of any jurisdiction's plans will determine the appropriate accounting under PSAS. This information is provided for reference purposes only and has no direct impact on the Province's accounting treatment for OTPP or other defined benefit plans on the Province's financial reports.

The Province of British Columbia does have a jointly sponsored pension plan. Appendix I provides details from a legal opinion prepared by lawyers, Koskie Minsky which compared access to the pension surplus of OTPP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTPP.

The Province of Manitoba has a multi-employer defined benefit plan for their healthcare employees. The Province neither records the net pension liability or the net pension asset on their financial statements as the Province is not a direct sponsor of the plan. The Province of Manitoba appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

The Province of Nova Scotia's Public Service Superannuation Plan transitioned to a joint governance structure in April 1, 2013. Due to the wording of the legislation, the Province has determined it no longer has any residual liability for the plan, and therefore has no entitlements to its assets. The legislation and funding policy alleviated the Province from any responsibility to fund shortfalls or to benefit from fund surpluses. As a result, the Province no longer records a net pension asset or liability in their financial statements. The Province of Nova Scotia therefore appropriately reduces the accrued

benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

Quebec has two joint sponsored plans: Government and Public Employees Retirement Plan, and Pension Plan Management Plan. These plans are structured such that employee and employer contributions are in separate funds. Currently both of these plans are in net pension liability positions.

In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the Province's access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. These plans are shared risk plans that are governed by a Board of Trustees to which the Province has appointed one-half of the members. The Plans are jointly funded by employees and the Province. These target benefit plans target retirement benefits as opposed to guaranteeing them. Two of the four target benefit plans are in a net asset position, where a full allowance is taken by the Province against the net pension asset. The Province of New Brunswick appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 (there is no specific guidance on target benefit plans in PSAS) as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

As noted above, the constating documents for pension plans in other provinces are different than those of OTPP, therefore caution should be exercised when trying to compare accounting among the jurisdictions, or others.

7.8 Conclusion on measurement

As discussed, there is significant professional judgement and estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the JDBP arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of various actuarial assessments for the asset ceiling test date, no valuation allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

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Appendix A – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**282**	**(336)**	**(791)**	**(1,233)**	**(1,691)**	**(2,126)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	**(405)**	**29**	**221**	**241**	**250**	**305**
Expense increase (reduction) in valuation Allowance						
Pension Expense after valuation Allowance	**(405)**	**29**	**221**	**241**	**250**	**305**

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772
Adjustment for different year ends	529	650	687	764	774
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220
Pension liability (Asset) at March 31 Reported before any valuation	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
Valuation Allowance	**-**	**-**	**-**	**-**	**-**
Pension Liability (Asset) after valuation Allowance	**(2,562)**	**(3,016)**	**(4,027)**	**(5,005)**	**(5,799)**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	998	1,051	1,118	1,175	1,217
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(146)	38	34	30	(4)
Pension expense before valuation	**359**	**354**	**60**	**266**	**523**
Expense increase (reduction) in valuation Allowance					
Pension Expense after valuation Allowance	**359**	**354**	**60**	**266**	**523**

DRAFT

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
$ Millions					
Fiscal Year	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
50% Pension Liability (Asset) Reflecing Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**(10,147)**
Valuation Allowance	**-**	**-**	**-**	**-**	**10,147**
Pension Liability (Asset) after valuation Allowance	**(6,623)**	**(7,124)**	**(7,711)**	**(8,667)**	**-**
50% Pension Expenditure Reflecing Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	**519**	**892**	**875**	**569**	**118**
Expense increase (reduction) in valuation Allowance					**1,480**
Pension Expense after valuation Allowance	**519**	**892**	**875**	**569**	**1,598**

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Appendix B – Guidance in the various constating documents for OTPP relating to use of the surplus and the sharing of responsibilities

Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Pension Act and to the Partners' Agreement and Funding Management Policy in order to determine how ongoing surplus is dealt with under the OTPP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners (sponsors) can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners (sponsors) in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the PBA, appointing the OTTP Board, and defining the role of the Board. Section 10 requires that the partners meet and negotiate changes to the plan every three years. Section 19 of the Partners Agreement sets out the responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the sponsors to the OTPP have the authority to utilize ongoing surpluses. Section 19 also requires the Board to prepare a valuation at least every three years to comply with the PBA.

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Paragraph 57 requires a valuation prepared for filing with the Superintendent of Financial Services to be actuarially balanced so that the present value of benefits and costs to be paid out of the fund (plus any contingency reserve) be equal to the present value of sponsor contributions. An actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation. The partners shall establish a committee to deal with accounting matters relating to joint pension plan sponsorship and agree to contact the Public Sector Accounting Board to raise issues of concern to the partners.

Paragraphs 58 to 60 indicate the actions to be taken based on the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario. If the valuation indicates a need to increase the contribution rate, the partners need to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the valuation indicates the contribution rate can be decreased, the actuarial gain can be applied to reduce the payments required to liquidate any unamortized balance of a solvency deficiency.

The process governing the use of ongoing surpluses by the sponsors is set out in the Partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every three years (section 73).

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

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

Section 77 of the Partners' Agreement anticipates that the sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

If the sponsors cannot agree on the changes required to the Plan, a mediator is appointed to assist the sponsors in coming up with an agreement. The mediator is responsible for submitting a report to the sponsors on his or her views on the positions of the partners and provide a recommendation to the sponsors. If the sponsors do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one

representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented.

Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

The mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the sponsors do not agree to file the valuation, then the sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

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

Funding Management Policy (FMP)

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP. The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).

ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).

iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the sponsors are unable to agree the mediation process set out in the

Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

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

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

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the sponsors mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners; Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the

arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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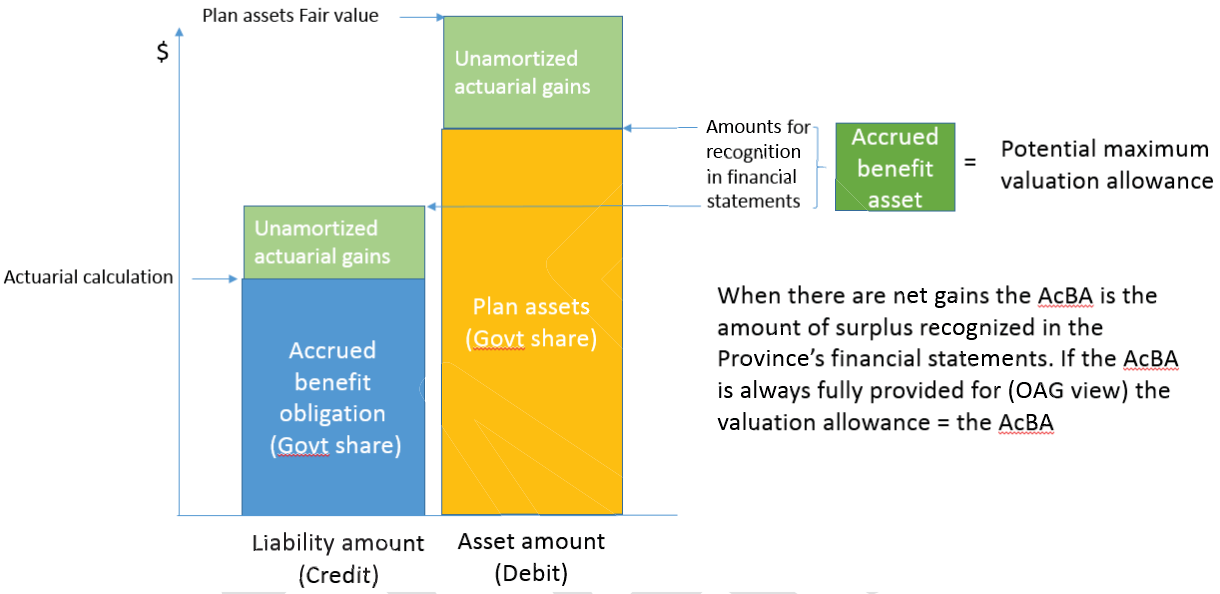
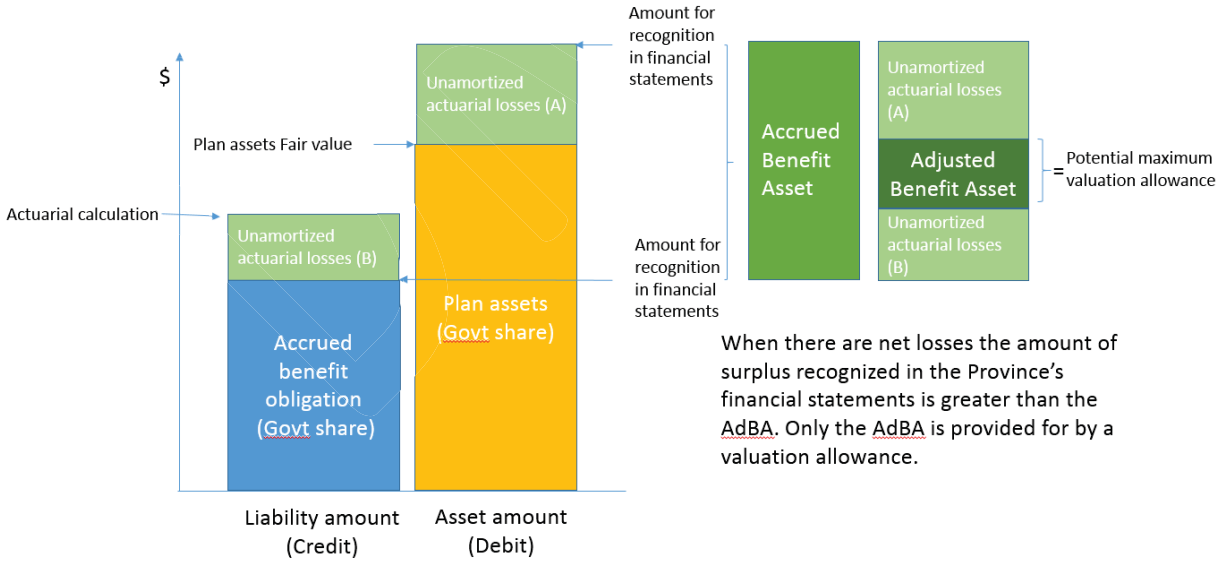
Appendix C – Overview of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.
Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



When there are net gains the AcBA is the amount of surplus recognized in the Province's financial statements. If the AcBA is always fully provided for (OAG view) the valuation allowance = the AcBA

An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses

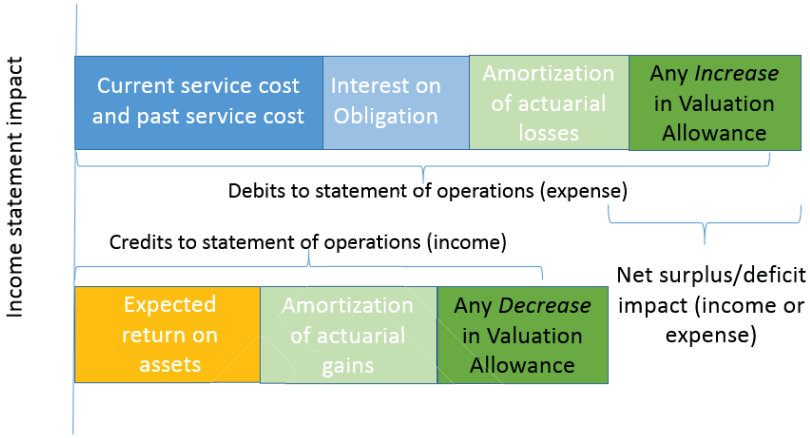


When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the AdBA. Only the AdBA is provided for by a valuation allowance.

Components of Expense

The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

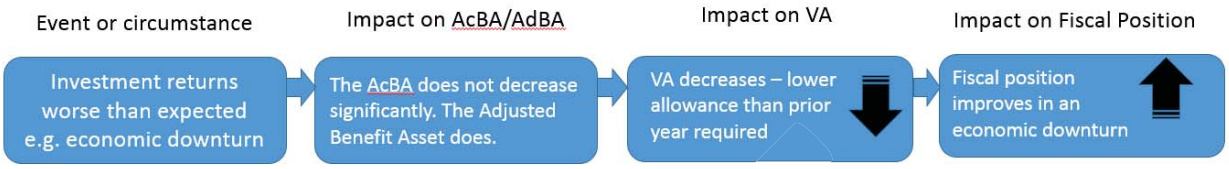
Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted [1]

Event or circumstance	Impact on ABA	Impact on VA	Impact on Fiscal position
Contributions in excess of current service cost – i.e. additional funding	Plan assets increase more than the ABO	VA increases to reduce ABA to zero	Fiscal position worsens with additional funding
2015-2016 example: Contributions of $1,812M exceeded other elements of pension expense by $1,514M	2015-2016 example: Additional contributions increase plan assets. AcBA increases by $1,514M	2015-2016 example: AcBA increase of $1,514M results in an increase to the VA of $1,514M	2015-2016 example: Deficit increases by $1,514M. The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted [1]



Plan assets fair values significantly lower in one year.
Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years.

The AcBA is based on the higher, smoothed value of plan assets and does not change significantly. However the actuarial losses are subtracted from the AcBA to calculate an AdBA, which is smaller than the AcBA.

Prior year allowance was based on AcBA (no net amortized actuarial losses). Current year is based on AdBA because there are unamortized actuarial losses. The AdBA is smaller than the AcBA because of the increase in unamortized losses. Therefore the VA is reduced correspondingly.

Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact the statement of operations in future years.

A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year.

[1] Impact of change, all other elements being held constant.

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Appendix D – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV of the CPA Canada Handbook – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on the financial position of the plan as of the valuation date on a funding basis in accordance with the Pension Benefits Act, the Income Tax Act as well as generally accepted actuarial practice.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits, pension obligations and the financial position of the plan as of the valuation date in accordance with Part IV of the CPA Canada Handbook (Part I of the CPA Canada Handbook (i.e. IFRS) is referred to where Part IV is silent).	Measure and report the obligation for employee retirement benefits, attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on the financial position of the plan in accordance with PSAS.
Actuarial cost method	Modified aggregate method (level cost method)	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	PSAS allows choice regarding the valuing of plan assets at market-related value. Market -related values, are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied

	moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values For funding valuation, the plan uses the actuarial value of assets which are the market value of assets adjusted for investment gains / losses spread over a period of 3 years.		consistently. The Province has chosen to value OTPP's plan assets by adjusting to market value over a period of 5 years in accordance with PSAS.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work	Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on	Not specified. However two methods are specifically acknowledged in PSAS – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. [15] The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term

[15] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

	For the purpose of the funding valuation, the plan uses a discount rate which is based on market related rates averaged over a period of 36 months. The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015 was 4.85%.	bonds issued by the Province of Ontario. As illustrated in Appendix E, this is inconsistent with other Provincial pension plans in Canada which use as a discount rate, the long-term rate of return on plan assets. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	return on plan assets. The discount rate used by the Province to account for OTPP in their March 31, 2016 financial statements was 6.25%. This is the long-term rate of return on plan assets which is in accordance with PSAS.
Independent verification		OTPP's financial statements are audited by Deloitte LLP.	The Province's financial statements are audited by the OAG.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.		
Demographic assumptions	Valuations use consistent demographic assumptions (best estimate by the OTPP Board).		Under PSAS, the Province is not required to prescribe demographic assumptions.
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.		The Province prescribes the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as

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		well as compensation policies issued from time to time by the government and the historic increases granted.

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Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

1

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	ON 1	3.25%	Market rate of Provincial Bonds

2

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	ON 2	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	ON 3	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	ON 4	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	ON 5	5.95%	LT return on plan assets
Alberta					
Teachers' Post-1992 Pension Plan	6.80%	LT return on plan assets	AB 1	7.00%	LT return on plan assets
Universities Academic Pension Plan	6.00%	LT return on plan assets	AB 2	5.95%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)					
Local Authorities Pension Plan	5.60%	LT return on plan assets	AB 3	5.60%	LT return on plan assets
Public Service Pension Plan	6.00%	LT return on plan assets	AB 4	6.00%	LT return on plan assets
Management Employees Pension Plan	6.10%	LT return on plan assets	AB 5	6.10%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.40%	LT return on plan assets	AB 6	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.00%	LT return on plan assets	AB 7	6.00%	LT return on plan assets
Special Forces Pension Plan	5.90%	LT return on plan assets	AB 8	5.90%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan					
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.50%	LT return on plan assets	SK 1	6.50%	LT return on plan assets
British Columbia					
Public Service Pension Plan	6.50%	LT return on plan assets	BC 1	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	BC 2	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	BC 3	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	BC 4	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec					
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	QC 1	6.40%	LT return on plan assets less inflation
Newfoundland					
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	NF 1	5.80%	LT return on plan assets
Nova Scotia					
Nova Scotia Public Service Superannuation Plan (PSSP)	6.70%	LT return on plan assets	NS 1	6.15%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	NS 2	6.25%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets
New Brunswick					
Provincial Court Act and Provincial Court Judges Pension Act (JUDGE)	6.15%	LT return on plan assets		No individual financial statements	
Pension Plan for Management Employees of New Brunswick School Districts (Sch-Mgt)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLTS)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for Full-Time CUPE 2745 Employees fo New Brunswick School Districts (CUPE 2745)	6.05%	LT return on plan assets		No individual financial statements	

7

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
New Brunswick					
NHMgt, NH-G&S, NH-N&P (i.e NH Nursing Home)	6.20%	LT return on plan assets		No individual financial statements	
CUPE Employees of New Brunswick Hospital (shared risk)	5.45%	LT return on plan assets		No individual financial statements	
Certain Bargaining Employees of New Brunswick (shared risk)	5.70%	LT return on plan assets		No individual financial statements	
Public Service Shared Risk Pension Plan	6.00%	LT return on plan assets		No individual financial statements	
New Brunswick Teachers' Pension Plan (shared risk)	6.15%	LT return on plan assets		No individual financial statements	

8

Appendix F – Comparison of definitions of a Joint Defined Benefit Plan and Government Partnership

The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, Section PS 3060 paragraph .06. Section PS 3060 was introduced into the Public Sector Accounting (PSA) Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A **government partnership** is not a government organization but is a contractual arrangement [2] between the government and a party or parties outside of the government reporting entity [3] that has all of the following characteristics:	A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners co-operate toward achieving significant clearly defined common goals;	(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;	Consistent in concept with the definition of a GP focusing on investments in the partnership and the

			definition of a JDBP focusing on contributions into the plan.
Criteria 3	(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and	(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.	(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the	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.	

DRAFT

	government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

In addition to consistent wording, the concepts in the definitions of a government partnership and a JDBP are similar.

While similar in concept and wording, the definition of a JDBP is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including JDBPs.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates "*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]". This principle is consistent with the proportionate consolidation method included in Section PS 3060.

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Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from 1990 to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Contributions by teachers increased by 1 percentage point (from 7.9% to 8.9%) effective January 1, 1990 per legislation.	Legislated an increase in matching contributions (from 7.9% to 8.9%) effective January 1, 1990 and responsibility to finance the initial unfunded liability through a series of special payments	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to	$0

DRAFT

			reduce the value of remaining special payments	
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

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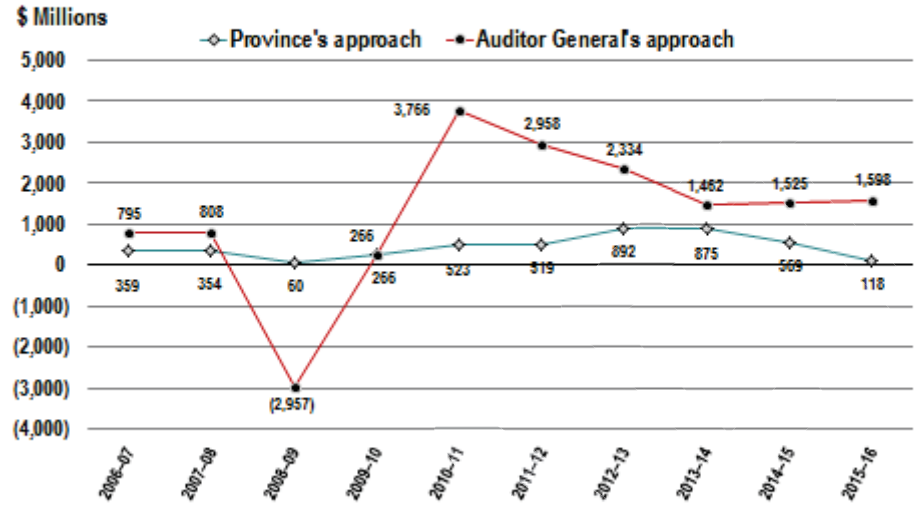
Appendix H - Illustrative impact of 100% valuation allowance on OTPP on key indicators for prior 10 years

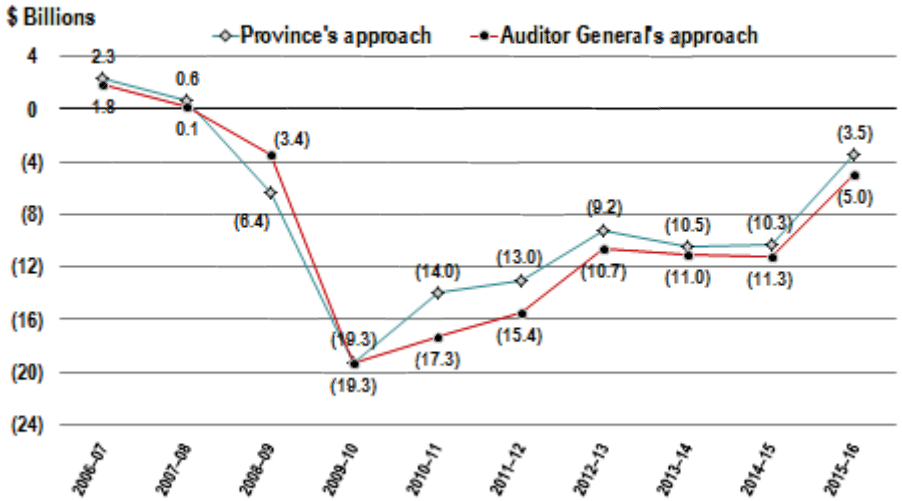
OTPP expense comparison — 10-year

Chart 1



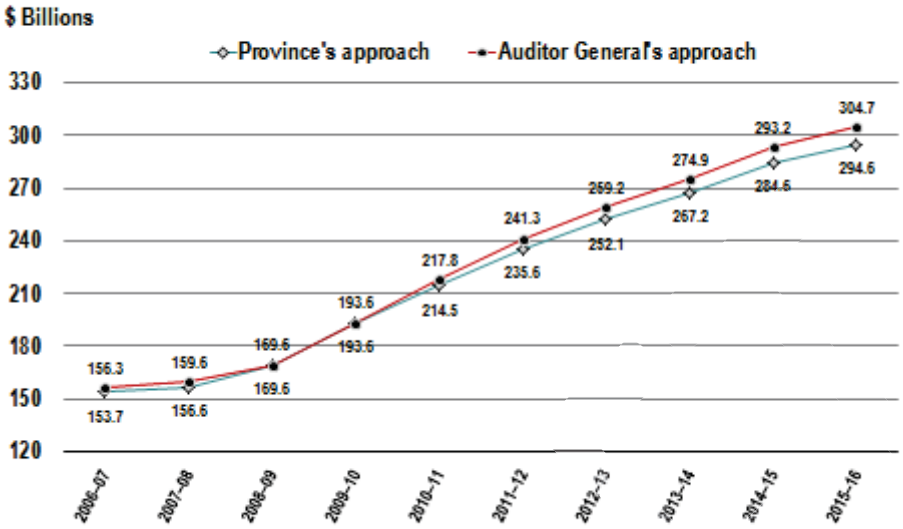
Surplus/(deficit) comparison — 10-year

Chart 2



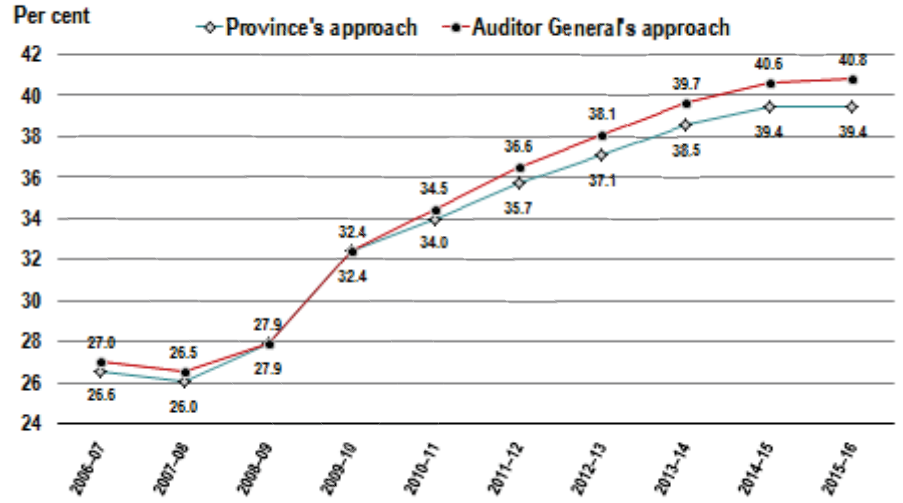
Net debt comparison — 10-year

Chart 3



Net debt-to-GDP comparison — 10-year

Chart 4



Appendix I – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the

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event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan (''PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

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In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[16] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect

[16] It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

to ongoing PSPP surpluses

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the

same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.
1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

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B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize 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.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

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Appendix J – Summary of OTPP Funding Rate Assumptions and Provincial Discount Rates vs. Actual Performance

Ontario Teacher's Pension Plan
Rate Comparison

	OTPP Annual Performance	OTPP Filed Discount Rate *	Province Economic Assumption for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

* The plan does not file a valuation annually. Under the Pension Benefits Act, plans must file at least every three years

Ontario Teacher's Pension Plan
Plan Performance

2015	13.0%
2014	11.8%
4 - Year	12.2%
10- year	8.2%
Inception	10.3%

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Re_ Pronunciation .rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: Re: Pronunciation
Date: Thursday, September 07, 2017 12:34:34

No rush, just want to make sure I'm at the right place :)

Uros Karadzic
Partner, People Advisory Services
Office: +1 416 943 2087
Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Date: September 7, 2017 at 12:33:43 PM EDT
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Pronunciation

On our way down

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Uros Karadzic
Sent: Thursday, September 7, 2017 12:33 PM
To: Hosick, Sarah (TBS)
Subject: Re: Pronunciation

Btw I'm in the lobby at Frost

Uros Karadzic
Partner, People Advisory Services
Office: +1 416 943 2087
Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

From: Uros Karadzic <uros.karadzic@ca.ey.com>
Date: September 7, 2017 at 12:31:28 PM EDT
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: Re: Pronunciation

Yes - phonetically it's Oo-rosh Karajik

Uros Karadzic
Partner, People Advisory Services
Office: +1 416 943 2087
Mobile: +1 416 970 2087
uros.karadzic@ca.ey.com

From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Date: September 7, 2017 at 12:23:09 PM EDT
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Pronunciation

Hi Uros,

We can chat when I see you shortly, but in case you see this. – can you send me how to pronounce your first and last name phonetically for the moderator?

Thanks
Sarah

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Re_ Report and exec summary finished.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Report and exec summary finished
Date: Monday, January 23, 2017 23:10:11

Sorry about that.
Panel2017

Sent from my iPhone

On Jan 23, 2017, at 6:06 PM, Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca> wrote:

> Hi Lucy
>
> Can you please send the pw for the documents?
>
> Thanks
>
> Sarah
>
> **Sarah Hosick**
>
> Executive Assistant & Special Policy Advisor (A) | Office of the Provincial Controller Division
>
> Office of the Treasury Board | Treasury Board Secretariat
>
> 7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
>
> 416-212-8512

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: January-23-17 4:22 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Patricia O'Malley; Hosick, Sarah (TBS)
Subject: RE: Report and exec summary finished

Hi Cindy,

Please see attached the final version of the Report and the Executive summary.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: "Patricia O'Malley" <plomalley@outlook.com>
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>
Date: 01/23/2017 04:18 PM
Subject: RE: Report and exec summary finished

Hi Tricia – thanks for the update. If you send the report to myself and copy Sarah Hosick, we will get it to the appropriate folks.

Cindy

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: January-23-17 11:13 AM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Lucy Durocher
Subject: Report and exec summary finished

Hi Cindy

Both are done and final versions are signed off by all Panel members. Lucy will send to Communications today to begin translation etc. Nelson has provided the email addresses as he is ill and not in the office.

Also wanted to check with you who else should get copies at this point. I assume you and Karen should. If so, Lucy can forward at the same time.

Not sure if you have been advised about panel member schedules. Paul is available only week of Feb 6. Murray is in Asia until after mid-Feb. He can participate by phone in morning meetings. Uros and I are fairly open and flexible.

Best
Tricia

Tricia O'Malley
Mobile +1(416) 570 1924

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Re_ security clearance.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: robert.urbanoski@ca.pwc.com [robert.urbanoski@ca.pwc.com]
Subject: Re: security clearance
Date: Monday, October 24, 2016 09:17:57

Hi Shyrose,

I was not aware that a security check was going to be performed by a third party.

I did receive an e-mail from Triton Canada Inc, however because I was not aware that a security check request would be coming from a company Triton via e-mail I thought it was a Phishing e-mail as it asks for detailed personal information and also a credit card number and did not specifically reference the "application" to which the request relates. This is not the kind of information that I give in response to unexpected e-mail requests so I had reported it to our internal Phishing mailbox.

I deleted the e-mails, so it may be a good idea to ask Triton to re-send requests to all of us.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Mario Chasse/CA/ABAS/PwC@Americas-CA, "sean.cable@pwc.com" <sean.cable@pwc.com>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, "michael.walke@pwc.com" <michael.walke@pwc.com>, Martin Boucher/CA/ABAS/PwC@Americas-CA
Cc: Robert Urbanoski/CA/INF/PwC@Americas-CA
Date: 10/23/2016 02:38 PM
Subject: security clearance

Hi

Hi

I just need to find out if you have been screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks
Shyrose Virani

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Re_ security screenings.rtf

From: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
Subject: Re: security screenings
Date: Sunday, October 23, 2016 14:37:57

Hi Shyrose

Martin and I received this screening email from Triton, but weren't sure whether it was spam.

We will complete soon.

Thanks,
Max

Sent from my iPhone

On Oct 23, 2016, at 2:24 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:

> Hi
>
> I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.
>
> Thanks
>
> Shyrose Virani

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Re_ security screenings.rtf

From: Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
Subject: Re: security screenings
Date: Sunday, October 23, 2016 14:37:57

Hi Shyrose

Martin and I received this screening email from Triton, but weren't sure whether it was spam.

We will complete soon.

Thanks,
Max

Sent from my iPhone

On Oct 23, 2016, at 2:24 PM, Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca> wrote:

> Hi
>
> I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.
>
> Thanks
>
> Shyrose Virani

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Re_ tax declaration form.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Re: tax declaration form
Date: Monday, October 24, 2016 10:41:10

Hi Shyrose,

This declaration will be signed by our Chief Operating Officer, who has the appropriate knowledge to be able to make the declaration.

He is unfortunately out of the country until Friday. What is the timing on getting this declaration back to you. If it can wait until next Monday that would be ideal. If not, I'm sure we can find some workaround to get his signature. Please let me know.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 10/23/2016 03:23 PM
Subject: tax declaration form

Hi Lucy

Can you please sign the above form for Pension file and return it to me.

Thanks
Shyrose

p.s. also, can you please provide me with an email address for Sean Cable.[attachment "tax declaration form.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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RE_ Update meeting.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]
Subject: RE: Update meeting
Date: Wednesday, September 14, 2016 10:16:51

Hi Lucy

Early next week would be better for us.

Thanks

shyrose

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 14, 2016 10:00 AM
To: Virani, Shyrose (TBS)
Cc: michael.hawtin@ca.pwc.com
Subject: RE: Update meeting

Hi Shyrose,

Michael tells me that there was originally a bi-weekly meeting scheduled for 1:30-2:30 tomorrow afternoon.

Does this time work for your team still?

If not, I will get you some times that we can do on Friday or early next week.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2

http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Provis, Ian (TBS)" <Ian.Provis@ontario.ca>, Michael Hawtin/CA/ABAS/PwC@Americas-CA
Date: 09/14/2016 09:33 AM
Subject: RE: Update meeting

Yes, please, do you want to give me some availabilities of your folks and then I can advise you from my end?

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 14, 2016 9:33 AM
To: Virani, Shyrose (TBS)
Cc: Petsche, Nadine (TBS); Provis, Ian (TBS); michael.hawtin@ca.pwc.com
Subject: Update meeting

Hi Shyrose,

I saw a cancellation come through for our meeting at 10am this morning. Would you like to reschedule this meeting?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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RE_ Update meeting.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: RE: Update meeting
Date: Wednesday, September 14, 2016 10:07:01

Ok, thanks

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 14, 2016 10:04 AM
To: Virani, Shyrose (TBS)
Subject: RE: Update meeting

Hi Shyrose,

I just heard from Ian regarding the deadlines for the public accounts, so it sounds like tomorrow afternoon is not really a better option yet.

I will discuss with Michael and we'll come back with some dates for later next week or the week after.

Thanks,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Provis, Ian (TBS)" <Ian.Provis@ontario.ca>, Michael Hawtin/CA/ABAS/PwC@Americas-CA
Date: 09/14/2016 09:33 AM
Subject: RE: Update meeting

Yes, please, do you want to give me some availabilities of your folks and then I can advise you from my end?

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 14, 2016 9:33 AM
To: Virani, Shyrose (TBS)
Cc: Petsche, Nadine (TBS); Provis, Ian (TBS); michael.hawtin@ca.pwc.com
Subject: Update meeting

Hi Shyrose,

I saw a cancellation come through for our meeting at 10am this morning. Would you like to reschedule this meeting?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
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RE_ Update meeting.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]
Subject: RE: Update meeting
Date: Wednesday, September 14, 2016 09:33:46

Yes, please, do you want to give me some availabilities of your folks and then I can advise you from my end?

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: September 14, 2016 9:33 AM
To: Virani, Shyrose (TBS)
Cc: Petsche, Nadine (TBS); Provis, Ian (TBS); michael.hawtin@ca.pwc.com
Subject: Update meeting

Hi Shyrose,

I saw a cancellation come through for our meeting at 10am this morning. Would you like to reschedule this meeting?

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
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RE_ Uros Karadzic.rtf

From: Virani, Shyrose (FIN) []
To: 'LeeAnne.Probert@ca.ey.com' [LeeAnne.Probert@ca.ey.com]
Subject: RE: Uros Karadzic
Date: Monday, August 20, 2012 12:08:36
Attachment 1: image001.gif

Thanks Lee Anne

Pls. make sure that you and all your team members submit the clearance forms to me asap.

Thanks

s

From: Petsche, Nadine (FIN)
Sent: August 20, 2012 11:13 AM
To: 'LeeAnne.Probert@ca.ey.com'
Cc: Virani, Shyrose (FIN)
Subject: RE: Uros Karadzic

Thanks LeeAnne.

Nadine

From: LeeAnne.Probert@ca.ey.com [mailto:LeeAnne.Probert@ca.ey.com]
Sent: August 20, 2012 11:12 AM
To: Petsche, Nadine (FIN)
Subject: Uros Karadzic

Hi Nadine,

As previously discussed, we have added Uros Karadzic (senior manager) to our advisory team for OPCD #10 due to his extensive pension experience.

Attached is a copy of the confidentiality agreement he signed last week.

Please let me know if you have any further questions.

Regards,
Lee Anne

LeeAnne Probert | Senior Manager | Assurance Services

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416 943 3554 | Cell: 416 888 6997 | leeanne.probert@ca.ey.com

Fax: 416 943 3767 | EY/Comm: 1657762

Assistant: Barbara Kruzel | Phone: 416 943 2604

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image001.pdf

ERNST & YOUNG

RE_ Uros Karadzic.rtf

From: Petsche, Nadine (FIN) []
To: 'LeeAnne.Probert@ca.ey.com' [LeeAnne.Probert@ca.ey.com]
CC: Virani, Shyrose (FIN) [Shyrose.Virani@ontario.ca]
Subject: RE: Uros Karadzic
Date: Monday, August 20, 2012 11:13:07
Attachment 1: CA - Uros Karadzic.pdf.zip
Attachment 2: image001.gif

Thanks LeeAnne.

Nadine

From: LeeAnne.Probert@ca.ey.com [mailto:LeeAnne.Probert@ca.ey.com]
Sent: August 20, 2012 11:12 AM
To: Petsche, Nadine (FIN)
Subject: Uros Karadzic

Hi Nadine,

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Please let me know if you have any further questions.

Regards,
Lee Anne

LeeAnne Probert | Senior Manager | Assurance Services

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7, Canada

Office: 416 943 3554 | Cell: 416 888 6997 | leeanne.probert@ca.ey.com

Fax: 416 943 3767 | EY/Comm: 1657762

Assistant: Barbara Kruzel | Phone: 416 943 2604

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CA - Uros Karadzic.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

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The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: UROS KARADZIC

Signature:

Date: Aug 15/12

Witness: STEPHANIE STANFIELD

Signature:

Date: Aug 15/12

image001.pdf

ERNST & YOUNG

RE_ wondering if we can touch base today.rtf

From: Virani, Shyrose (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: wondering if we can touch base today
Date: Thursday, June 08, 2017 10:37:45

I will speak to Nadine and get back to you

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: June 8, 2017 10:37 AM
To: Virani, Shyrose (TBS)
Subject: RE: wondering if we can touch base today

No, my day is really bad. Between 2 and 3 is the only other alternative.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, June 08, 2017 10:36 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: wondering if we can touch base today

Would you be available at 12:00 noon?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: June 8, 2017 10:31 AM

To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: RE: wondering if we can touch base today

Can I give you a call in 15 mins? (10:45am)?

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, June 08, 2017 10:28 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: wondering if we can touch base today

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RE_ wondering if we can touch base today.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: wondering if we can touch base today
Date: Thursday, June 08, 2017 10:36:53

No, my day is really bad. Between 2 and 3 is the only other alternative.

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Thursday, June 08, 2017 10:36 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: wondering if we can touch base today

Would you be available at 12:00 noon?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: June 8, 2017 10:31 AM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: RE: wondering if we can touch base today

Can I give you a call in 15 mins? (10:45am)?

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Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, June 08, 2017 10:28 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: wondering if we can touch base today

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RE_ wondering if we can touch base today.rtf

From: Virani, Shyrose (TBS) []
To: Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: RE: wondering if we can touch base today
Date: Thursday, June 08, 2017 10:35:31

Would you be available at 12:00 noon?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: June 8, 2017 10:31 AM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS)
Subject: RE: wondering if we can touch base today

Can I give you a call in 15 mins? (10:45am)?

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Thursday, June 08, 2017 10:28 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: wondering if we can touch base today

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permanently delete. CONFIDENTIEL et/ou PRIVILÉGIÉ. Si ce courriel est reçu par erreur, veuillez nous en aviser et en effacer toute trace. EY, 222 Bay St, PO Box 251, Toronto, ON M5K 1J7. www.ey.com/ca To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

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RE_ year end.rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: year end
Date: Monday, March 12, 2018 10:05:25

Thank you

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 12, 2018 10:02 AM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston; Sarah Anderton
Subject: RE: year end

Hi Shyrose,

The invoice was mailed out on Friday and you should receive the hard copy today or tomorrow. Also attached is a e-copy for your reference.

Thanks,

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, March 12, 2018 8:56 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Gregory Winston <gregory.winston@ca.ey.com>; Sarah Anderton

<Sarah.Anderton@ca.ey.com>
Subject: RE: year end

Hi Christina

I have not received the invoice yet, any idea when I would be receiving it?

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 2, 2018 11:06 AM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston; Sarah Anderton
Subject: RE: year end

Hi Shyrose,

We will be forwarding an invoice of $23,532.50 +HST for the time incurred up to February. We do not anticipate an invoice to be issued for the month of March.

Happy to discuss.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, February 23, 2018 3:07 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: year end

Hi Christina:

We are approaching towards our year-end and we have to provide our budget and forecast. Could you please let me know if there are any forthcoming invoices that I will be receiving from you for February and March?

Thanks
Shyrose

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RE_ year end.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Sarah Anderton [Sarah.Anderton@ca.ey.com]
Subject: RE: year end
Date: Monday, March 12, 2018 10:01:59
Attachment 1: Invoice-C100128392.pdf

Hi Shyrose,

The invoice was mailed out on Friday and you should receive the hard copy today or tomorrow. Also attached is a e-copy for your reference.

Thanks,

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Monday, March 12, 2018 8:56 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Gregory Winston <gregory.winston@ca.ey.com>; Sarah Anderton <Sarah.Anderton@ca.ey.com>
Subject: RE: year end

Hi Christina

I have not received the invoice yet, any idea when I would be receiving it?

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 2, 2018 11:06 AM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston; Sarah Anderton
Subject: RE: year end

Hi Shyrose,

We will be forwarding an invoice of $23,532.50 +HST for the time incurred up to February. We do not anticipate an invoice to be issued for the month of March.

Happy to discuss.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, February 23, 2018 3:07 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: year end

Hi Christina:

We are approaching towards our year-end and we have to provide our budget and forecast. Could you please let me know if there are any forthcoming invoices that I will be receiving from you for February and March?

Thanks
Shyrose

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Invoice-C100128392.stub.pdf

Security settings or invalid file format do not permit using Invoice-C100128392.pdf (243840 Bytes).

RE_ year end.rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Sarah Anderton [Sarah.Anderton@ca.ey.com]
Subject: RE: year end
Date: Monday, March 12, 2018 08:56:29

Hi Christina

I have not received the invoice yet, any idea when I would be receiving it?

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 2, 2018 11:06 AM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston; Sarah Anderton
Subject: RE: year end

Hi Shyrose,

We will be forwarding an invoice of $23,532.50 +HST for the time incurred up to February. We do not anticipate an invoice to be issued for the month of March.

Happy to discuss.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, February 23, 2018 3:07 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: year end

Hi Christina:

We are approaching towards our year-end and we have to provide our budget and forecast. Could you please let me know if there are any forthcoming invoices that I will be receiving from you for February and March?

Thanks
Shyrose

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RE_ year end.rtf

From: Virani, Shyrose (TBS) []
To: Christina Chan [Christina.Chan@ca.ey.com]
Subject: RE: year end
Date: Monday, March 05, 2018 11:30:05

Thank you

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: March 2, 2018 11:06 AM
To: Virani, Shyrose (TBS)
Cc: Gregory Winston; Sarah Anderton
Subject: RE: year end

Hi Shyrose,

We will be forwarding an invoice of $23,532.50 +HST for the time incurred up to February. We do not anticipate an invoice to be issued for the month of March.

Happy to discuss.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, February 23, 2018 3:07 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: year end

Hi Christina:

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Thanks
Shyrose

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RE_ year end.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Sarah Anderton [Sarah.Anderton@ca.ey.com]
Subject: RE: year end
Date: Friday, March 02, 2018 12:06:20

Hi Shyrose,

We will be forwarding an invoice of $23,532.50 +HST for the time incurred up to February. We do not anticipate an invoice to be issued for the month of March.

Happy to discuss.

Thanks!

Christina

Christina Chan, FSA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Friday, February 23, 2018 3:07 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Subject: year end

Hi Christina:

We are approaching towards our year-end and we have to provide our budget and forecast. Could you please let me know if there are any forthcoming invoices that I will be receiving from you for February and March?

Thanks
Shyrose

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RE_ URGENT -- in preparation for meeting with AG on pension asset ceiling.pdf

From: Raymond, Martin (CA - Montreal)
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS); Gary, Trevor (CA - Toronto); Colley, Matthew (CA - Toronto)
Subject: RE: URGENT -- in preparation for meeting with AG on pension asset ceiling
Date: September 6, 2016 3:41:19 PM

No issues or concerns

I do believe that the explanation provided by Alex is in line with the general understanding of your situation vs the BC situation described. Hence we are still comfortable about the support for the asset position through the service cost reduction portion that was discussed.

Let me know if you do need to discuss more.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services
Deloitte
1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada
Tel / Direct : 514-393-7367
Fax : 514-390-4104
maraymond@deloitte.ca | www.deloitte.ca

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-----Message d'origine-----
De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 6 septembre 2016 15:37
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Gary, Trevor (CA - Toronto) <tgary@deloitte.ca>
Objet : FW: URGENT -- in preparation for meeting with AG on pension asset ceiling

Hi Martin.
Any issues/concerns?
Nadine

-----Original Message-----
From: Killoch, Alex (MOF)
Sent: September 6, 2016 3:26 PM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF); Fong, Pauline (TBS); Patel, Bharat (TBS); Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca); Veinot, Cindy (TBS); Talwar, Garima (MOF); Myers, Leah (MOF)
Subject: RE: URGENT -- in preparation for meeting with AG on pension asset ceiling

Hi Nadine

We don't think the situation in British Columbia applies to the Teachers' Pension Plan (TPP). The BC employer partners have given up any right to surplus in their Joint Trust Agreement. However, this is not the case in Ontario.

In the case of TPP, the Funding Management Policy sets out the responsibility of each sponsor and sections 4.05, 4.06 and 5.05 state that there must be an agreement with respect to an adjustment to government contributions if members use their share of any surplus to improve benefits. In other words, using surplus to improve benefits can happen only if an agreement is reached such that the government can use their share of surplus to adjust government contributions. Therefore, the situation in BC does not apply to Ontario.

On the other hand, if the members were to use surplus to reduce member contributions rather than reduce benefits, government contributions will automatically be reduced because the obligation of the government is to match member contributions. Therefore, the government will benefit from surplus distribution in the case of a member contribution reduction in the TPP.

In case of OPSEU, the funding arrangement states that each sponsor is entitled to the use of their share of surplus. This should be confirmed with staff in the Total Compensation Branch.

Let me know if you have any other questions

Alex

-----Original Message-----
From: Petsche, Nadine (TBS)
Sent: Tuesday, September 06, 2016 12:08 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF); Fong, Pauline (TBS); Patel, Bharat (TBS); Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca); Veinot, Cindy (TBS)
Subject: URGENT -- in preparation for meeting with AG on pension asset ceiling
Importance: High

Alex/Rob,
We heard back from BC regarding the treatment of their own plans (see below). We have a meeting with the AG tomorrow morning at which time we will discuss the pension asset ceiling item.
Can you please confirm (by end of day today please) whether the nature of restrictions applicable to BC's plans are in any way relevant to the TPP and OPSEUPP.
Thanks in advance.
Nadine

-----Original Message-----
From: Fischer, Carl M FIN:EX [mailto:Carl.Fischer@gov.bc.ca]
Sent: September 6, 2016 11:51 AM
To: Petsche, Nadine (TBS); Newton, Stuart A FIN:EX
Subject:
Hi Nadine, we do not include the surplus position of any of our plans because the employer partners give up any right to surplus in the Joint Trust Agreements. So it is an explicit contractual provision, and that means the participating organizations do not have a right to any asset - so no asset to report. That provision was established because it is critical to establishing the independence of the four plan boards. For accounting purposes it means that as long as the plans are in a surplus position, for the GRE they operate effectively like a DC plan with target benefit like contribution provisions.

Reference:
(extract from BC's f/s)
1. Significant Accounting Policies

Employee Pension Plans
The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period

in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. The province records a liability for its share where plans are in a net obligation position. Changes in net liabilities/assets, which arise as a result of actuarial gains and losses, are amortized on a straight-line basis over the average remaining service period of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

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RFS Response.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Roy, Martin (CA - Toronto) [mroy@deloitte.ca]
Subject: RFS Response
Date: Friday, May 05, 2017 15:21:52
Attachment 1: Picture (Device Independent Bitmap) 1.jpg
Attachment 2: Deloitte-OPCD -Electricity Accounting Proposal_Final_20170505.pdf
Attachment 3: Deloitte-Schedule A-OPCD-Complex Accounting Proposal_Final_20170505.pdf

---

Hi Nadine,

Please find attached Deloitte's Response to TBS-OTB-OPCD-21.

Kind regards,

Matt

Matthew Colley
Sr. Manager | Audit Advisory
Deloitte LLP
22 Adelaide Street West,
Toronto, Ontario,
M5H 4E3
D: 416-643-8428
mcolley@deloitte.ca | deloitte.ca

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Picture (Device Independent Bitmap) 1.pdf

Deloitte.
NATIONAL
PARTNER

Deloitte-OPCD -Electricity Accounting Proposal_Final_20170505.pdf

Deloitte.

Complex Accounting Support for Energy Sector Accounting

Proposal to serve the Office of the Provincial Controller

Company information
Deloitte LLP
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto, ON M5H 0A9

Telephone 416-601-6150
Fax 416-601-5901
www.deloitte.ca

Contact information
Martin Roy
416-601-5679

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Fax 416-601-5901
www.deloitte.ca

May 5, 2017

Private and confidential

Ms. Nadine Petsche
Director, Accounting Policy and Financial Reporting Branch
Treasury Board Secretariat, Office of the Provincial Controller
Phone: 416-325-8027
E-mail: Nadine.petsche@ontario.ca

Subject: Complex Accounting Support
Number: RFS TBS-OTB-OPCD-21
Dear Ms. Petsche:

Dear Ms. Petsche:

On behalf of Deloitte and our service team, we are pleased to have the opportunity to provide our proposal to respond to your Request for Services (RFS) for Complex Accounting Services related to Electricity Sector Entities.

We appreciate the opportunity to present our qualifications for this opportunity. We believe that Deloitte has the capabilities, capacity, and commitment to assist and advise the Office of the Provincial Controller ("OPCD"). Our proposed team has a deep expertise relating to International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles ("GAAP"), Public Sector Accounting Standards ("PSAS") and International Public Sector Accounting Standards (IPSAS). Our proposed team is experienced in providing advice on complex accounting issues, including issues related to consolidation issues, control assessments, and advice to decision makers on the implications of potential future transactions.

We believe that we are uniquely positioned to support OPCD in analysing, documenting, and communicating with relevant parties on issues related to consolidation and control. Our recent experience in working with the OPCD on issues raised by the Office of the Auditor General of Ontario ("Auditor General"), as well as our experience in working with OPCD through the analysis of the IPO of Hydro One gives us context on the environment that OPCD operates within. We are familiar with the Ontario government's protocols regarding document confidentiality and we also have a deep experience with a variety of public sector organizations which makes us an ideal partner to engage in this work. The team that we have proposed is well qualified to meet your needs and is representative of the breadth of skills we can offer.

Should you have any questions regarding our response, please do not hesitate to contact me at 416-601-5679 or mroy@deloitte.ca.

Sincerely,

Martin Roy, CPA, CA

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Table of contents

Supplement B – Submission form 1
Compliance matrices 5
About Deloitte 7
Our proposed consultants 12
Our understanding of the deliverables 18
Deloitte's experience and qualifications 20
Schedule A: Pricing (Separate Document) 30
Schedule B: Qualifications and Experience of Our Team 31

Our **client service principles** are the framework we use to deliver **client service excellence**.

We will:

- **make** and meet our commitments to you
- **understand** your business and what is important to you
- **provide** value and build trust through technical competence and consistent results
- **demonstrate** professionalism through effective interaction and communications
- provide a **no surprises** experience

We invite you to assess our performance against these principles through our Client Feedback process.

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Supplement B – Submission form

Request for Services Number: TBS-OTB-OPCD-21

To: HER MAJESTY THE QUEEN in right of Ontario as represented by President of Treasury Board

1. Vendor Information

A. The full legal name of the Vendor is: **Deloitte LLP**
B. Please identify any other relevant name under which the Vendor conducts business:

Deloitte S.E.N.C.R.L./s.r.l
Deloitte Inc.

C. The Vendor's address, telephone and facsimile numbers are:

Bay Adelaide Centre, East Tower
22 Adelaide Street West, Suite 200
Toronto, ON M5H 0A9

Tel: 416-601-6150
Fax: 416-601-6151

D. The name and title of the Vendor's Representative:

Martin Roy, Partner

E. The mailing address, phone number and e-mail address of the Vendor's Representative:

Martin Roy
Deloitte LLP
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto, ON M5H 0A9

Tel: 416-601-5679
Email: mroy@deloitte.ca

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F. State the name, address, telephone and facsimile numbers and e-mail address of the Company Security Officer (CSO) for the Vendor:

Cara Warburton
Bay Adelaide Centre, East Tower
22 Adelaide Street West, Suite 200
Toronto, ON M5H 0A9

Tel 416-601-5763
Fax 416-601-6151
E-mail: cawarburton@deloitte.ca

G. State the name and title of each of the individuals that the Vendor is proposing for this Project:

Names	Titles
Martin Roy	Partner
Matthew Colley	Senior Manager
Sean Morrison	Partner
Frans van Schaik	Director

2. Submission Requirements and Accuracy of Information

The Vendor accepts the terms and conditions set out in the RFS. While this submission is provided for evaluation purposes only and is not legally binding before the execution of a SOW, I confirm that the information provided is accurate.

3. Certificate(s) of Insurance

As required in Article 32.4 – Proof of Insurance in the Master Agreement, please identify the status of the Vendor's Certificate(s) of Insurance by placing a check mark (√) in one (1) of the following three (3) boxes:

☐ a. The Vendor has previously submitted a Certificate of Insurance to MGCS, which has been approved

☐ b. The Vendor has included its Certificate of Insurance with this RFS submission (that will be subject to approval by MGCS)

☒ c. The Vendor agrees to submit a Certificate of Insurance (that will be subject to approval by MGCS) prior to the Client issuing a SOW

As required in the Request for Services, the Vendor agrees to submit a Certificate of Insurance (that will be subject to approval by the Client) prior to the Client issuing the SOW to evidence the additional insurance and/or the additional coverage required by the Client.

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4. Conflict of Interest

The Vendor must complete the following:

a. If the box below is left blank, the Vendor will be deemed to declare that: (1) there was no Conflict of Interest in preparing its submission; and (2) there is no foreseeable Conflict of Interest in the Vendor or any of its Personnel performing the contractual obligations contemplated in the Request for Services.
b. Otherwise, if the statement below applies, check the box.

☐ **The Vendor declares that there is an actual or potential Conflict of Interest relating to the preparation of its submission, and/or the Vendor foresees an actual or potential Conflict of Interest in it and/or its Personnel performing the contractual obligations contemplated in the Request for Services.**

If the Vendor declares an actual or potential Conflict of Interest by marking the box above, the Vendor must set out below details of the actual or potential Conflict of Interest:

N/A_____

_____

_____

c. The following individuals, as employees, advisors, or in any other capacity (i) participated in the preparation of our submission; **AND** (ii were employees of the Ontario Public Service ("OPS") and have ceased that employment prior to the Requested Submission Date:

(Repeat above boxed information for each identified individual)

d. The following are individuals that: (i) are proposed to be assigned by the Vendor to perform work under the SOW; **AND** (ii) were employees of the Ontario Public Service ("OPS") and have ceased that employment prior to the Requested Submission Date:

Name of Individual:	
Job Classification (of last position with OPS):	
Ministry/Agency/office of an officer of the Legislature of Ontario (where last employed with OPS):	
Last Date of Employment with OPS:	
Name of Last Supervisor with OPS:	
Brief Description of Individual's Job Functions (at last position with OPS):	
Brief Description of Nature of Individual's Participation in Preparation of Submission:	

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(Repeat above boxed information for each identified individual)

e. We agree that, upon request, we shall provide the Client with a Conflict of Interest Declaration from each individual identified above in the form prescribed by the Client.

Name of Individual:	
Job Classification (of last position with OPS):	
Ministry / Agency / office of an officer of the Legislature of Ontario (where last employed with OPS):	
Last Date of Employment with OPS:	
Name of Last Supervisor with OPS:	
Brief Description of Individual's Job Functions (at last position with OPS):	

(Repeat above boxed information for each identified individual)

f. We agree that, upon request, we shall provide the Client with a Conflict of Interest Declaration from each individual identified above in the form prescribed by the Client.

5. Schedules

This submission includes the following Schedule(s):

Schedule A (Pricing Schedule)
Schedule B (Resumes)

Deloitte LLP

I acknowledge that providing my name on the line below in electronic form will constitute a signature for the purposes of the *Electronic Commerce Act, 2000,* S.O. 2000, c. 17.

I have authority to bind the Vendor.

Per:

Signature: _____

Name: Martin Roy

Title: Partner

Date: May 5, 2017

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Compliance matrices

Stage I – Experience and Qualifications

RFS reference	Requirement	Maximum points	Proposal cross reference	Page number
Understanding the Deliverables	• Providing timely advice and guidance to the management of the Office of the Provincial Controller on complex accounting transactions with potential impact on the Provincial Budget or Annual Report of the Province or select policy decisions in support of specific ministry initiatives. • Demonstrated experience in assessing and documenting sensitive issues related to the preparation and audit of the Province's consolidated financial statements prepared on a PSAS basis, including participation in discussions with the Auditor General on such matters.	10	Our understanding of the deliverables	18
Demonstrated related knowledge and experience of the Supplier	• Experience in assessing policy and reporting implications of complex accounting issues and PSAB accounting for complex financing transactions as related to Ontario's electricity sector. • Experience in providing advice in PSAB accounting for government business enterprises, capital investments, joint ventures and private-public partnerships. • Experience in providing public and private sector accounting advice on acquisitions and divestments, taking into account IFRS and PSAS-related implications. • Strong understanding and demonstrated experience in applying PSAB's criteria of control to assessing government control for government business enterprises.	25	Deloitte's experience and qualifications	20
Qualifications and experience of Vendor personnel to undertake the specified Deliverables	Resumes detailing the following • Specifically, a professional accounting license with knowledge and experience with providing advice to large public sector organizations related to: a. Public Sector Accounting Board (PSAB) standards for accounting and financial reporting as established by CPA Canada; b. International Public Sector Accounting Standards Board (IPSASB) standards; c. International Financial Reporting Standards (IFRS) and other relevant standards, including their application to large public sector organizations; d. Experience assessing control of government business enterprises against PSAB criteria of control as related to government business enterprises, especially as related to publicly traded entities; e. Ability to work within tight timelines.	35	Schedule B: Qualifications and Experience of Our Team	31

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Stage II – Price

RFS reference	Requirement	Maximum points	Proposal cross reference	Page number
	Each submission will receive a percentage of the total possible points allocated to price by dividing the submission's price for a particular category into the lowest bid price in that category.	30	Schedule A: Pricing	30 & Separate document

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About Deloitte

Our client service objective is to be more than just your service provider; our vision is to be your most sought after business advisor. In 2010, Deloitte became the single largest professional services organization in the world. Deloitte is also the largest firm in Canada with more than 8,000 people in 56 offices providing audit and accounting advisory, tax, consulting and financial advisory services. This gives our clients even greater access to global resources as required, and enables us to make larger investments in new markets and innovation to your benefit.

In addition, programs in Canada like our 50 Best Managed Companies and Fast 50 Programs expand our reach and connection to the brightest and best minds in the business world. The firm is dedicated to helping its clients and its people excel. Our professionals have been developing effective business solutions and innovative performance improvements for Canadian and international organizations for more than 150 years.

Forrester Research declared that “Deloitte’s vision of becoming the client’s trusted partner, coupled with its extensive list of services and technical and business experience separates it from the rest of the pack. Client references pointed to flexibility, project management, and quality of relationships as areas of strength. Deloitte also attracts a more mature client base and excels in solving complex problems while consistently producing high-quality deliverables for its clients.”

We have a proven track record for achieving milestones and producing quality deliverables within tight timelines and a reputation for client satisfaction, coast-to-coast and internationally. We focus on partnering with our clients to understand their businesses and their critical success factors, and bringing the best resources (people, methodologies and tools) to develop solutions to our clients’ most critical issues.

Our size and our work with these clients allow us to provide OPCD with:

- The assurance of breadth and depth of talent and experience we will draw upon in serving your needs, and
- The comfort that your complex accounting needs will be addressed by one of Canada’s leading professional service organizations.

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Our professionals have been developing effective business solutions and innovative performance improvements for Canadian and international organizations for more than 150 years. We combine national coverage with international capabilities; a multifunctional team approach with in-depth industry experience; and personal commitment to service with technical excellence. Most of all, we bring into play a superior calibre of people – highly talented and highly motivated – who are able to deliver business results that give our clients unparalleled quality.

Deloitte public sector practice

At Deloitte, our shared commitment is to improve public outcomes through a focus on people – students, patients, commuters, business owners, and many others – and the people dedicated to their service. We take the time to think, exploring the complex issues facing the public sector and developing relevant, timely, and sustainable solutions for our clients to use today for a better tomorrow. It's this commitment to our clients, the communities in which we operate, and smarter business practices that ensures we too play our part in building a better society. At Deloitte, we're focused on our clients and on our clients' clients. At Deloitte, we are Thinking people.

Deloitte's Public Sector Industry Practice provides a full range of assurance and advisory, consulting, risk advisory, financial advisory, and tax services to help its federal, provincial, local, health and life sciences, education, Aboriginal, foreign, and non-profit clients overcome their biggest challenges. The Ontario Practice, which is led by Shannon Macdonald, provides services from all of our service lines to the public sector in Ontario.

The following paragraphs describe our work to the sub-sectors that make up our firm's Public Sector Industry Practice in Ontario.

- Provincial Government – Deloitte has a strong presence within various ministries at the Province of Ontario. We bring insights and technical expertise in consulting, financial advisory, risk advisory, audit/accounting advisory and tax that are vital to helping the Province with component parts of transformation including risk management, program evaluation, modern controllership, alternate service delivery, information technology and e-government services.
- Local Government – Deloitte has significant experience in working with Municipalities across Ontario. Our professionals help municipal clients with the effective management of financial, organizational and technological challenges. In addition to providing audit, accounting and advisory services for a significant number of Ontario's largest municipalities, we also provide services to numerous boards, commissions and related incorporated entities across the country.
- Health and Life Sciences – We work with health organizations to improve operations and patient outcomes. We've developed strategies and solutions for financial and human resource management, supply chain, shared services, business and capital planning, public-private partnerships, performance management, governance and e-health. Our clients include the Ministry of Health, various public Hospital and Health Care Agencies across the Province, as well as private health care and life science companies.

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- Education – Our practitioners provide colleges and school boards across Ontario with a full range of audit, accounting and advisory services. Whether our clients need to do more with fewer resources, implement process and technology solutions, or increase efficiencies and function, we will team with them to address their needs.
- Not-for-Profit Organizations – Our specialists assist not-for-profit organizations with assurance and advisory services, corporate governance, restructuring and tax services to ensure that their organizations are running smoothly and cost-effectively. Our clients include a wide range of not-for-profits, from small local societies to major national bodies as well as government not-for-profit organizations.

As will be demonstrated in our qualifications, there is a lot of strengths and experience that we demonstrate in the public sector, and specifically in the engagements that we have provided to the Government of Ontario.

Our audit advisory practice

At Deloitte we have a separate audit advisory practice with dedicated experienced practitioners who provide solutions for the changing accounting landscape. Across Canada, we have over 200 dedicated professionals, with over 100 working in the Toronto based practice. We offer a range of services to meet the complex and evolving accounting challenges organizations face on multiple fronts. These include the heightened expectations of today's management, regulators and other stakeholders; increasingly complex financial reporting and accounting standards; transaction and transformation issues associated with mergers, acquisitions and divestitures; and a shortage of necessary finance resources and talent in organizations. Optimizing the efficiency and effectiveness of their accounting and finance functions means that, more than ever, organizations must augment and enhance their capabilities with external knowledge and experience in areas like transaction consultation, finance, actuarial, and complex accounting. With targeted services in all five of these practice areas, Deloitte's audit advisory practice helps:

- Apply appropriate expertise and experience to accounting and reporting matters, as and when needed
- Achieve greater reliability in financial reporting
- Manage risk to effectively avoid or quickly handle last minute challenges
- Accelerate the financial reporting calendar, providing stakeholders with more timely information
- Evaluate the quality and requirements of mergers, acquisitions, and divestitures (M&A)
- Enhance an organization's ability to meet or accelerate transaction timelines.

We often become an extension of a finance function when key finance issues and challenges emerge.

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Complex accounting and conversion

Our experience includes large clients across a broad array of industries and sectors (including all levels of government within the public sector), as well as private companies and small to mid-sized entities. Firm specialists also help clients overcome a broad range of complex accounting challenges, such as:

- Applying new accounting standards, such as assessing consolidation and control by governments, government business enterprises and government and private sector partnerships
- Developing accounting conclusions that support high-quality financial reporting
- Understanding and practically applying the requirements of complex accounting standards
- Appropriately applying accounting standards from other frameworks to deal with gaps in the principal framework
- Providing training in accounting and financial reporting on complex topics such as consolidation, financial instruments, employee benefits and other emerging topics.

This group has technical expertise in all accounting frameworks used in Canada, and specifically in PSAS, IFRS, Private and Public Sector NPO Standards, IPSAS and US GAAP.

Transaction advisory services

Executing transactions has become significantly more complex in recent years, with regulations and requirements evolving rapidly. The Firm helps clients navigate these complexities, specializing in M&A transactions, both buy and sell side; capital-raising activities; Initial Public Offerings (IPOs); high-yield debt offerings; private placement offerings in the U.S. and Canada; and secondary offerings. Our professionals are fluent in the regulatory requirements of key global markets and can assist clients with cross-border listings, as well as assessing and fulfilling their post-offering reporting requirements.

Our transaction advisory teams can help with challenges such as:

- Ensuring M&A due diligence and efficient transaction execution
- Achieving post-merger integration around restructuring, accounting policies, compensation and reporting
- Evaluating whether IPO challenges and risks align with client goals and strategy
- Ensuring the company is properly prepared – for example, with a business plan, financial statements and tax structures in order – for the IPO process.

Finance

Given the limited resources available to today's finance functions, the need for increased efficiencies is challenging businesses across the world. Deloitte helps senior finance leaders and their finance teams become more efficient, both as individuals and as key components in the organization's larger structure. From fulfilling financial stewardship duties and working more productively with operations, to assisting in strategic decision-making, we help finance realize the full extent of its role in the modern enterprise.

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The Firm can access a full range of global experience to:

- Rationalize reporting costs and reduce compliance risks by leveraging software solutions
- Use a focused and scalable mechanism to deliver insights on a financial reporting judgment process
- Assess the finance strategy and vision and help design and implement changes to processes and systems
- Reduce time associated with the financial close processes.

Actuarial, rewards and analytics practice

Our Actuarial, Rewards and Analytics (ARA) practice employs over 35 professionals in Toronto, Montreal and Quebec City providing a range of audit and advisory services to clients in Canada and internationally. Our team is one of the largest of the accounting firms in Canada and we are very well connected to the Firm's other actuarial practices around the world. The ARA practice provides an array of services, including:

- Supporting the implementing of risk frameworks (e.g., governance, risk appetite, controls);
- P&C pricing, valuation and reserving work;
- Actuarial modelling;
- Improving efficiencies in the actuarial areas (e.g., streamline the reporting processes, actuarial operating models);
- Designing employee benefits and pension plans, pension de-risking, scheme funding & valuations, scheme wind-up.

Finance analytics

Organizations are generating and accumulating data at an unheard of pace – data that represents an important, but relatively untapped, strategic asset. The Firm can help improve process efficiencies to better utilize data and improve the quality and usability of output. Reporting and financial close processes remain largely manual, arduous and time consuming while information access and visibility are often poor, resulting sometimes in inconsistent and unreliable conclusions. Our finance analytics professionals combine systems and data experience; strong knowledge of regulatory requirements; cooperation with accounting and finance functions; and a deep understanding of clients' business, process and operating environments to help develop end-to-end solutions to data-related finance challenges. We help organizations to:

- Improve the quality of internal reporting to management, enabling better insights and decision making
- Accelerate and automate a range of finance processes, leading to a faster, more efficient financial close
- Cut data for analysis of specific business areas and represent it visually
- Improve audit risk identification procedures.

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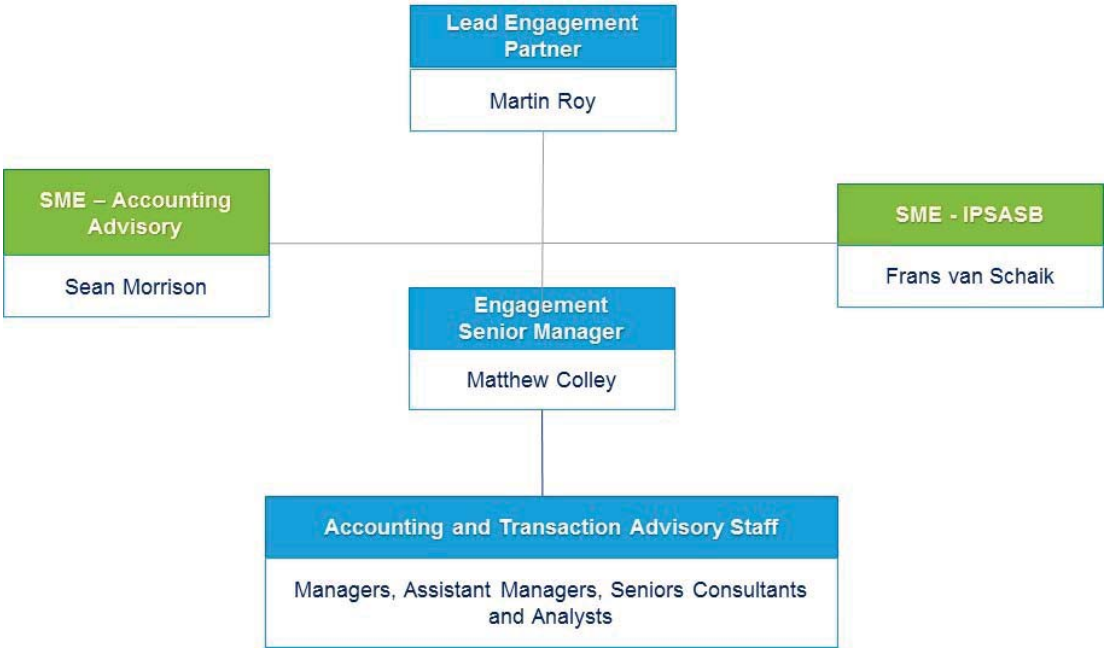
Our proposed consultants

In order to ensure the most efficient and effective delivery of our services, we have assembled a team with strong technical knowledge in complex accounting that have a strong foundation in working with multiple frameworks. Our team brings a combination of experience in providing advice on significant transactions, as well as deep knowledge of working with the Government of Ontario. All of our team members have strong communication skills, a breadth of experiences with complex issues and excel at client service.

Our team consists of two core consultants, being Martin Roy and Matt Colley. Martin will be the project lead and he will be supported by Matt as the analyst/senior consultant. Martin and Matt will be able to draw on support from Sean Morrison, who leads Deloitte's National Accounting & Transactions Advisory Practice, and Frans van Schaik who is a subject matter expert in IPSAS. Martin and Matt will also be able to leverage our audit advisory practice which consist of over 70 managers, assistant managers, senior consultants and analysts based in Toronto if required. Our team consists of individuals who have a strong understanding of complex accounting issues under PSAS, as well IFRS and US GAAP and IPSAS, and who have significant experience on advising on transactions within and outside of the public sector.

Deloitte project team



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Our team has been carefully selected based on the skills they bring to fulfil the needs stated by the OPCD for this project. In order to maximize value, our core team members (Martin and Matt) will determine when it is appropriate to involve the subject matter experts (SMEs). We believe that this will help maximize the value to the OPCD as our core team will provide a consistent approach, while leveraging the strengths of our broader firm when necessary. Our expertise as a firm will allow us to work seamlessly with management of the OPCD, ensuring that inquires, concerns or comments are addressed in a timely, effective and agile manner.

We have provided herein a biography for each team member. For full resumes of team members, please refer to Schedule B.

Core team members

Martin Roy

Engagement Partner and Project Lead
Tel: 416-601-5679
Email: mroy@deloitte.ca

Biography

Martin Roy is a partner in Toronto's Accounting & Transactions Advisory Practice within the Audit Advisory Services group. He is also a member of the Canada-wide team of experts on IFRS and complex accounting matters. Prior to joining Deloitte ten years ago, he spent six years working for a large Canadian financial institution, primarily in the area of accounting policies and in capital management. In all, he has more than 25 years of experience in accounting and financial reporting.

His expertise covers several areas; specifically, the consolidation and reporting of structured entities (often used in public-private partnerships), leases, securitization and financial instruments more broadly, including structured products, according to IFRS, ASPE, PSAS and US GAAP. His clients operate in several industries, more particularly, the financial services sector, retail, resources and real estate industry.

As a member of Deloitte's Canada-wide team of experts on IFRS and complex accounting matters, Mr. Roy serves as a technical resource for the firm's "Centre of Excellence" in his areas of expertise, for matters such as consultations and writing the firm's response to exposure drafts issued by the IASB and the AcSB. In fact, he is Deloitte Canada's subject matter authority on consolidation and leases which implies that he is most knowledgeable about the complexities associated with these areas of accounting, has access to a large network of local and international experts and is responsible for determining Deloitte Canada's views on these accounting topics. He also plays a major role within the firm in the training of professionals, and he is frequently invited to speak on accounting topics at conferences.

Project role description:

Martin will serve will serve as the project lead and will be the technical lead on the accounting issues that arise.

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Current/Recent Relevant Projects:

- Province of Ontario – Accounting advice on Hydro One IPO
- Private Company and Government of Nunavut – Accounting Advice
- Liquor Control Board of Ontario ("LCBO") – Accounting advice on complex transactions under IFRS and PSAS as well as advice on implementation of new standards under IFRS
- Metrolinx – Accounting advice on complex transactions under IFRS and PSAS
- Advisory projects related to the consolidation and reporting of structured entities (often used in public-private partnerships), leases, securitization and financial instruments (according to IFRS, ASPE, PSAS and US GAAP)

Matthew Colley

Biography

Matthew (Matt) Colley is a senior manager in Toronto's Accounting & Transactions Advisory Practice within the Audit Advisory Services group. Matt has 13 years of public accounting experience and is a subject matter expert in PSAS as well as IFRS. Matthew focusses his time on helping clients and Deloitte's audit practice understand complex transactions and helping his clients implement new accounting standards. Matt specializes in working with public sector organizations, including core governments, other government organizations, and government business enterprises. This provides him with significant experience in advising clients on accounting issues under PSAS and IFRS. In dealing with complex transactions, Matt is often required to review the GAAP hierarchy in PSAS and look to other frameworks such as IFRS, US GAAP, and IPSAS to find guidance on how to treat complex transactions where PSAS is silent.

Matt has been working with the Office of the Provincial Controller since August 2014 on engagements relating to significant transactions and supporting management in the public accounts process through supporting the analysis of various issues.

Engagement Senior Manager, Intermediate Analyst
Tel: 416-643-8428
Email: mcolley@deloitte.ca

Project role description:

Matt will serve as the engagement senior manager and will manage all aspects of the project including planning, execution and reporting. He will direct project activities, ensure that the timelines for deliverables and the requirements of OPCD are met.

Current/Recent relevant projects:

- Province of Ontario – Accounting advice and opinion on pension accounting
- Province of Ontario – Accounting advice on Hydro One IPO
- Provincial Government – Accounting advice relating to Government Business Enterprises (GBEs)
- Province of Ontario – Accounting advice on implementation of liabilities for contaminated sites
- Private Company – Conversion of over 150 subsidiaries following 6 different accounting frameworks to IFRS

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- Federal Territory – Accounting opinion on accounting for public private partnerships
- LCBO – Accounting advice on complex transactions under IFRS and PSAS as well as advice on implementation of new standards under IFRS
- Canadian Broadcasting Corporation – Accounting advice on complex transactions under IFRS and advice on the implementation of new standards under IFRS
- Canadian Air Transport Security Authority – Accounting advice on complex transactions

Subject matter experts

Our core team will rely on support from the identified experts if we determine that additional expertise is required. The following individuals will support our core team in providing analysis and are from our Canadian and Global Subject Matter Expert network.

Sean Morrison

Biography

Sean Morrison leads the Accounting & Transactions Advisory Practice in Canada for Deloitte. Sean specializes in providing advisory services in connection with the application of IFRS, ASPE, US GAAP, and Canadian and US regulatory requirements to public and private Canadian companies, across a variety of industries. In this capacity, Sean works with Canadian companies in the application of IFRS, the implementation of new IFRS accounting standards (including IFRS 15, IFRS 16, and IFRS 9), the conversion of financial statements to IFRS, the preparation of reconciliations of financial statements between different reporting frameworks, and the analysis of complex transactions and contracts.

Prior to his return to the Canadian Firm in December 2005, Sean spent over three years with the Accounting and Transactions Group in London, England. While abroad, Sean, along with a group of senior practitioners, specialized in providing US GAAP and SEC advisory and related services to international clients of Deloitte Touche Tohmatsu, with a focus on guiding companies through equity and debt offerings in the United States. During that time, Sean worked exclusively with non-US companies in a variety of industries in several countries, providing consultative services in connection with the application of US GAAP and the SEC's regulations in connection with US capital markets transactions. These services included the preparation of carve-out financial statements, conversions of financial statements from local GAAP to US GAAP, collaborating with attorneys and investment bankers in the preparation of offering prospectuses, evaluating capital raising alternatives and options, consulting with clients on SEC compliance issues, and assisting clients in their response to SEC comment letters.

Sean is a frequent speaker at both external and internal conferences, and has developed and facilitated numerous IFRS training seminars

SME – Accounting Advisory
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Email: seamorrison@deloitte.ca

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Project role description:
Sean will serve as a Subject Matter Expert and will assist the core team, as required.

Current/Recent relevant projects:
- Audit and advisory services for the following clients:
  - Royal Bank of Canada
  - Brookfield Asset Management
  - Canadian Air Transport Screening Authority
  - Brookfield Infrastructure Partners
  - Canadian Broadcasting Corporation

Frans van Schaik

Biography
Professor Frans van Schaik is an advisor in IPSAS implementation to national governments and international public sector organizations, and an author and speaker about IPSAS and Public Financial Management (PFM).

He has been a member of the International Public Sector Accounting Standards Board (IPSASB), the global standard setting body for the financial reporting by governments and intergovernmental organizations, from 2006 through to 2011.

He was a member of IPSASB at the time when the Board issued IPSAS 22 through IPSAS 32 and voted in favour of all of these eleven standards.

He is a member of the Consultative Advisory Group (CAG) of the IPSASB since 2016.

Frans has been an accounting and auditing partner of Deloitte in the Netherlands since 1996. He holds the Register accountant-degree (Certified Public Accountant). He is a full Professor of Management Accounting at the University of Amsterdam (part-time) and lectured at the University of Tilburg and the Royal Military Academy in the Netherlands.

Project role description:
Frans will serve as a Subject Matter Expert and will assist the core team, as an IPSASB expert, as needed.

SME – IPSAS
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Current / Recent relevant projects:

- Advising subnational governments adopting IPSAS:
  - Provincia de Córdoba (Argentina)
  - Provincia de San Juan (Argentina)
- Advising national government on adopting IPSAS:
  - Iceland
  - South Africa
  - Colombia
  - Abu Dhabi
  - Botswana
  - Chile Kenya
  - Tanzania
  - Kyrgyz Republic
  - Kazakhstan
  - Serbia Peru
  - Uganda
  - Romania
  - Kuwait
  - United Arab Emirates

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Our understanding of the deliverables

Objective of the engagement

The objective of this engagement is to provide advice and expertise relating to:

- Consolidation of the Province's electricity sector entities;
- Assessing whether the Province controls electricity sector entities;
- The impact of accounting changes by consolidated electricity sector entities.

Consolidation of the Province's Electricity Sector Entities and Assessing Control

Recently, there have been discussions in public settings around the use of the modified equity method for controlled GBEs. PSAS requires the application of the modified equity method, and when there are transactions such as the issuance of additional shares, the guidance in PSAS can be limiting as these types of transactions are rare in the public sector. Additionally, in the past there have been a number of other provincially controlled entities that have participated in transactions associated with the IPO of Hydro One (such as the distribution of shares to OPG employees). These transactions highlight the importance of understanding how the electricity sector as a whole operates and how the Province ultimately consolidates these entities.

The determination of control is a question of fact that requires the application of professional judgement. The Province controls a number of electricity sector entities, with significant examples including Hydro One, Hydro One Brampton, and OPG, which are accounted for on a modified equity basis as they are defined as Government Business Enterprises under Public Sector Accounting Standards. The recent IPO of Hydro One resulted in the Province of Ontario issuing shares in Hydro One to investors, thus diluting its percentage of voting interest in Hydro One. The issuance of shares is being offered in tranches, and the Province's voting shares will soon approach 50% of the total number of shares issued and can ultimately dip below 50%. The initial analysis on the sale of Hydro One has preliminarily assessed that the Province would ultimately still have de facto control if the Province sold tranches below 50%, with some analysis on voting patterns to be monitored by the Province. De facto control would exist because no other entity could control more than 10% of the voting interests in Hydro One and investors are not permitted to act together.

It should also be noted that the Province controls other electricity-related entities, such as the Independent Electricity System Operator and the Ontario Energy Board. These organizations also play a role in the Province's ultimate control over the electricity sector. All of these entities work together to enable the Province to own and regulate electricity activities, and can ultimately allow the Province of Ontario to act in the best interest of its citizens, as recently demonstrated by Ontario's Fair Hydro Plan.

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Accounting changes by consolidated electricity sector entities:
With the introduction of IFRS 14, *Rate Regulated Accounting*, the AcSB ended the deferral of adopting IFRS for rate regulated entities. The introduction to the Public Sector Handbook implies that GBEs should be accounted for on a modified equity method basis, despite the fact that many rate regulated entities issue financial statements under US GAAP due to securities requirements. As such, there can be extra work on applying the modified equity method of accounting to rate regulated GBEs because PSAS implies through its introduction that a conversion from US GAAP to IFRS is needed in order to apply the modified equity method.

In adopting IFRS for the purposes of applying the modified equity method, significant reconciliation items could potentially be identified for asset retirement obligations, and employee future benefits, among other issues.

What Deloitte will need to deliver:
Deloitte's extensive experience in such matters, from presenting key findings and quantitative and qualitative analyses of accounting-related initiatives, to making actionable recommendations pertaining to an area being scrutinized by the Auditor General, has helped us in completing previous technical accounting advisory engagements with the Ontario Government. Together with the management of the OPCD, we will identify the pertinent issues, prioritize these issues based on importance and urgency, and envision and chart solutions based on the relevant guidance contained within the various accounting frameworks, as well as similar past transactions that have happened in the public sector both in Canada and abroad.

We understand that the selected consultants will be responsible for helping identify and respond to technical accounting-related issues. We will plan, coordinate and manage the engagement in accordance with the established protocols that we wil develop with you, and will respond to and manage issues, including changes in expectations. In order to accomplish this, frequent status meetings will be held with senior management and other relevant stakeholders to ensure key deliverables are completed efficiently and within the project timelines.

In working with the management of the OPCD in the past, we understand that our work will involve:

- Researching accounting issues that have been identified
- Identifying additional issues to consider
- Bringing a perspective from multiple frameworks into the analysis
- Assisting with documentation around the conclusions that have been reached
- Presenting the results of our work to senior management
- Supporting the OPCD in meeting and discussing the relevant accounting analyses with the Auditor General

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Deloitte's experience and qualifications

Deloitte has developed a strong reputation of successfully delivering on a variety of assignments across the OPS and we believe that our track record speaks for itself. The experience and lessons learned from our assignments will be a source of information and reference for our advice to you. We have selected the following relevant project qualifications to demonstrate our experience in delivering successful engagements for Governments and Government Organizations in Canada.

Below is a list of qualifications that we believe are relevant for the evaluation process. The details of these projects are described below and demonstrate why Deloitte has the unequaled experience to complete this project. The nature of these engagements is confidential and we require that this information only be used in evaluating our response and that this information not be used for any other purpose. Each qualification will include details on how it is relevant to the current Complex Accounting Support Project for the OPCD.

	Relevant experience			
	Experience in assessing policy and reporting implications of complex accounting issues and PSAB accounting for complex financing transactions as related to Ontario's electricity sector	**Experience in providing advice in PSAB accounting for government business enterprises, capital investments, joint ventures, and public-private partnerships**	**Experience in providing public and private sector accounting advice on acquisitions and divestments, taking into account IFRS and PSAS-related implications.**	**Strong understanding and demonstrated experience in applying PSAB's criteria of control to assessing government control for government business enterprises**
Category A – Abbreviations	A1	A2	A3	A4

Summary of Our Qualifications

	A1	A2	A3	A4
Province of Ontario, Office of the Provincial Controller – Accounting Policy Guidance on IPO of Hydro One	✓	✓	✓	✓
Province of Ontario, Office of the Provincial Controller – Advice on Consolidation of GBEs	✓	✓		
Infrastructure Ontario – Project Mechano	✓	✓	✓	✓
Powerstream and the City of Barrie – Financial Statement Audit and Complex Accounting	✓	✓	✓	✓
Province of New Brunswick – Accounting Guidance on Sale of Specified Assets		✓	✓	✓

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	A1	A2	A3	A4
Government of Nunavut and Private Company – Public-Private Partnership Accounting Opinion		✓	✓	
Canadian Wheat Board – Project Cereal		✓	✓	✓
Infrastructure Ontario, Ontario Northland Transportation Corporation – Ontera Divestiture		✓	✓	✓
Liquor Control Board of Ontario – Complex Accounting Support		✓	✓	
Canadian Broadcasting Corporation – Complex Accounting Support		✓	✓	
Bridgepoint Hospital, William Osler Hospital, Niagara Health System – Public-Private Partnership Accounting Advice		✓	✓	✓
Private Equity Company – Transaction Advice on Proposed Transaction with a Provincial Government		✓	✓	✓

Relevant qualifications

Client	**Province of Ontario, Office of the Provincial Controller**
Project title	Accounting Policy Guidance on IPO of Hydro One
Project scope	Deloitte was engaged by the Office of the Provincial Controller to provide accounting analysis support in the undertaking of a significant transaction involving the IPO of Hydro One. The engagement required Deloitte to review preliminary analysis and work with the advisors and lawyers on the proposed transaction to understand its terms and to conduct a control analysis that considered the elements of control at varying stages of divestiture. The engagement involved strong analytical skills to examine issues, and used various methods of research, including completing jurisdictional scans through searching across Deloitte's global network to identify jurisdictions with similar transactions, as well as examination of accounting frameworks that would be applied internationally (IPSAS, IFRS), in the United States (GASB and US GAAP), or in the private sector in Canada. Deloitte worked with the OPCD to analyse the transaction and present its conclusion to stakeholders, including senior management, business advisors, and the Auditor General, who particularly scrutinized the transaction. The engagement required deliverables in the form of memorandums that addressed complex issues around determination of control and accounting for gains and ancillary transactions relating to the IPO. Deloitte also supported the OPCD in attending presentations to relevant stakeholders and by preparing presentations for management on key issues that needed further communication within the Treasury Board Secretariat.
Relevance to OPCD Project	This project demonstrates Deloitte's experience in delivering work to the Ontario Government, especially as it relates to providing complex accounting support. This engagement also demonstrates Deloitte's analytical and problem solving skills that were used to support management decision making and our depth of knowledge in Public Sector Accounting Standards, US GAAP and IFRS. It also highlights our ability to conduct jurisdictional scans within other provinces and amongst leading jurisdictions in other countries, and our ability to use the extended Deloitte network, within Canada and globally, to fully utilize the knowledge of a global firm. It further demonstrates our knowledge and experience synthesizing large volumes of information into reports with a concise executive summary that presents information of a qualitative and quantitative nature in an easy-to-understand format. This project also involved making recommendations to the OPCD in a transaction that would be heavily scrutinized by the Auditor General. Deloitte faced challenges in ensuring that all the relevant and accurate information was obtained from stakeholders to ensure that the context of the transaction was appropriately captured in the analysis. As well, given the number of associated transactions with the IPO, Deloitte worked with management to identify issues that were of potential risk and worked with management to create a workplan to document and analyse the transactions in time for the Auditor General review. This particular project involved accounting advisory work related to a

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	government divestment and understanding the implications of accounting decisions on the Province's financial reports and budgets.
Criteria Met	A1, A2, A3, A4

Client	**Province of Ontario, Office of the Provincial Controller**
Project title	Advice on Consolidation of GBEs
Project scope	Deloitte was engaged by the Office of the Provincial Controller to research and provide advice on the impact of changes in the accounting and reporting frameworks by GBEs and the overall impact on the Province of Ontario as a controlling shareholder. The engagement involved understanding major differences between US GAAP and IFRS and working with the OPCD to understand the impacts of transition and the ongoing impacts to the Public Accounts moving forward. The engagement involved strong analytical skills to examine issues, and used various methods of research, including understanding deep complex issues on employee benefits (IAS 19R) and asset retirement obligations (IAS 37). Deloitte worked with the OPCD to analyse and interpret the accounting differences that were being formulated by the GBEs and assisted in developing briefing material to communicate to management the impact of a GBE adopting a new accounting framework. Deloitte's involvement was with a variety of stakeholders, including the GBE, the OPCD, and senior management of Treasury Board, in addition to discussing issues in a confidential manner with members of PSAB staff and other jurisdictions.
Relevance to OPCD Project	This project demonstrates Deloitte's experience in delivering work to the Ontario Government and a variety of stakeholders, including the GBE, the OPCD, and various other parties that understand PSAS. This engagement also demonstrates Deloitte's strong analytical and project management skills that were used to support management decision making and demonstrated our ability to meet the confidentiality protocols of the Province of Ontario. It also demonstrates our outstanding relationship management skills, and demonstrates our ability to communicate thoughts and recommendations on proposed complex issues with senior management within the Ontario Government. It highlights our familiarity with PSAS, as well as IFRS, and our ability to use document review methods to find suitable alternatives. It also highlights our ability to make recommendations to a Ministry pertaining to an area of accounting currently being scrutinized by the Auditor General.
Criteria Met	A1, A2

Client	**Infrastructure Ontario**
Project title	Project Mechano
Project scope	Deloitte was engaged by Infrastructure Ontario to investigate and analyze the feasibility and potential impact of the partial privatization of a number of government operating agencies (LCBO, Hydro One, Ontario Lottery and Gaming Corporation and Ontario Power Generation). Deloitte's scope included analyzing corporate structures and governance options of the proposed "newco" and scoping a value for money methodology to assess the value achieved from the transaction. Deloitte facilitated multiple working sessions with two top tier investment banks and a legal firm to predetermine the accounting and tax implications of this multibillion dollar transaction. Deloitte was a key consensus builder and aligned the multiple internal and external project team members (Goldman, CIBC World Markets, and Torys) through facilitated, high pressure work sessions under short delivery timetables. Deloitte also conducted a review of domestic and international jurisdictions that monetized significant government assets to study how the proceeds were managed and reinvested. Jurisdictions reviewed included BC, Alberta, Australia, the UK, and New Zealand. The review included research on government policy documents, enabling legislation, public announcements and independent reports and assessments, particularly assessments by auditors general. In developing structures to hold the proceeds, Deloitte conducted a criteria based risk assessment to determine if the structures would deliver the desired fiscal and policy benefits, while also mitigating criticism from the Auditor General. With respect to the

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	value for money methodology, we developed a methodology that would have assessed the broader economic, social and public policy impacts of the transaction. In providing our services, Deloitte provided an integrated delivery team that understood the operating businesses of the government entities being considered. We mobilized an integrated and skilled team to provide real time consultation and analysis to consider fully the financial, debt and accounting implications of the capital market transactions.
Relevance to OPCD Project	In completing this project, Deloitte had to work within very tight timelines for delivery of the final work product. In addition, the capital market transactions contemplated were first of a kind and so unique, technical research into the proposed accounting impacts and analysis on the impact of Provincial debt and cash flows were required. Despite these challenges, Deloitte was able to successfully deliver a full functioning financial and accounting model and a report providing full consideration of the fiscal, accounting (GBEs and Provincial PSAS impact) and tax impacts of the transaction. We were able to do this because of our deep bench strength, integrated delivery team and sound operational knowledge of the government assets. Deloitte's team also possessed superior technical knowledge of accounting and tax implications of the capital markets transaction envisioned. We also had highly developed financial modeling skills and developed a robust financial model that was resilient throughout the assignment.
Criteria Met	A1, A2, A3, A4

Client	**Powerstream and the City of Barrie**
Project title	Financial Statement Audit and Complex Accounting
Project scope	Deloitte has been the auditor of Powerstream since 2004 and has worked with management through significant growth and a transition to the IFRS accounting framework. In addition to auditing Powerstream, Deloitte also audits the City of Barrie which accounts for Powerstream as a GBE. Deloitte has worked with Powerstream and the City of Barrie through various issues relating to the initial adoption of IFRS (with no rate regulated accounting impact), as well as through the implications of adopting IFRS on the application of the modified equity method for the City of Barrie. Deloitte has also been engaged in complex accounting consultations and provided technical accounting updates as they relate to IFRS for Powerstream.
Relevance to OPCD Project	This project demonstrates Deloitte's knowledge of the Energy sector in Ontario, as well as our ability to work with IFRS and PSAS in applying the modified equity method. Deloitte has worked with Powerstream through acquisitions and audited and reviewed control assessments as they relate to Powerstream and ultimately the City of Barrie.
Criteria Met	A1, A2, A3, A4

Client	**Province of New Brunswick**
Project title	Accounting Guidance on Sale of Specified Assets
Project scope	Deloitte was engaged by the Province of New Brunswick to provide advisory and accounting guidance on the potential sale of specified assets (impacting GBEs) owned by the Province of New Brunswick. In conducting this engagement, Deloitte had to understand the nature of the assets being sold, as well as the options on how to account for the transaction, as allowed under PSAB. In examining the options under PSAB, Deloitte looked to other accounting frameworks in accordance with the GAAP hierarchy, such as IFRS and US GAAP to identify options available to the Province of New Brunswick on how to account for the proposed transaction. The engagement involved an analysis of the options that would comply with the conceptual framework and the principles of PSAS, and an analysis of which option would be most beneficial to the Province of New Brunswick. Deloitte worked with the Province of New Brunswick to develop models that demonstrated the quantitative impacts of the proposed transaction and provided detailed analyses to the Province of New Brunswick supporting the recommended accounting choice. Deloitte worked with management to ensure that as facts

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	and circumstances changed, the analyses were updated on a timley basis and the related implications were thoroughly assessed.
Relevance to OPCD Project	This project demonstrates Deloitte's experience and expertise in working with the provincial governments within Canada, especially as it relates to complex accounting advisory for transactions under the PSAS framework, including examining options under other accounting frameworks. The engagement involved analysing the impact of anticipated transactions at various organizations, including GBEs, and translating the results to the ultimate parent under PSAS. It showcases Deloitte's ability to provide advice on complex accounting issues and complex financing transactions under IFRS and PSAS. The engagement required strong analytical skills and knowledge of public sector accounting in order for Deloitte to present alternative accounting strategies on how to account for the sale transactions. It involved Deloitte providing a breakdown of the implications of the accounting decisions on the Province of New Brunswick's financial reports and budgets. As the sale of the specified assets would have affected the Province of New Brunswick's Public Accounts, the recommendations put forth by Deloitte would have been scrutinized as part of the annual audit by the Auditor General of New Brunswick. Deloitte faced challenges in dealing with facts and circumstances that changed frequently based on new information that would arise. Deloitte dealt with these challenges by demonstrating to the client where the risk pressure points rested, which ultimately helped inform management in their decision making process. Deloitte was successful in this engagement by providing analysis on a timely basis and updating documentation.
Criteria Met	A2, A3, A4

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Client	**Government of Nunavut and Private Company**
Project title	Public-Private Partnership Accounting Opinion
Project Scope	As part of its bid on a public-private partnership for the Iqaluit Airport in Nunavut, a private company engaged Deloitte to provide the Government of Nunavut with an accounting opinion on how to account for a public-private partnership that was being proposed, which included an assessment on how the transaction might impact the borrowing limits of the Government of Nunavut. In carrying out this engagement, Deloitte worked extensively with the financial advisors and the lawyers to understand the nature of the proposed transaction as well as the model that was developed and submitted to the Government of Nunavut as part of this successful proposal. Deloitte conducted a thorough review of the financial model involved and estimated what the potential asset or liability could be upon completion. As part of the proposal, Deloitte provided its accounting opinion that examined who controlled the asset being built, how the asset should be classified, and the nature of the obligation that would reside with the Government of Nunavut, and the impact on the financial reporting and the borrowing limits of the Government of Nunavut.
Relevance to OPCD Project	This project highlights Deloitte's experience working with proposed transactions where the final form of the transaction is uncertain, and our ability to deliver an accounting opinion that faced scrutiny by the Federal Auditor General. This highlights our experience in providing accounting advice on capital investments and public-private partnerships, as well as examining the differences between PSAS and IFRS on the creation of a new third party entity constructing an asset for the Government of Nunavut. This engagement demonstrates Deloitte's ability to take complex models and complex issues and provide a succinct point of view that was acceptable to the private company involved, the Government of Nunavut, and ultimately the Federal Auditor General. As there is currently not a standard on public-private partnerships, Deloitte also relied on the PSAS conceptual framework and the GAAP hierarchy (with references to IPSAS, IFRS, and US GAAP) to guide the formation of our viewpoint and ultimately our accounting opinion. The engagement faced the challenge of Deloitte providing accounting advice on how to treat a transaction that would be audited two years after our advice had been provided. Deloitte worked with management and the Government of Nunavut to ensure that the knowledge provided in our advice was transferred so that management could adjust its position if facts and circumstances changed. The engagement was successful because the private company was successful in its bid and because the Government of Nunavut has been able to use the advice to account for the transaction.
Criteria Met	A2, A3

Client	**Canadian Wheat Board**
Project title	Project Cereal
Project scope	Deloitte advised the Canadian Wheat Board ("CWB") throughout the transformative changes following legislation enacted by the Government of Canada that enabled deregulation of Western Canada's grain export/domestic sales. Deloitte provided CWB with strategic advice in shaping a completely new business model and ran a competitive sale process for the privatization and transition of CWB into an open-market environment. Deloitte prepared procurement documents to solicit potential buyers and prepared documentation essential to the sale. Deloitte led both the evaluation of bids and negotiation of the final deal. Deloitte ran a competitive financing process to raise debt to fund and execute CWB's acquisition strategy and supported CWB with the due diligence and execution of several acquisitions. In completing this work, Deloitte: • Assisted CWB in changing their business model following de-regulation and modifying their operations to de-risk and focus on more profitable parts of the value chain • Outlined the accounting implications for the CWB and the Government of Canada • Ran a highly confidential and complex process to find a private acquirer for CWB, soliciting interest from over 50 international financial and strategic investors

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	• Prepared procurement and process documents, bid submission requirements and led negotiations of price and terms with potential investors to maximize the value of CWB • Assisted CWB to design evaluation criteria and perform an evaluation of the bids received in the context of Governments Ownership • Developed and managed a complex financial model detailing CWB's forecasted performance throughout the transaction process and negotiation. Deloitte worked with CWB over a 2.5 year period, initially developing a strategy to position CWB to operate successful in the open market environment, and later to help compete over $150 million of acquisitions and new elevator builds as part of this strategy. These capital additions were made with the assistance of a large bank financing (~$100M) that we helped secure from a Schedule A Canadian Bank, with favourable terms and conditions. These activities were completed within an accelerated timeline provided by the Government of Canada and with regular scheduled and unscheduled discussions and upgrades to various departments and groups within the Government of Canada including the Department of Agriculture, Finance, Legal, and the PMO, among others. Ultimately the business was sold into a joint venture structure that has a combined value of nearly $600M.
Relevance to OPCD Project	Deloitte's work with CWB demonstrates our ability to bring together and manage a large project team and a complex, politically sensitive divesture of a Canadian Crown Corporation. It also highlights our ability to provide expertise from relevant areas such as sell-side advisory, valuation, technical accounting and other highly specialized services operating as an independent and reliable advisor to a government organization undergoing significant change. It demonstrates our ability to provide the capacity and capability to bring the requisite knowledge to help a client complete a series of transactions with overlapping timelines, each transaction requiring a wide range of skill sets. Moreover, it demonstrates our ability to navigate through a complex stakeholder environment and communicate with many departments within the Government of Canada, and meet deliverables set by the Federal Government. This project highlights our ability to provide strong technical accounting advice to Canadian governments, as well as our ability to provide advice on capital investment, joint ventures and proposed government divestures.
Criteria Met	A2, A3, A4

Client	**Infrastructure Ontario – Ontario Northland Transport Commission**
Project title	Ontera Divestiture
Project Scope	Deloitte was engaged by Infrastructure Ontario ("IO") as the Transaction and Valuation Advisor to assist in the divestment of the Ontario Northland Transport Commission ("ONTC"). The engagement focused on strategic services relating to the proposed divestment process as a whole, including complex accounting advice. More recently Deloitte's valuation team has provided valuation services relating to the divestment of ONTERA, a telecommunications company and subsidiary of ONTC. Further, based on the preliminary work provided to IO, Deloitte's Public Sector Accounting team worked with IO to assist in an analysis of the accounting treatment of the assets being divested, including analysis under PSAS, IFRS and ultimately examining the implications of the divestiture of ONTC, including an assessment of the relinquishment of control.
Relevance to OPCD Project	The over-arching complexity associated with this assignment has been the high level of political and public scrutiny of the proposed divestment of the ONTC assets. The rail system is considered a vital piece of infrastructure to the Northern communities, not only from a transportation point of view but also from an employment perspective. Public and political pressure to preserve both employment and the retention of divestment of the separate lines of business with the communities they currently reside. This engagement highlights our accounting expertise in working under PSAS for government organizations and divestments under IFRS and PSAS. This engagement also highlights Deloitte's experience in assessing the relinquishment of control of government organizations.
Criteria Met	A2, A3, A4

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Client	**Liquor Control Board of Ontario**
Project title	Complex Accounting Support
Project Scope	Deloitte has been engaged as the complex accounting advisor for LCBO since it started preparing its transition to IFRS. LCBO is a Provincial Crown Corporation that reports under IFRS and is consolidated by the Province using the modified equity method of accounting. Deloitte has recently been involved in helping LCBO through a complex transaction relating to the sale and leaseback of its head office, which has faced scrutiny from the Auditor General. As well, Deloitte has been involved in helping LCBO determine the impact of new accounting standards and has performed procedures on the quantitative analysis done by LCBO to determine the impact of adopting the new lease standard, IFRS 16. Deloitte has also been engaged to help LCBO prepare documentation on new aspects of its business for the Auditor General, such as selling beer in grocery stores and cloud computing arrangements. Deloitte worked with management in these situations to identify the accounting issues, outline the options that were available under IFRS, and if not clear, provide guidance based on interpretations such as the IFRS Discussion Group of CPA Canada, or through analogy to other standards, or by referencing US GAAP, to provide management with a list of options and a recommended path forward. Deloitte is currently assisting LCBO on the adoption of IFRS 15 and IFRS 16 and is assisting management in executing implementation plans that Deloitte developed with management. Deloitte also works with management to review the annual financial statements and provides commentary on the disclosures of complex transactions or new accounting standards.
Relevance to OPCD Project	This project highlights Deloitte's experience in working with management and the Auditor General on accounting issues under IFRS, our ability to provide advice on emerging issues and new standards, as well as advice relating to complex transactions relating to capital investments and divestitures that exist at LCBO. Challenges for this engagement have involved helping management with issues on new transactions for which new standards have not yet been issued, as well legacy accounting issues that arise when new accounting standards are implemented. Deloitte has been successful on delivering on this engagement by providing management with the tools and resources to implement new accounting standards, and by reviewing management's analysis before sending to the Auditor General or the Audit Committee.
Criteria Met	A2, A3

Client	**Canadian Broadcasting Corporation**
Project title	Complex Accounting Support
Project Scope	Deloitte has been engaged as the complex accounting advisor for Canadian Braodcasting Corporation ("CBC") since it started preparing its transition to IFRS. CBC is a Canadian Crown Corporation that is an OGO that chooses to report under IFRS for the purposes of its financial statements, but is consolidated under PSAS for the Federal Public Accounts. Deloitte has been advising CBC on the implementation of new IFRS and PSAS standards since 2009. Our engagement has also involved ad hoc accounting advice in dealing with complex transactions, such as divestiture and acquisition of assets, as well as assistance in the development of financial accounting policies. Deloitte has also assisted CBC is discussion with the Auditor General of Canada on issues that have arisen as a part of its audit and has supported management in the analysis provided to the Auditor General of Canada. Recently, Deloitte has assisted CBC in assessing the adoption of new accounting standards (IFRS 9, 15, and 16) and has provided technical training to CBC on these standards. Deloitte also reviews CBC's financial statements on a quarterly basis, as well as the annual financial statements and provides comments to CBC on how we think the communication of their financial results can be improved. This engagement has also involved a review of internal documentation and policies to determine whether they have been appropriately updated for changes in accounting standards and recommended improvements to make the policies compliant with the appropriate accounting framework.
Relevance to OPCD Project	This project highlights Deloitte's experience working with other government organizations, especially as it relates to complex accounting support and as it relates to support for

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	changes in accounting standards, including the impact of significant investments and divestitures. This engagement involves writing reports, presenting options to the management of CBC and making recommendations based on an analysis of the available alternatives. As the ongoing advisor to CBC, Deloitte is constantly challenged with ensuring that it keeps up to date with CBC's business activities to help management think through accounting implications that could arise from its initiatives. As well, Deloitte helps CBC think through implementation considerations for new standards to ensure smooth transitions to new accounting standards, under IFRS and PSAS. Deloitte has had a successful outcome with CBC through its ability to project manage and to provide prompt responses to management when issues arise.
Criteria Met	A2, A3

Client	**Bridgepoint Hospital, William Osler Hospital, and Niagara Health System**
Project title	Public-Private Partnership Accounting Advice
Project Scope	Deloitte was engaged to provide accounting advice to each of these government organizations on the financial accounting impact of the public-private partnership that each hospital undertook in the construction of a new facility. As there is currently no standard on public-private partnerships, Deloitte was required to review the details of the transactions, including the financial models, the agreements with the private sector operator, and the accountability agreements between Infrastructure Ontario and the hospitals to determine the full accounting impact of these arrangements. Deloitte worked with management and the financial models developed to come up with amortizing obligation schedules, and models that outlined the impact of the transaction on the debt and on the surplus/deficit over the life of the transaction. Deloitte's accounting advice outlined the options available for accounting for these transactions under PSAS, with references to other GAAPs such as IFRS and IPSAS, and took the facts and circumstances from each agreement to conclude on issues such as ownership of assets, recognition of obligations under PS 3200, how assets and liabilities should be measured and what costs should be included upon recognition.
Relevance to OPCD Project	This project highlights Deloitte's experience in working on complex arrangements and providing clients with options to consider, along with our advice on how these transactions should be treated under PSAS. This shows our experience in working with public-private partnerships and the accounting implications of those transactions which have recently been scrutinized by the Auditor General. Additionally this engagement shows our ability to analyse potential acquisitions of assets and to demonstrate the impact on the current financial statements, but also on financial statements over the life of the asset and the obligation period. These engagements have presented challenges because of the lack standards for public-private partnerships in PSAS. Deloitte has been successful in these engagements by providing advice to clients and helping them through issues that enhanced their preparation for the audit.
Criteria Met	A2, A3, A4

Client	**Private Equity Company**
Project title	Transaction Advice on Proposed Transaction with a Provincial Government
Project Scope	Deloitte was engaged to advise a private equity company on the impact of transactions it was proposing to a Provincial Government to help inform the advisors structuring the deal on how the terms of the deal would impact the financial statements of the province. Deloitte worked with various stakeholders and professional advisors to work through various scenarios to help the organization determine a transaction structure that would be most advantageous to the Provincial Government. The engagement required hypothetical analysis that required research and support under PSAS, PSAS NPO, IPSAS, IFRS, and US GAAP.

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Relevance to OPCD Project	This project highlights Deloitte's experience in working on proposed transactions with complex structures and demonstrating the impact of GBE divestitures for senior governments who follow PSAS. It also demonstrates our abilities to work under IFRS and PSAS to communicate with lawyers and advisors the impact of proposed transactions. Deloitte was successful in this engagement by working with the advisors and updating its analyses as the contemplated transaction evolved and worked with the advisors to highlight accounting issues as terms and conditions were being contemplated. Deloitte worked with the advisors to provide analysis that ultimately met the objectives that were being sought with the proposed the transaction.
Criteria Met	A2, A3, A4

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Schedule A: Pricing (Separate Document)

Under separate cover

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Schedule B: Qualifications and Experience of Our Team

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Martin Roy, CPA, CA

Profile

Mr. Roy is a partner in Toronto's Accounting & Transactions Advisory Practice within the Audit Advisory Services group. He is also a member of the Canada-wide team of experts on IFRS and complex accounting matters. Prior to joining Deloitte ten years ago, he spent six years working for a large Canadian financial institution, primarily in the area of accounting policies and in capital management. In all, he has more than 25 years of experience in accounting and financial reporting.

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Relevant experience

His expertise covers several areas; specifically, the consolidation and reporting of structured entities (often used in public-private partnerships), leases, securitization and financial instruments more broadly, including structured products, according to IFRS, ASPE, PSAS and US GAAP. His clients operate in several industries, more particularly, the financial services sector, retail, resources and real estate industry.

Of particular interest, during the past several years, he has served as a technical accounting advisor to the Province of Ontario on various projects including, most recently, the possible arrangement between Metrolinx and municipalities and the privatization of Hydro One. Similarly, M. Roy currently serves as one of LCBO's technical accounting advisor and has done so for several years. He has also provided technical accounting advice to the Toronto Port Authority and various other public entities in regard to public-private partnerships.

Finally, as a member of Deloitte's Canada-wide team of experts on IFRS and complex accounting matters, Mr. Roy serves as a technical resource for the firm's "Centre of Excellence" in his areas of expertise, for matters such as consultations and writing the firm's response to exposure drafts issued by the IASB and the AcSB. In fact, he is Deloitte Canada's subject matter authority on consolidation and leases which implies that he is most knowledgeable about the complexities associated with these areas of accounting, has access to a large network of local and international experts and is responsible for determining Deloitte Canada's views on these accounting topics. He also plays a major role within the firm in the training of professionals, and he is frequently invited to speak on accounting topics at conferences.

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Office of the Provincial Controller Hydro One IPO Analysis: 2015 – 2016: Martin was Deloitte's subject matter authority on control and consolidation for an engagement to advise a provincial government on a large complex transaction involving a GBE. This engagement required Deloitte to work with the client to understand the transaction being proposed and to provide guidance to relevant stakeholders on the accounting implications of the transaction. Deloitte worked with management and various professional advisors to inform decision makers about the implications of the proposed transaction and to help the client document their accounting analysis and conclusions. Deloitte also assisted the client in presenting its analysis and views to the Auditor General. This engagement required extensive research across all parts of the CPA Canada Handbook (not-for-profit, public sector, private company, and public reporting issuers) and US GAAP to support the conclusions reached by management.

Government of Nunavut Accounting Advice: 2014: Martin was Deloitte's subject matter expert on an engagement to provide accounting advice to the Government of Nunavut and a private company for a public-private partnership for the Iqaluit Airport in Nunavut. A private company engaged Deloitte to provide the Government of Nunavut with an accounting opinion on how to account for a public-private partnership that was being proposed, which included an assessment on how the transaction might impact the borrowing limits of the Government of Nunavut. In carrying out this engagement, Deloitte worked extensively with the financial advisors and the lawyers to understand the nature of the deal as well as the model that was developed and submitted to the Government of Nunavut as part of this successful proposal. Deloitte conducted a thorough review of the financial model involved and estimated what the potential asset or liability could be upon completion. As part of the proposal, Deloitte provided its accounting opinion that examined who controlled the asset being built, how the asset should be classified, and the nature of the obligation that would reside with the Government of Nunavut, and the impact on the financial reporting and the borrowing limits of the Government.

Provincial Government Business Enterprise Complex Accounting Support: 2013 – Current: Martin is the lead partner on a Deloitte engagement to advise a Provincial Government Business Enterprise on complex accounting issues resulting from new transactions, and challenges with adopting new accounting standards under IFRS around employee future benefits, revenue, and leases. Deloitte supports this client by providing updates on changes in accounting standards and by working with the client to develop analysis on the impact of new standards and proposed transactions.

Reference

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Matthew (Matt) Colley, CPA, CA

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Profile

Matthew is a Senior Manager in the Audit Advisory & Transactions Practice within the Audit Advisory Services group, which focuses on Accounting Advisory, Transaction Consultation, Finance Transformation, and Audit Analytic services. Matthew has over 11 years of public accounting experience and has been exposed to a variety of engagements and cross functional teams. Matthew joined Deloitte in 2004 and spent the majority of his initial years with the firm performing attest services mainly in the public sector organizations. Matthew currently advises public sector and private sector organizations on complex accounting matters, as well as systems and process improvements. From 2012 to 2014, Matthew was seconded to Deloitte's National Office to assist audit practitioners with complex accounting issues and to help audit practitioners prepare their clients for new accounting standards that were being developed under IFRS, ASPE, Accounting Standards for Not for Profit Organizations and PSAS, including standards for Government Not-for-Profits.

Through his experience in auditing and advising many different types of public sector organizations, Matthew has been exposed to various public sector accounting and regulatory issues. In addition to providing complex accounting advice to public sector organizations, Matthew is currently supports clients in finance transformation initiatives and helping organizations elevate the profile and efficiency of their finance function.

Relevant experience

Office of the Provincial Controller Hydro One IPO Analysis: 2015 – 2016: Matthew was Deloitte's lead senior manager on this engagement to advise a provincial government on a large complex transaction involving a Government Business Enterprise. This engagement required Deloitte to work with the client to understand the transaction being proposed and to provide guidance to relevant stakeholders on the accounting implications of the transaction. Deloitte worked with management and various professional advisors to inform decision makers about the implications of the proposed transaction and to help the client document its analysis and conclusions. Deloitte also assisted the client in presenting the client's analysis and views to the Auditor General. This engagement required extensive research across all parts of the CPA Canada Handbook (not-for-profit, public sector, private company, and public reporting issuers) and US GAAP to support the conclusions reached by management.

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Office of the Provincial Controller Consolidation of GBEs: 2016: Matthew was Deloitte's lead senior manager on this engagement to advise a provincial government on consolidation issues with respect to Government Business Enterprises. This engagement required Deloitte to work with the client to understand the US GAAP to IFRS differences for an electricity sector entity. The engagement involved analysing potential GAAP differences and determining whether PSAS required the application of IFRS when US GAAP was being accepted as the primary framework for the GBEs stand-alone reporting. This engagement required extensive research across all parts of the CPA Canada Handbook to support the conclusions reached by management.

Office of the Provincial Controller Pension Accounting Advice: 2016: Matthew was Deloitte's lead senior manager on this engagement to advise and ultimately opine on the treatment of a joint defined benefit plan for a provincial government. This engagement required Deloitte to work with the client to discuss the merits of the definition of an asset in the context of pension accounting, and ultimately sharing firm views with senior management, and the Auditor General. Ultimately the engagement resulted in the provision of a confidential accounting opinion that supported the accounting treatment retained by management.

Federal Government Complex Accounting Advice: 2017: Matthew was the lead senior manager on this engagement to advise a department of the Government of Canada on how to account for significant infrastructure assets that were being invested in by an Agency. The engagement involved obtaining an understanding of the infrastructure assets and the modernization of those assets, and ultimately providing accounting interpretation of 20 years' worth of transactions that had not yet been captured by the Government of Canada. The engagement resulted in the addition of over $500M in assets which was documented through a formal report, and ultimately discussions with the Federal Comptroller's Office, the Auditor General of Canada, and the Departmental Audit Committee.

Provincial Government Business Enterprise Complex Accounting Support: 2013 – Current: Matthew is the lead senior manager on this engagement to advise a Provincial Government Business Enterprise on complex accounting issues resulting from new transactions, and challenges with adopting new accounting standards under IFRS around employee future benefits, revenue, and leases. Deloitte supports this client by providing updates on changes in accounting standards and by working with the client to develop analyses on the impact of new standards and proposed transactions.

Federal Crown Corporation Complex Accounting Support: 2013 – Current: Matthew is the lead senior manager on a team engaged to provide a crown corporation with ad hoc accounting analysis and support in adopting new accounting standards and accounting for significant transactions. This engagement has also involved a review of internal documentation and policies to determine whether they have been appropriately updated for changes in accounting standards and recommended improvements to make the policies compliant with the appropriate accounting framework.

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Private Company Complex Accounting and Finance Transformation Support: 2013 – 2015: Matthew was the lead senior manager on this engagement team that supported a private company with over 150 subsidiaries, following six different accounting frameworks, consolidate to a single reporting framework being IFRS. The engagement also required Deloitte to support the development of the financial statements, supporting management in its selection of the group accounting policies and advising on required vs desired disclosures with the Board of Directors. Deloitte also worked with the client's software provider to develop a customized consolidation software which Deloitte used to redesign the financial close process to include the new consolidation activities.

Ontario Board Governed Agency Mandate Review: 2016 – Current: Deloitte was engaged by a Ministry of the Province to review the mandate of one of their agencies and report on whether the agency's mandate is still relevant to the goals and priorities of the Province. As part of this review, Matthew lead a team in conducting a review that looked at how the agency complied with directives and policies of the Province, and whether there were any duplication in the activities with other agencies within the Province.

Ontario Government Not-for-Profit Accounting Advisory (Healthcare): 2013 – Current: Matthew is the lead senior manager on this engagement providing complex accounting advice to a number of Ontario hospitals on specific transactions and the implementation of new accounting standards. Specifically Deloitte was engaged to help three hospitals to provide support on complex accounting issues that ranged from investigating balance sheet accounts and providing analytical support, to accounting for public-private partnerships, lease agreements, and interpreting and implementing new accounting standards.

Ontario Board Governed Agency Accounting Advisory: 2013 – Current: Deloitte was engaged as the auditor for a Government Not-for-Profit Organization that is consolidated by the Province, which needed support in analysing and thinking through specific transactions. Matthew served as a subject matter expert for the engagement team and worked directly with the client to help them improve the analysis that was being performed on transactions in relation to public-private partnerships and contaminated sites. As well, Matthew worked with the Government Agency to identify issues around capitalizing certain costs under PS 4230 and also supported them through their analysis of accounting for a number of public-private partnerships.

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Ontario Internal Audit Support-Review of the Implementation of a New Accounting Standard (PS 3260): 2015: Deloitte was engaged to advise the internal audit function within a provincial government on the complexities of implementing a new accounting standard on contaminated sites. Matthew was the lead senior manager on the engagement which involved helping internal audit provide recommendations on how to deal with complex issues associated with implementing the accounting standard and providing support to various ministries on how to improve their internal controls and documentation around the implementation of the accounting standard. The engagement also involved assisting management and internal audit in developing a position paper on how to treat certain complex issues resulting from the implementation of PS 3260.

Energy Company Finance Transformation: 2014: Matthew was the lead senior manager engaged to provide advice on process improvements related to the financial close process on an energy company and its 16 subsidiaries to increase the efficiency and improve the quality of financial statement preparation. Deloitte worked with the client to identify issues with their current state reporting process and identified opportunities for improvement. Deloitte developed an implementation plan with the client which resulted in reducing the financial close process from 84 days down to 23 days.

Ontario Internal Audit Support – Review of Balance Sheet Reconciliation Processes: 2015: Deloitte was engaged by internal audit to look at balance sheet reconciliations across multiple ministries in the OPS and to advise on how ministries could improve the controls and processes around their balance sheet account reconciliations. The engagement involved an assessment of whether reconciliations were being appropriately completed, an examination on what would trigger an account to be reconciled, and whether existing reconciliations that were being completed were necessary. The engagement required Deloitte to provide findings to individual ministries, confirm the accuracy of the findings, and build consensus on the appropriateness of the recommendations. The engagement resulted in final reports for each ministry and an OPS wide report that was presented to the Corporate Wide Audit Committee.

Ontario Treasury Board Secretariat – Business Case Submission Review: Deloitte was engaged by the Treasury Board Secretariat to research best practices with respect to business case submissions to help the Secretariat improve the consistency and quality of the submissions that were being evaluated by the Treasury Board. In conducting this engagement, Deloitte had to understand the current policies in place and why there was a desire for change in the current processes that had been developed. The engagement involved a jurisdictional scan and leverage of Deloitte's network and experience in working with treasury boards globally to understand what leading practices existed. The review required Deloitte to also evaluate the current submission process in Ontario and to report and recommend changes that should be made to the Treasury Board business case submission process that could be used by a variety of parties, from individual ministries to

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agencies of the Province. Deloitte completed the engagement with the development of an implementation plan and the development of a framework to be used in preparing business case submissions including tools to be used with the framework and the associated training material that was to be used to train employees from various ministries on the submission process.

Ontario Hospital Association – Joint Not-for-Profit Statement of Principles Response Facilitation: Deloitte was engaged by the Ontario Hospital Association to facilitate a response of Ontario's 153 hospitals to proposed changes to their accounting standards. The engagement required Deloitte to work with a subcommittee of hospital members to formulate a sector response to the proposed changes. Deloitte was required to analyse the statement of principles, and help the members understand the impact of the proposed changes on their organizations by understanding the implications of the future state. As part of this engagement, Matthew participated in an OHA webcast where he explained to hospital finance team members, CFOs and CEOs the impacts of the proposed changes. Additionally, Deloitte worked with the OHA to develop a written submission to the PSAB that clearly articulated the views expressed by their members.

ROF Infrastructure Development Corporation – Policy Guidance: Deloitte was engaged by Infrastructure Ontario and Lands Corporation to provide financial policy guidance to a newly created other government entity. In conducting this engagement, Deloitte had to understand the nature of ROFIDC's business and future goals, the objectives of the oversight ministry, as well as the types of transactions that would take place over the life of the organization. The engagement involved an analysis of the different accounting frameworks and an analysis of which accounting framework would be best suited for ROFIDC, based on the available options. This engagement also involved obtaining a thorough understanding of the nature of transactions that took place within the organization, and recommending an appropriate accounting treatment based on the accounting framework selected. Deloitte provided detailed memorandums to ROFIDC supporting the accounting framework chosen and the accounting treatments of the various transactions that took place in the organization's first year of operations.

Ministry of Finance – Corporate Hyperion Information Reporting Project (CHIRP): 2014: Deloitte was engaged in regard to the Corporate Hyperion Information Reporting Project (CHIRP), the project designed to address the need for increased frequency and quality of actual results reporting, as well as to provide greater transparency on current and future pressures. With implementation spread out across a number of phases, Matthew provided support to the engagement in understanding the complexities involved in the public accounts process. The project was designed to:

- Ensure that the design of HFM supports both in year and year-end reporting based on relevant accounting policies and that any future oriented information can be prepared on the same basis for comparative purposes

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- Review of design plans/configurations for HFM and assessment relative to best practices
- Review of and recommendations associated with changes to the consolidation methodology
- Work with internal resources to develop the configuration for HFM calculations, processes, system logic and data interfaces
- Develop a plan to transition historic balances to HFM and associated process
- Delivery of a stakeholder engagement plan for all impacted ministries, consolidated entities and central agencies and negotiation of a reporting plan, and
- Implement the configuration of the HFM tool in the client's test environment and work with the client to load yearly historical data and current year Ministry and consolidated organization's submission.

Reference

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Sean Morrison, CPA, CA

Profile

Sean Morrison leads the Accounting & Transactions Advisory Practice in Canada for Deloitte. Sean specializes in providing advisory services in connection with the application of IFRS, ASPE, US GAAP, and Canadian and US regulatory requirements to public and private Canadian companies, across a variety of industries. In this capacity, Sean works with Canadian companies in the application of IFRS, the implementation of new IFRS accounting standards (including IFRS 15, IFRS 16, and IFRS 9), the conversion of financial statements to IFRS, the preparation of reconciliations of financial statements between different reporting frameworks, and the analysis of complex transactions and contracts.

Prior to his return to the Canadian Firm in December 2005, Sean spent over three years with the Global IFRS & Offerings Services ("GIOS") Group in London, England. While abroad, Sean, along with a group of senior practitioners, specialized in providing US GAAP and SEC advisory and related services to international clients of Deloitte Touche Tohmatsu, with a focus on guiding companies through equity and debt offerings in the United States. During that time, Sean worked exclusively with non-US companies in a variety of industries in several countries, providing consultative services in connection with the application of US GAAP and the SEC's regulations in connection with US capital markets transactions. These services included the preparation of carve-out financial statements, conversions of financial statements from local GAAP to US GAAP, collaborating with attorneys and investment bankers in the preparation of offering prospectuses, evaluating capital raising alternatives and options, consulting with clients on SEC compliance issues, and assisting clients in their response to SEC comment letters.

Sean is a frequent speaker at both external and internal conferences, and has developed and facilitated numerous IFRS training seminars.

Relevant experience

- Royal Bank of Canada
- Brookfield Asset Management
- Canadian Air Transport Screening Authority
- Brookfield Infrastructure Partners
- Canadian Broadcasting Corporation

Reference

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Frans van Schaik

Profile

Professor Frans van Schaik is an advisor in IPSAS implementation to national governments and international public sector organizations, and an author and speaker about IPSAS and Public Financial Management (PFM). He has been a member of IPSASB (International Public Sector Accounting Standards Board), the global standard setting body for the financial reporting by governments and intergovernmental organizations, from 2006 through to 2011. He was a member of IPSASB at the time when the Board issued IPSAS 22 through IPSAS 32 and voted in favour of all of these eleven standards. He is a member of the Consultative Advisory Group (CAG) of the IPSASB since 2016. Frans van Schaik has been an accounting and auditing partner of Deloitte in the Netherlands since 1996. He holds the Register accountant-degree (Certified Public Accountant). He is a full Professor of Management Accounting at the University of Amsterdam (part-time) and lectured at the University of Tilburg and the Royal Military Academy in the Netherlands.

Subject Matter Expert - IPSAS
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Professional practices specialties

- International accounting expert, specialized in IPSAS (International Public Sector Accounting Standards (member IPSAS Board 2006 - 2011 and member IPSASB Consultative Advisory Group 2016 -)
- Advisor on IPSAS implementation, author and speaker on matters relating to IPSAS and Public Financial Management (PFM)
- IPSAS expert for IMF and World Bank

Relevant experience

Central governments implementing accrual IPSAS
Botswana, Iceland, Kenya, Peru, Serbia, South Africa, Tanzania, Uganda, United Arab Emirates, Colombia, Kyrgyz Republic, Romania, Chile, Abu Dhabi, Kazakhstan, Kuwait

Central governments implementing cash-basis IPSAS as a step towards accrual IPSAS
Belize, Fiji Islands, Iran, Iraq, Jordan, Laos, Lesotho, Liberia, Montenegro, Rwanda, Seychelles, Solomon Islands, Sudan, Swaziland, Vietnam, Zambia, Zimbabwe, Maldives

Subnational governments implementing accrual IPSAS
Provincia de Córdoba (Argentina), Provincia de San Juan (Argentina)

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Supranational organizations implementing accrual IPSAS

Economic Community of West African States, Association of Southeast Asian Nations, Benelux Bureau of Intellectual Property, Caribbean Community, Commonwealth of Nations, European Commission, Food and Agriculture Organization, International Criminal Court, International Renewable Energy Agency, International Thermonuclear Experimental Reactor, North Atlantic Treaty Organization, Organisation for Economic Co-operation and Development, United Nations High Commissioner for Refugees, United Nations Secretariat, World Health Organization

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Deloitte-Schedule A-OPCD-Complex Accounting Proposal_Final_20170505.pdf

Deloitte.

Complex Accounting Support for Electricity Sector Accounting

Proposal to serve the Office of the Provincial Controller

Schedule A – Pricing Schedule

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Schedule A – Pricing schedule

Please provide the following information in accordance with Sections 2.2.1 and 2.2.2 of this Request for Services:

Legal Name of vendor:
Deloitte LLP

Part A – Vendor personnel

Complete the following table in respect of all proposed Vendor Personnel that will perform the Services and/or provide the Deliverables. Vendors should not include proposed Subcontractors in this Part A of Schedule A.

List the names of consultants who will be assigned to the project	Role and experience level
Martin Roy	Lead Engagement Partner
Matthew Colley	Engagement Senior Manager

Will Subcontractors be used for this Project? Yes [ ] No [X] If “Yes”, complete Part B.

Part B – Vendor subcontractors

Complete the following table in respect of the proposed Vendor Subcontractors at any tier of subcontracting, including any Vendor contractors that will perform the Services and/or provide the Deliverables.

Legal name of subcontractor	List the names of consultants who will be assigned to the project	Role and experience level
N/A		

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Part C – Fixed price

In the following table, enter the Fixed Price in respect of each role to be performed and the particular Deliverables to be provided, which amount is fixed and not subject to change unless otherwise agreed to by the Client and the Vendor in a Change Order.

For the purposes of bidding, please do not alter the number of working days for each role.

Fixed Price for each deliverable	
• One (1) Senior Consultant/Project Lead shall provide up to 40 working days of effort over the term of the agreement. The Vendor shall provide all deliverables as described in Section 1.5 (Client's Requirements).	$150,800
• One (1) Intermediate Consultant/Sr. Analyst shall provide up to 25 working days of effort over the term of the agreement. The Vendor shall provide all deliverables as described in Section 1.5 (Client's Requirements).	$81,925
Total fixed Price:	**$232,725**

Part D – Other expenses

In the following table, Vendors should list all expenses applicable to the Project that have not been included in the Total Fixed Price amount as stated in Part C of this Schedule A. Vendors should review the Travel, Meal and Accommodation Expenses section of the RFS prior to completing this table.

Expenses by type (List each item below):	**Amount**
N/A	**$**
	$
Total Other Expenses:	**$ 0**

Part E – Maximum rates

In the following table, Vendors shall calculate Subtotal Price by adding Total Fixed Price, as stated in Part C of this Schedule A, to Total Other Expenses, as stated in Part D of this Schedule A.

Vendors shall calculate Maximum Price by adding the Subtotal Price to the applicable HST.

Subtotal price (Part C + Part D):	**$ 232,725**
HST (if applicable):	**$ 30,254**
Maximum price (Subtotal price + HST):	**$ 262,979**

Part F – Per Diem rates – For change orders only

In the following table, enter the Per Diem Rates in respect of each particular Role to be performed which amount is fixed and not subject to change unless otherwise agreed to by the Client and the Vendor in a Change Order.

In the event that Follow-on work is requested, the Ministry will prepare a Change Order in accordance with the Master Agreement.

	Per Diem Amount
• One (1) Senior Consultant/Project Lead	$3,770 (per 7.25 hour day)
• One (1) Intermediate Consultant/Sr. Analyst	$3,277 (per 7.25 hour day)

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Reference materials.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Reference materials
Date: Saturday, October 15, 2016 09:26:36
Attachment 1: Pension Asset Ceiling Report (7600 Report).pdf
Attachment 2: Pension Asset Analysis (modified extract).docx

Lucy,

We received permission to share the attached opinion with you for purposes of the work you are doing on the position paper. Please treat this document as confidential.

In case you find it helpful, I am also attaching an extract of the letter in word format (statement of facts and analysis sections).

Take care,

Nadine

Pension Asset Ceiling Report (7600 Report).pdf

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October 2, 2016

Private and confidential

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

Dear Ms. Hughes:

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

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

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

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

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

Statement of facts and assumptions (continued)
Through a six-member Partners' Committee, the sponsors jointly:

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

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

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

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

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

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

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

Statement of facts and assumptions (continued)

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

Relevant Extracts from the TPA

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

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

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

Relevant extracts from the Partners' Agreement

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

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

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

[1] Partners' Agreement, section 110.

Relevant extracts from the Partners' Agreement (continued)

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

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

Relevant extracts from the FMP

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

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

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

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

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

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

Application of accounting principles
Specifically, our report addresses the following questions:

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?

2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

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

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

> **The objectives of funding and accounting**
>
> .008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.
>
> .009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. Accordingly, it is necessary to develop accounting estimates of liabilities for retirement benefits and expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements.

Authoritative literature (continued)

.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Actuarial assumptions

.042 Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts. [SEPT. 2001]

Joint defined benefit plans

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.081 *When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Disclosure

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

Limit on the carrying amount of an accrued benefit asset

.050 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.* [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset . The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit . When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

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

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

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

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

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

- An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).
- The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:
  (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
  (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

- A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:
  (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
  (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
  (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
  (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

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

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

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

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

PS 3250.50 requires that an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. This comparison between the adjusted benefit asset and the expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded. (It should be noted that "accrued benefit asset" and "adjusted benefit asset" are defined terms used in S. 3250. As at March 31, 2016, in this particular case, management has represented to us that these two amounts are the same.)

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

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

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

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

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

CONSIDERATION OF QUESTION 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours truly,

Deloitte LLP.

Chartered Professional Accountants
Licensed Public Accountants

Pension Asset Analysis (modified extract).pdf

Statement of facts and assumptions

It should be noted that the following background and facts represent a high level summary of the situation and represent those facts that are considered important in assessing the appropriate accounting treatment for the OTPP pension assets reported on the Province's books.

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

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

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

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

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

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

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

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

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

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

DRAFT

- The OTPP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.
- The government received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as "Neither the PBA nor the regulations to the PBA (the "Regulations") require the Superintendent's consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTPP." Further, although changes to the OTPP text would be required to be registered with the Superintendent, "The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations." (Source: Osler memo dated September 26, 2016).

Relevant Extracts from the TPA

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

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

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

Relevant extracts from the Partners' Agreement

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

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

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

[1] Partners' Agreement, section 110.

DRAFT

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

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

Relevant extracts from the FMP

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

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

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

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

DRAFT

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

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

Application of accounting principles

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?

2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

Authoritative literature

The objectives of funding and accounting

.8 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.9 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. Accordingly, it is necessary to develop accounting estimates of liabilities for retirement benefits and expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements

.10 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Actuarial assumptions

.042 Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts. [SEPT. 2001]

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Joint defined benefit plans

.79 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.80 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.81 *When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]

.82 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Disclosure

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

Limit on the carrying amount of an accrued benefit asset

.50 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.* [SEPT. 2001]

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

DRAFT

.52 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset . The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.54 The adjusted benefit asset is then compared to the expected future benefit . When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit as the sum of:

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

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

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an

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appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Also consider the following definitions as set out in the glossary of PS 3250:

- An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).
- The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:
  (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
  (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

- A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:
  (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
  (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
  (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
  (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

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

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

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

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

PS 3250.50 requires that an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. This comparison between the adjusted benefit asset and the expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded.

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

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

Specifically with respect to withdrawal of surplus, PS 3250.59 is very clear that expected future benefit can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. With regards to the applicability of this guidance to cases where the expected future benefit related to the Pension Asset is expected to be realized through reduced contributions, one might conclude that the guidance does not apply in this situation; while PS 3250.59 does introduce the concept of a legally enforceable right, it does so solely in the context of a government's future withdrawal of a Plan surplus, and not in the context of a government's reduction of future contributions.

DRAFT

Rather, if the standard setters had intended legal enforceability to be the test, one might expect that they would have included that notion throughout the guidance, instead of only raising it in the context of a withdrawal of surplus.

In the situation at hand, the Province is not asserting an expected future benefit based on surplus withdrawal. Instead the Province's position is that the future benefit is expected to be realized through future contribution reductions. Therefore, we do not believe that 3250.59 applies in this case.

There is specific guidance (PS 3250.81) that requires the Government to account for a portion of the Plan in accordance with the standards for defined benefit plans.

Legal enforceability of a government's right to access a pension plan surplus through future contribution reductions is not necessary to justify recognition of a Pension Asset. The guidance in PS 3250 is the primary source of GAAP on this topic and, since it is clear, there is no need to look at any other potential sources of GAAP.

CONSIDERATION OF QUESTION 2

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

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

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

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

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the

calculation of the accrued benefit obligation itself. The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

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

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

With respect to these judgments:

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

DRAFT

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

However, application and weighting of these and other considerations is a highly judgmental exercise and it is possible that there is a range of reasonable conclusions that may result in a range of reasonable estimates for the valuation allowance to be taken against the Pension Asset.

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

DRAFT

Reference to Deloitte Opinion.rtf

From: Hosick, Sarah (TBS) []
To: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: Reference to Deloitte Opinion
Date: Wednesday, August 30, 2017 15:37:06

Remodeling - OPSEUPP.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Li, Wendy (TBS) [Wendy.Li@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Remodeling - OPSEUPP
Date: Friday, June 16, 2017 13:31:05
Attachment 1: image002.jpg
Attachment 2: OPSEUPP - remodeling_V1 (draft EY 16 June 2017).xlsx

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Hi Wendy, Pauline,

As Shayan is completing his review on OTPP, I updated the OPSEUPP. Shayan will also do a QA review on this model, but thought to share given our timeline.

Attached is the current draft version of the remodeling spreadsheet for OPSEUPP. I have not fully finalized the projection capability (some of the numbers currently remain hardcoded as you had them) due to priority of work.

Based on my conversation with Pauline when we gone over OTPP, it was my understanding that eventually, OPCD may want to provide the ON's own disclosure exhibits for its portion of the plans. As such, and for better clarity, you will find that there is a 100% disclosure tab, as well as a "disclosure (Prov)" tab. This tab represents the portion (47.7%) of ON's reporting of the Plan.

The yellow tabs are "must have" going forward (new data input tab, the two disclosures, smoothing of assets calculation, gl schedule). All inputs are now done under the "data input" tab.

I have shown the opening balance adjustment as two separate line items: (343) and 40 (row 71 and 72 under the Prov's disclosure tab). The 323 represents the reversal of the "year-end adjustment and difference in contributions", and the 40 represents the change due to the % change. The net opening adjustment is then (303). The reason why I setup this way is for potential future % changes – which OPCD should decide how this adjustment would be accounted for going onwards. If the % change is not expect to be significant, this would be the cleanest way – but we can also explore the possibility of amortizing it. I also left the "consolidated agencies contributions" line item similar to PSPP, which is for OPCD to consider how it should be reporting consistent with your

other systems inputs.

If it’s helpful, I can also come in to go through the setup with you.

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
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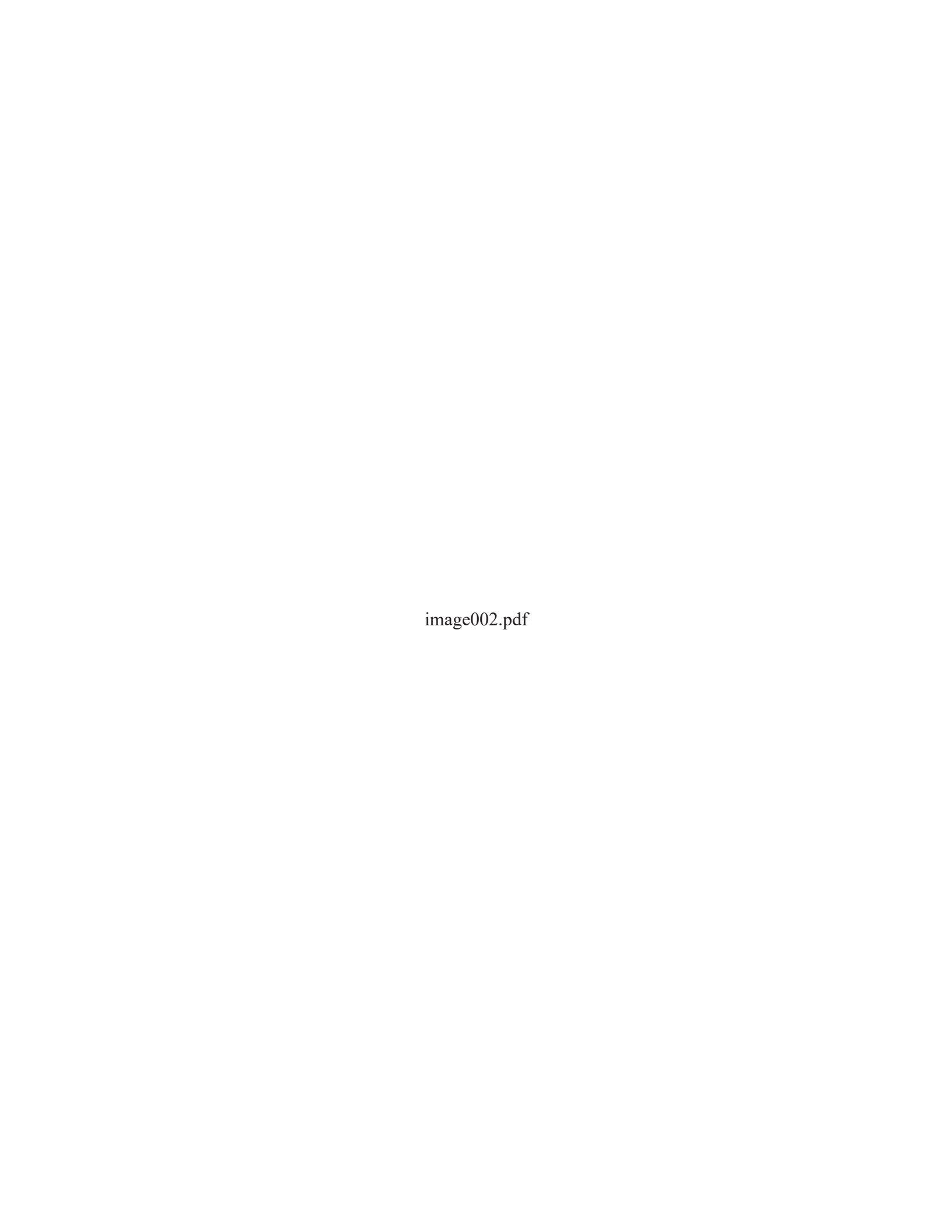
image002.pdf

OPSEUPP - remodeling_V1 (draft EY 16 June 2017).pdf

OPSEU Pension Plan - Data Input

		Interim	Plan	Forecast	Forecast	Forecast	
		2016-2017	2017-2018	2018-19	2019-20	2020-21	
Calendar Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	
Proportion	50%	47.66%	47.66%	47.66%	47.66%	47.66%	
Obligation for Pension Benefits							
Opening	7,567	7,779	7,909	8,131	8,351	8,570	
actuarial loss (gain) due to change in %		(364)	-	-	-	-	
interest accrued on benefits	485	456	460	472	485	497	calculated
current period benefit cost (earned by employees)	207	198	202	206	211	217	
transfers from other plans	8	10	10	10	10	10	
increase due to plan amendments expensed	-	-	-	-	-	-	
increase due to plan amendments amortized	-	-	-	-	-	-	
benefit payments	(449)	(429)	(449)	(468)	(487)	(511)	
actuarial loss (gain) due to assumption changes	62	291	-	-	-	-	
experience loss (gain)	(101)	(31)	-	-	-	-	calculated/balancing item (should be comparable to actuary's calculation)
Total obligation, closing	7,779	7,909	8,131	8,351	8,570	8,783	
Pension Fund Assets							
net assets available for benefits, closing	18,399	9,077	19,614	20,336	21,074	21,820	
actuarial smoothing adjsutment	(510)	(244)	(91)	(1)	11	-	
Pension fund assets, closing	*17,890*	*8,832*	*19,523*	*20,334*	*21,086*	21,820	
Market Value of Assets							
Opening maket value of assets	*8,741*	*9,200*	*9,077*	*9,416*	*9,761*	*10,114*	
actuarial loss (gain) due to change in %		*(431)*	-	-	-	-	
Contributions and Transfers	*261*	*252*	*259*	*263*	*270*	*277*	
Less: Benefits paid	(449)	(429)	(449)	(468)	(487)	(511)	
Expected Investment return	562	543	530	550	570	590	
Expected market value of Assets	9,115	9,134	9,416	9,761	10,114	10,469	
Actuarial gain/(loss)	84	(58)	-	-	-	-	
Actual closing market value of Assets	9,200	9,077	9,416	9,761	10,114	10,469	
MVA Expectedl Return (assuming mid-year cash flows)	6.50%	6.10%	5.90%	5.90%	5.90%	5.90%	
MVA Actual Return (assuming mid-year cash flows)	7.48%	5.45%	5.90%	5.90%	5.90%	5.90%	
Market-Related Value of Assets (Smoothed)							
Opening maket value of assets	*8,185*	*8,690*	*8,832*	*9,325*	*9,760*	*10,125*	
actuarial loss (gain) due to change in %		*(407)*	-	-	-	-	
Contributions and Transfers	*261*	*252*	*259*	*263*	*270*	*277*	
Less: Benefits paid	(449)	(429)	(449)	(468)	(487)	(511)	
Expected Investment return	526	512	515	544	569	590	
Expected MRVA	8,523	8,618	9,157	9,665	10,112	10,481	
Actuarial gain/(loss)	*167*	*214*	*168*	*95*	*13*	*(12)*	
Actual closing, MRVA	*8,690*	*8,832*	*9,325*	*9,760*	*10,125*	*10,469*	
check		-	-	-	-	-	
MRVA expected Return (assuming mid-year cash flows)	6.50%	6.10%	5.90%	5.90%	5.90%	5.90%	
MRVA Actual Return (assuming mid-year cash flows)	8.56%	8.64%	7.82%	6.93%	6.03%	5.78%	
Pension Expense							
Current service cost (Gross)	*207*	*198*	*202*	*206*	*211*	*217*	
Net interest expenditure	(41)	(56)	(56)	(72)	(85)	(93)	
Amortization - (gains)/loss	*26*	*(5)*	*(2)*	*(6)*	*13*	*33*	
Amortization - (gains)/loss (year-end and etc.)	*(11)*	-	-	-	-	-	
Expense/(Income)	**180**	**137**	**144**	**128**	**140**	**157**	
check:		137	144	128	140	157	
Pension Liability - Ending							
Accrued benefit obligation, closing balance	7,779	7,909	8,131	8,351	8,570	8,783	
Less: pension fund assets, closing balance	(8,690)	(8,832)	(9,325)	(9,760)	(10,125)	(10,469)	
Pension liability (asset) at Fiscal EOY	(912)	(923)	(1,194)	(1,409)	(1,555)	(1,687)	
Unamortized experience losses (gains)	48	(6)	160	249	275	296	
Pension liability (asset) at Fiscal EOY	(864)	(929)	(1,034)	(1,160)	(1,280)	(1,390)	
Adjustment for "different year ends"	343	-	0	0	0	0	
Pension liability (asset) at Fiscal EOY	**(520)**	**(929)**	**(1,034)**	**(1,160)**	**(1,280)**	**(1,390)**	
check		*(929)*	*(1,034)*	*(1,160)*	*(1,280)*	*(1,390)*	
Pension Liability - Continuity (fiscal year)		(823)	(928)	(1,034)	(1,159)	(1,280)	
Opening Fiscal pension liability	(487)	(520)	(929)	(1,034)	(1,160)	(1,280)	
Opening adjustment (2016)		**(343)**	-	-	-	-	
Opening adjustment - change in %	0	40	-	-	-	- 0	
Adjusted opening balance liability	(487)	(823)	(929)	(1,034)	(1,160)	(1,280)	
Periodic pension expenditure	180	137	144	128	140	157	
Less: consolidated agencies contributions		(24)	(25)	(25)	(26)	(26)	**OPCD to consider the reporting of this among system reconciliations**
Less: Ontario contributions	(214)	(219)	(225)	(229)	(235)	(241)	
Ending Fiscal pension liability	**(520)**	**(929)**	**(1,034)**	**(1,160)**	**(1,280)**	**(1,390)**	
balance test	*0*	-	-	-	*0*	-	
change in % net g/l on asset and liab.		*43*	-	-	-	-	

Request to share Accounting Opinion.rtf

From: Petsche, Nadine (TBS) []
To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)' [mcolley@deloitte.ca]
CC: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Request to share Accounting Opinion
Date: Friday, October 14, 2016 10:45:17

Matt,

Further to our discussion, we are seeking permission to share the Section 7600 report with PricewaterhouseCoopers, today if possible.

Please see our request below. We look forward to hearing back from you.

Thanks.

Nadine

This note is to confirm that Deloitte LLP (“Deloitte”) consents to the disclosure of its work product, including the accounting opinion, developed by Deloitte as part of or in connection with the work being done by PricewaterhouseCoopers LLP to assist Treasury Board Secretariat in compiling a Whitepaper describing the Province’s position on Pension Asset accounting. The purpose of the disclosure is to allow PricewaterhouseCoopers LLP to review and consider the Deloitte LLP documentation in compiling the above-noted Whitepaper. The Whitepaper will not be based solely on Deloitte’s work, but for purposes of consistency and completeness, it is considered beneficial to allow PricewaterhouseCoopers LLP to access the Deloitte’s document. Please confirm your consent by responding to Karen Hughes and cc’ing me on your response.

Best regards,

Nadine

Review of Pension model for 2018 Budget.rtf

From: Sun, Alicia (TBS) []
To: Christina Chan (Christina.Chan@ca.ey.com) [Christina.Chan@ca.ey.com]; Gregory Winston [gregory.winston@ca.ey.com]; Chan, Vanessa W. (TBS) [Vanessa.W.Chan@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Review of Pension model for 2018 Budget
Date: Tuesday, January 16, 2018 13:42:33

Hi All,

I booked two hours, just in case.

Thanks,
Alicia

Revised asset ceiling reports.rtf

From: Petsche, Nadine (TBS) []
To: Christina Chan (Christina.Chan@ca.ey.com) [Christina.Chan@ca.ey.com]
CC: shayan.jafrani@ca.ey.com [shayan.jafrani@ca.ey.com]
Subject: Revised asset ceiling reports
Date: Thursday, July 06, 2017 14:31:17

Hi Christina.

Cindy was hoping to review a copy of the revised asset ceiling reports, reflecting the pension adjustments. I know that we were waiting for feedback from the OAG. We should assume no change for this exercise. Is it possible to have them ready for early next week?

Thanks.

Nadine

Revised memo.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]
CC: michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]; david.c.greenall@ca.pwc.com [david.c.greenall@ca.pwc.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Revised memo
Date: Tuesday, November 22, 2016 00:05:14
Attachment 1: Cap and Trade accounting implications - memorandum to file v5 November 20.docx
Attachment 2: Cap and Trade accounting implications - memorandum to file v5 November 20 Tracked changes.docx

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Nadine, Ian,

In advance of our meeting with MOECC on Wednesday please feel free to circulate the revised version of the paper, updated for the comments we discussed in our last meeting.

In response to Cindy's comment regarding what is the nature of the EAs, I have added in a new section - Section 3 - that specifically discusses this. I think it is a helpful section that sets the context for the future discussions and now includes the discussion on exchange vs non-exchange transactions (moved from the revenue recognition section).
I have also added a couple of appendices - Appendix A notes the current accounting for Cap and trade programs by Quebec and by New Zealand. Appendix B considers the outcomes if an alternative view was taken to treat the EAs as similar to "currency in circulation" which is at the heart of the "New Zealand" model. I think the concept of treating EAs as similar to a currency has some merit, so I thought it was worth exploring. I am still comfortable with the identification of the EAs as being "goods" that are sold, but it is worth noting that an analysis under the "currency" view also results in substantially the same accounting.

I also attach a tracked changes version, although this is tracked to the last version circulated to MOECC, not the last version that I sent to your group prior to our last meeting

Regards,
Lucy

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Cap and Trade accounting implications - memorandum to file v5 November 20.pdf

Cap and trade accounting implications memorandum to file – proposed outline

1. Executive summary

2. Background and outline of cap and trade legislation and regulations [NTD – *MOECC to provide comments on accuracy of background terminology*]

The *Climate Change Mitigation and Low-Carbon Economic Act, 2016* (the "Act") was recently enacted that establishes, amongst other things, a framework for a cap and trade program for the Province of Ontario (the "Province" or "Ontario"). Two regulations, Ontario regulation 144.16 and Ontario regulation 143.16 (together "the Regulations") have been passed under the Act.

Only registered participants to the program (mandatory participants, voluntary participants and market participants) can purchase, hold, sell or trade emission allowances (EAs). Mandatory participants are those that are mandated to participate in the program. Voluntary participants are those that are not mandatory participants but choose to participate in the program for a compliance period. (Voluntary participants may opt out of future compliance periods if they do not meet the criteria to be a mandatory participant for that period). Together mandatory and voluntary participants are referred to as "capped participants" or "capped emitters". Market participants are those that do not have compliance obligations but choose to participate in the program so they can hold, sell and trade EAs.

EAs can be obtained in the following ways:

- Purchased at auctions at the auction price.
- Distribution as a free allowance (capped participants only).
- Acquired from other participants in a market trade.

EAs are held in holding accounts that are maintained in the "CITTS" system, which records participant accounts and trades between participants. CITSS is a web-based tool that facilitates participation in the cap and trade program and is administered by the Western Climate Initiative, Inc (WCI Inc) on behalf of participating jurisdictions. Market trades are reported to the MOECC and the MOECC monitors the participant's accounts for compliance with regulations, such as holding levels are within holding limits. If holding limits are exceeded and not remedied within 5 days, the Minister of the Environment and Climate Change (the "Minister") has the ability to remove the excess allowances for no compensation that could then be re-sold at future auctions. However, our understanding is that the systems should not allow sales over the individual limits to be processed so examples of this should be very limited in practice.

Auction process: In accordance with the Regulations there are four auctions a year. EAs are sold at auction classified by "vintage". The Regulations set out how many EAs are created for each vintage and how many EAs of each vintage will be available at each auction, after the distribution of free EAs. The vintage of an EA determines which compliance period the EA can be submitted for. For example, in 2017 the auctions will be for the "2017" vintage and some for the "2020 vintage". More than one "vintage" may be sold in any one auction. The first auction will be held March 2017. There is a floor price for each auction. Not all the allowances available at a particular

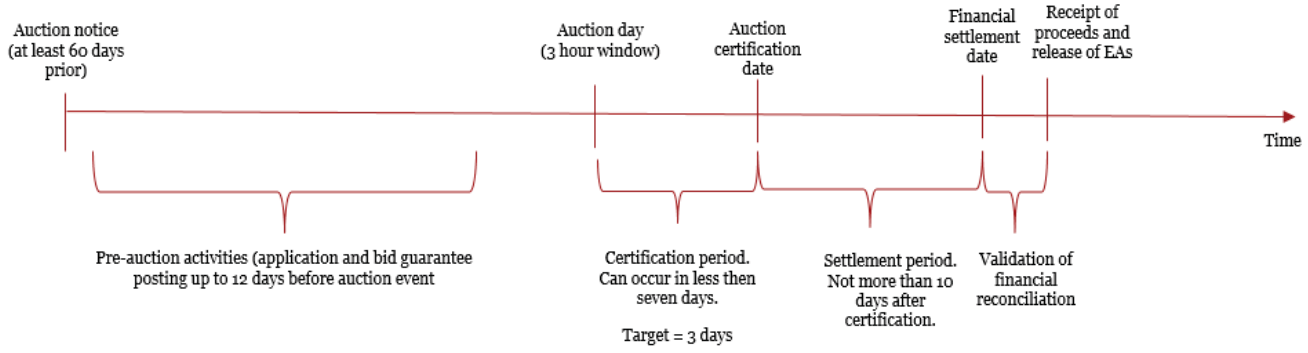
auction may be sold, in which case unsold allowances may be offered at a future auction under some circumstances. 5% of EAs are held back as a strategic reserve that may be sold at a later date for a higher value, not through the auction process. Only capped emitters may purchase from the reserve. The strategic reserve accumulates over time.

Prior to the auction registered participants must post a bid guarantee. This may be in the form of an irrevocable letter of credit (LOC), letter of guarantee (LOG) or cash, both of which are held in escrow by Deutsche Bank (DB) in the participant's sub-account under the jurisdiction's Escrow account. The Province's escrow account is in the name of WCI, Inc for the benefit of the Ontario Minister of the Environment and Climate Change. The bid guarantee may be posted up to 60 days before the auction, and must exceed the total amount of bids that will be submitted by the participant in the auction.

At the auction the participants place bids for the number of EAs they will purchase at any price point. At the end of the three-hour auction window the auction administrator runs the auction algorithm through a predetermined auction settlement calculation to provide the auction result report indicating the set of successful participants and the number of allowances they won at the auction settlement price.

After the auction, the Province reviews the results for compliance with the regulatory requirements over the auction process and to obtain the required internal jurisdiction approvals. These steps include reviewing the auction results provided by the auction platform, analyzing bid data in detail and reviewing and accepting the auction report submitted by the market monitor (a third party contractor called Monitoring Analytics). When the results of the auction are confirmed (the "certification date") the results are published on the jurisdiction's website, invoices made available to participants and the process of settlement begins. If a participant is successful in the auction then the participant is invoiced for the amounts due for the EAs purchased. If the participant submitted a cash bid guarantee this cash amount is used to settle the invoices by the amounts being transferred from the participant's sub-account into Ontario's escrow settlement account. If an LOC or LOG was used, the participant can pay separately within 7 days into their sub-account, which is then transferred to Ontario's escrow settlement account and the LOC is dissolved or returned. Alternatively if the participant does not submit cash payment within 7 days the invoice is settled by calling on the LOC or LOG. Once all the payments have been received from participants and transferred to Ontario's escrow settlement accounting and Ontario's staff have confirmed that the amount in the escrow account match payments due from auction participants, then the escrowed amounts are transferred to the GGRA bank account and the EAs are transferred to the respective participant CITSS accounts.

Auction timeline illustration



Free allowances

Capped emitters may receive free allowances. To receive free allowances the participant must apply each year. The amounts of these are determined by the Minister using formulas applied to the entity specific situation of the

participant and are expected to diminish over time as transition to the cap and trade program is completed and inter-provincial "leakage" declines (leakage is where carbon producers move economic activities to a jurisdiction with no or low carbon pricing). Once issued, these EAs are identical to those sold at auction and may be held or traded by participants.

Emissions Compliance

The program operates within 3-year compliance periods (with the first period being a 4-year period). The first compliance period runs from January 1, 2017 – December 31, 2020. EAs are linked to a specific compliance period. For example, EAs with 2021-2023 vintages cannot be used to meet normal emissions obligations under the program for the 2017-2020 compliance period (although they can be used to settle increased compliance obligations). However, EAs from earlier vintages can be carried forward to meet obligations in future compliance periods. EAs do not expire. Participants may purchase EAs from other participants in market trades to be able to meet their obligations. Market trades are negotiated between participants and are then reported to the MOECC, who ensures that the agreed upon EAs or credits are transferred between the participants CITSS accounts. The number of EAs issued for the compliance period is capped by regulation. Therefore if total emissions from all participants are significantly lower than the cap, it should be easy for participants to obtain the necessary EAs in the marketplace at an inexpensive price. Unused EAs for the compliance period can be carried forward and used in future compliance periods. If the total emissions from all participants exceed the cap then there will not be sufficient EAs available for all participants to meet their compliance obligations and the price of any available EAs will increase. The market mechanism allows those participants who can most cheaply reduce their emissions an incentive to do so in order to either sell excess EAs to other participants at a higher price or to save the need to purchase a high priced EA to meet their obligations.

At the end of the compliance period mandatory and voluntary participants report their attributed carbon emissions (greenhouse gas emissions must be quantified, reported and verified) for the compliance period and ensure they have transferred sufficient EAs or credits (see below) from their holding accounts into their compliance accounts. At the compliance "true-up" deadline (by November 2021 for the first compliance period), EAs and offset credits (see below) are removed in a number equal to the participant's obligations under the Regulations (1 EA per 1 tonne of emissions). If a participant does not have sufficient EAs in their account at the true-up date then there is a shortfall. In addition to the EAs required to fulfil the shortfall, the obligation increases on a 3-1 basis; for each EA required to cover the shortfall the participant is required to acquire and submit an additional 3 EAs (the "increased compliance obligation"). This increased compliance obligation may be settled with EAs from future vintages (e.g. 2021 vintages may be used to settle the increased compliance obligation for the 2017-2020 period, however, they cannot be used to settle the original compliance obligation or shortfall).

Due to the increased compliance obligation mechanism if a participant does not expect to have sufficient EAs in their compliance accounts at the true-up deadline there is an incentive for participants to either reduce their emissions over the compliance period or to purchase additional EAs (of vintages valid for the compliance period) in the market prior to the true-up deadline; the market price of which would be expected to increase due to demand exceeding supply.

The EAs that are remitted to the MOECC for a compliance period are retired. They are not re-sold. The exception to this is EAs that are remitted as part of the increased compliance obligation may be re-sold at auction. The purpose of the exception is so that the overall number of available EAs for future compliance periods is not reduced because of the failure of participants to comply at the true-up date.

A participant has a certain period of time (30 days after a notice of a shortfall is issued) to acquire and remit sufficient EAs to meet their compliance obligation, including additional compliance obligations for shortfalls. If they fail to remedy the shortfall, the Director can issue an order that the outstanding obligation be settled in cash to the Ministry of Finance, based on the settlement price from the most recent auction.

The removal of EAs from a participant's account is without payment to the participant. Specifically Section 70 (3) of the Act states that "No amount is payable by the Crown with respect to any action taken by the Minister or Director

under this Act, or by any person acting on their behalf, including any action relating to the removal of emission allowances and credits from a participant's cap and trade accounts".

Credits and offsets

Other than EAs, entities may also obtain "early reduction credits" or "offset credits" in certain circumstances. These credits are also tracked by participant and can be used in place of EAs to settle a compliance obligation. Credits can also be sold or purchased by participants on the market. There are limits on how much of a compliance obligation can be settled with credits as opposed to EAs. As emissions can be settled by either EAs or credits and offsets, the creation of credits or offsets essentially increases the total "cap" amount of emissions under the cap and trade program for the compliance period.

Linking to the Western Climate Initiative (WCI)

It is anticipated that Ontario will link to the WCI in 2018. The WCI currently includes Quebec and California. When linked to the WCI, there will be one market for EAs – all participants from participating jurisdictions can buy, sell, hold and trade EAs with other participants. There is one auction process for all participating jurisdictions, with proceeds from the auction being allocated on a pro-rata basis. For example, each jurisdiction determines the number of EAs that they will put up for auction in that vintage based on their cap for the compliance period. This results in a total amount of EAs available of which, say 30% are part of the Ontario emissions cap, 15% for Quebec and 55% for California. The proceeds of the auction would be split 30:15:55 between the participating jurisdictions, regardless of which participants purchase the EAs. If not all the EAs are sold, the sales are attributed on these same rations and unsold EAs from the jurisdiction may be sold at future auctions under certain conditions. EAs are not attributed back to a jurisdiction of issuance and can be used to settle a compliance obligation in any of the participating jurisdictions. For example, an Ontario participant must ensure there are an adequate number of EAs or credits in their compliance account to meet their compliance obligation based on their emissions. It does not matter whether they purchased the EAs at auction or from a California or Quebec participant. The effect is that Ontario participants may produce emissions that exceed the Ontario cap for any compliance period, but this excess would be offset by reductions in Quebec or California below their caps, thus reducing emissions overall, and in the jurisdiction where the reduction is the cheapest (most efficient). There is no mechanism by which Ontario transfers or receives cash, financial assets or EAs between jurisdictions. There is no requirement to redeem EAs issued in other jurisdictions by issuing cash or other "Ontario" EAs as all EAs are interchangeable once issued.

Termination of the program

The program does not have a termination date. There is nothing in the current legislation that outlines how the cap and trade program might be terminated. The program could only be terminated through a change in the legislation. We are not aware of any terms in the arrangements with the WCI that would specify how a withdrawal from the WCI might be undertaken.

Greenhouse Gas Reduction Account

The Act establishes an account with the Public Accounts of Ontario called the Greenhouse Gas Reduction Account (GGRA). Other than limited exceptions, proceeds from the distribution of EAs are included in this account. Amounts of fees, penalties and the settlement of increased compliance obligations in cash are also included in the GGRA. The funds in the GGRA may be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gases. Such uses include the research and development of new technologies or processes, innovation, education and training, and informing the public. The amounts in the GGRA may also be used to fund costs of administration and enforcement of the Act. Annually, the Minister will issue a public notice regarding the evaluation of initiatives funded by the GGRA. In addition an annual report will be prepared describing the activities of the GGRA. Eligible costs that were incurred by the Crown on or after November 1, 2015 may be reimbursed from the GGRA, even if they were incurred prior to the Act coming into force.

Federal actions to reduce carbon emissions

In October 2016 the federal government announced that Canadian provinces that do not have a carbon pricing mechanism will be subject to a federal benchmark "floor price" for carbon in 2018. Ontario's cap and trade program

means that it will not be subject to the federal carbon floor price as the Ontario targets are in excess of the targets imposed by the federal government. As such, actions by the federal government are not expected to have an impact on Ontario's cap and trade program. This must be monitored as subsequent federal actions and/or changes to Ontario's cap and trade program in response to the federal government actions may have accounting impacts.

3. What is the nature of EAs

Relevant guidance - See Appendix C for details.

PS 3450, Financial Instruments ("PS 3450") (effective for years on or after April 1, 2019)

PS 3510, Tax revenue ("PS 3510") (for definition of exchange and non-exchange transactions)

PSAS Revenue Statement of Principles ("Revenue SOP") (non-authoritative due process document)

IPSASB staff paper "Emissions Trading Schemes" Agenda Item 14 March 2016.

Preliminary position:

The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.

Analysis:

In order to determine the appropriate accounting for EAs it is important to understand what they are and what they are not.

An EA is separately identifiable and is a permit (a non-exclusive, non-expiring right) that allows the holder to settle the legislative compliance obligation that arises from producing one ton of emissions. This is subtly different from a "quotas" (for example a milk or fishing quota) that gives a holder the right to produce a certain level of product that the producer can then sell for economic benefit, because the ultimate benefit of the EA to the participant is the permission to avoid a fine or payment that would otherwise be required for non-compliance with the Act[1].

Is it a financial instrument?

Current PSAS does not define financial instruments. However, PS 3450 (effective in 2019) define financial instruments as "any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity". An EA is clearly not an equity instrument, and so it will only meet the definition of a financial instrument if it creates a financial liability to one party (and a financial asset to another). A financial liability is defined in PS 3450 as any liabilities that are contractual obligations (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government. A financial instrument by definition a contract. It could be argued that EAs are statutory instruments created by legislation and issued in a unilateral transaction (see "is it similar to a "tax" on emissions?") in which case an EA could never be a financial instrument. For purposes of this analysis an EA is considered to be a contract between the holder and the Province as both parties know their respective rights and obligations that arise from holding and issuing EAs.

An EA does not create an obligation for any party to pay cash or other financial assets. The province has no contractual requirement to pay cash to redeem an EA and is never required to exchange an EA for another financial asset under any circumstances. (The province may accept cash payment in lieu of EAs for an increased compliance obligation at its discretion). Similarly, once they are the holder of an EA they are not obligated to pay cash or other financial assets to another party under the terms of the individual EA. A participant may be obligated to obtain the

[1] This is consistent with the conclusions of Mr. Stephen Morris QC in hearing a case regarding the EU ETS system and the nature of European Union Allowances in Armstrong DLW GmbH v Winnington Networks Ltd (2012).

necessary number of EAs to meet their compliance obligations under the cap and trade program, to reduce their emissions accordingly, or in some cases to pay an increased compliance obligation in cash, these are obligations that arise through the act of emitting pollutants and not an obligation that is incurred through holding an EA. Rather holding an EA permits the participant to avoid an outflow of cash otherwise payable.

Is it similar to a currency?

Governments are unique in that they have the power to issue currency as legal tender. By analogy the EAs could be viewed as similar to a form of "currency" – a medium of exchange - that must be accepted by the government to settle compliance obligations. Compliance obligations only exist through government legislation, and the government also provides the means by which to settle those obligations (EAs). The maintenance of EAs in circulation is required by Cap and Trade regulation. The issuance of EAs at auction could be an issuance of this "currency" for cash. The distribution of EAs could be similarly a distribution of currency for no consideration (similar to a government grant). EAs can be traded like a currency (with a varying exchange rate to Canadian dollars depending on the market price). This is the position taken by certain governments in accounting for their Emissions Trading Systems such as New Zealand (See Appendix A). The arguments that the EAs are a form of "currency" have some merits. However unlike currency, the EAs in circulation are retired after they are submitted for a compliance obligation and not recirculated. In addition the amount of EAs in circulation is planned to decline over time as emissions are reduced. These caps may also be influenced by external parties such as the Federal Government setting emissions reduction targets that must also be complied with. Further, once Ontario is linked to the WCI it is not the only jurisdiction issuing EAs in circulation that can be used to comply with an Ontario emissions obligation. This means that Ontario could accept back "currency" in excess of that which it issued, or equally never receive back "currency" that it has issued. These factors mean that unlike a currency in circulation, Ontario does not control the EA supply that can be used to settle the compliance obligations. However, for completeness Appendix B considers how the circulation in currency model could be applied to the Ontario cap and trade system.

Is it similar to a "tax" on emissions?

While the mechanics of a cap and trade system are different than a carbon tax, the policy objectives are the same - a price is put on pollution with the purpose of reducing pollution. The primary purpose of the cap and trade system is to reduce emissions and any revenues earned from the sale of EAs is incidental and similar to revenues obtained from taxing other undesired behaviours (such as taxes on alcohol or cigarettes).

The cap and trade legislation requires mandatory participants to purchase EAs in order to settle a legislative obligation to the extent that the participant's emissions exceed their allowance of freely distributed EAs. Under this approach any amounts received, regardless of the timing of those receipts, are considered to be a non-reciprocal transaction as the participants did not have to pay these amounts prior to the implementation of the cap and trade legislation, therefore these costs to the participants are created by legislation in respect of their emissions.

It is the act of emitting in excess of "free" EAs that creates an obligation of participants to pay for a certain amount of EAs. While Participants must obtain EAs in order to meet their compliance obligations which are created by legislation and initially EAs are only available from the Province, it is not the act of auctioning the EAs itself that gives rise to a right to the revenues as there is no legislative requirement that forces a participant to purchase an EA prior to them creating emissions that must be settled through EAs. Further, once linked to the WCI there is no legislative requirement that the participant purchase an EA from the Province.

If the scheme is considered to be in substance like a tax, it would be appropriate that the recognition of revenue would be accounted for in accordance with PS 3510. This would result in "revenue received in advance" for EAs that are sold, and something similar to a "tax concession" for participants that receive free EAs. There would be no accounting recognition for EAs. If the scheme was considered to be another form of unilateral transaction created by the constitutional rights of the Province then it is relevant to consider the proposed guidance in the Revenue SOP. Although not authoritive until a standard is approved, the proposals indicate that revenue for unilateral transactions is recognized when the Authority to collect the revenue exists and the event that gives a right to those revenues has occurred. Paragraph .114 of the SOP states "The past event is specific to the nature of the transaction

and the legal authority that gives the public sector entity a right to the revenue. The desired effect is that the past event should be readily identifiable and consistent, both over time and amongst those jurisdictions with similar sources of unilateral revenue. In TAX REVENUE, Section PS 3510, the equivalent concept is the taxable event". It is considered that the event that gives rise to a right to the revenue is the participant's emissions and not solely the auction of EAs.

The key determination to support this view is whether the sale of EAs is an exchange transaction or a non-exchange transaction as those terms are defined in PS 3510. It might be argued that the Province has not given up anything by issuing the EAs regardless of whether they sell the EAs in an auction or freely distribute them because the EAs do not cost anything to create and are to be used only to settle obligations created by the cap and trade regulations. Therefore any amounts received are non-reciprocal.

However, the sale at auction seems to meet the definition of an "exchange transaction" because one entity (the auction participant) receives assets (the EAs – which are assets from the perspective of the participant and assets to the Province immediately prior to the auction) and directly gives approximately equal value in the form of cash to another entity (the Province) as the amount of cash paid for an EA equates to the fair value of the EAs. This is supported by the following facts

- The province has delivered an asset in exchange for cash. The EAs are assets/economic resources prior to the sale as they are held-for-sale inventory assets prior to the auction (see also Section 4 (a) below).
- Purchasers of EAs have obtained an asset in exchange for cash. Purchasers can include market participants and unlike mandatory or voluntary participants, market participants are not subject to compliance obligations. They are purchasing the EAs because EAs are a resource that can be sold or traded on the marketplace. Mandatory and Voluntary participant also do not have to keep their EAs but can sell and trade them on the market speculatively. Participants recognize EAs as assets in their financial statements (typically as intangible assets under IFRS).
- The participant purchases EAs by giving up cash that is approximately equal in value to the EA as, by definition, the "fair value" of an EA is what a market participant is prepared to pay in an unforced transaction, and the auction process is a mechanism to assist in identifying the fair value of the EAs.
- The Province's right to payment from a participant arises from the auction process and not solely from legislation. If no EAs are purchased at auction the Province has no right to payment. The province has an obligation to deliver the EA to a participant's CITSS account as part of the auction process.
- Once Ontario has linked with the WCI, then mandatory and voluntary participants who create emissions in Ontario could obtain some or all their EAs from California, Quebec or other market participants. There is no direct link between the amount of Ontario-based emissions and the amount of proceeds obtained by the Province; emissions in Ontario could exceed (or be less than) the number of EAs issued by Ontario. Therefore the characterization as a tax on emissions does not hold as there is no consistent basis on which this "tax" is calculated.
- The program is not created under tax legislation and is not legally a tax.

Is it a "good or service" and if so, of what nature?

The analysis in the above section supports the sale of EAs as being an exchange transaction. This is consistent with the proposed definitions of "exchange transactions" and "unilateral transactions" in the Revenue SOP. Because of the exchange nature of the auctions as the EAs can be considered to be a good or service that is provided in exchange for consideration, rather than a receipt of payment without a direct transfer of economic resources to the

payor. For example, for any auction there may be no participants or not all EAs may be sold. In these cases, some EAs are not transferred to participants and there are no inflows to the Province or inflows are less than expected.

Prior to pollution pricing mechanisms the ability to emit pollution was a "free good". There was no cost to companies from emitting pollution - rather the costs were born by society as a whole. The cap and trade legislation forces companies to internalize the costs of pollution, thus turning a "free good" into a "good" that has a price. The price of being able to emit pollution is the cost of obtaining an EA i.e. a permit to settle the compliance obligation.

From the perspective of the participant, the EA is a "good or service". Accounting standards do not clearly define the difference between a "good" or a "service". Often it is evident. Goods are usually understood to be tangible items for which physical possession can be transferred. Services are usually understood to be actions that benefit the recipient that are consumed as the service is provided. Other examples of "goods and services" that are less clear are:

- Stand ready obligations, such as standby charges levied to have good or service providers ready to act
- Rights to use tangible or intangible assets, such as leases or licences for intellectual property
- Options to purchase future goods and services (for example, gift cards or future discounts)
- Providing a decision (for example, fees to apply for a driver's licence and its issuance to a qualifying driver)

(see "Revenue" Statement of Principles issued by PSAB, August 2013)

An EA does not fit neatly into any of these categories. It is intangible (it does not have physical form). It is not a right to use an existing asset (tangible or intangible) of the Province as the right relates to an action of the participant (emissions). As the participant can transfer the EA to other participants, it is clear that the issuance of an EA is not provide a benefit to the recipient that is consumed as it is delivered. The EA does not give a participant the right to future goods or services to be provided by the Province, nor does it represent that the province is on "stand-by" to deliver future goods and services as there is no transfer of further goods and services when the EA is remitted in settlement of a compliance obligation.

As an EA is tradeable and can be transferred or sold to other participants it is most similar to a "good", albeit one in intangible form. If a participant receives a good from the Province in a transaction then the Province must be delivering a good. Therefore although the province creates the EA and the use value of the EA is dependent on the Province's own legislation regarding compliance obligations it makes sense to apply symmetry between participants and the Province in respect of the determination of nature of the EAs.

4. Identification of assets relating to the cap and trade program as sponsoring government

Summary of relevant guidance – See Appendix C

PS 1000, Financial statement concepts ("PS 1000")

PS 1200, Financial statement presentation ("PS 1200")/PS 1201, Financial statement presentation, effective April 1, 2019 ("PS 1201")

PS 3210, Assets, effective April 1, 2017 ("PS 3210")

PS 3450, Financial instruments, effective April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to assets under Public Sector Accounting Standards.

a) On creation of free and auctioned EAs: EAs that are created by the government, including EAs held in the strategic reserve, are inventories held-for-sale. EAs that have been remitted to the government as payment for increased compliance obligations or because of breaches of holding limits and are available for re-sale at auctions are also inventories held-for-sale.

   Inventories held-for-sale are measured at cost. Newly created EAs do not cost anything to create and are measured at a nominal amount. EAs that are returned to the government and not retired due to increased compliance obligations or breaches of holding limits will be measured at the cost to re-acquire them (also a nominal amount).

   Note that as it is expected that these amounts will be nominal this preliminary position has not material impact on the Public Accounts.

b) Escrow proceeds held for auctions: Escrow proceeds received for bid guarantees are not recorded by the Province prior to the transfer of funds into the Province's escrow settlement account.

   After auction certification cash from successful bidders is transferred to the Province's escrow settlement account, resulting in recognition of an asset (cash in Escrow). A corresponding amount is recognized as deferred revenue until the contract is settled by the transfer of EAs to the participants (see section 6 below). On settlement EAs held in inventory are removed from inventory and included in Cost of Sales, although these are expected to be at nominal amounts and so this entry would not be material.

c) Period between the auction certification date and the delivery date of the EAs: From the date of the contract between the Province and the successful bidder and the settlement of the contract by delivery of EAs there is no derivative instrument required to be recognized.

d) EAs in circulation: EAs in circulation or the right to receive back EAs in circulation as emissions are produced by participants are not recognized as assets, whether sold at auction or issued as free allowances.

e) Failure of participant to pay increased compliance obligation: The right to demand payment in lieu of EAs for an increased compliance obligation is recognized after the time period that a participant has to rectify the shortfall by remitting EAs as expired, e.g. on the deadline specified in a notice issued under Section 14 (8) of the participant's outstanding obligations.

The above can be summarized in the following journal entries:

On creation of EAs or receipt of EAs that can be re-sold:

Dr Inventory held-for-sale (expected to be nil cost)

Cr Cash (expected to be nil cost)

On distribution of "free" EAs to capped emitters (see section 6 - included here for completeness of entries)

Dr Expense (expected to be nil as at cost of inventory)

Cr Inventory held-for-sale (expected to be nil cost)

As payment from successful bidders is received and placed into Ontario Settlement account:

Dr Cash (in Escrow)

Cr Deferred Revenue

On date of receipt of proceeds to GGRA and transfer of EAs to participant CITSS accounts:

Dr Deferred revenue

Cr Revenue

Dr Cash (GGRA account)

Cr Cash (in Escrow)

As emissions are made by participants

No journal entry required

On receipt of EAs for the current compliance period in respect of compliance obligations or increased compliance obligations:

No journal entry required

On receipt of any EAs of future vintages settled in respect of a 3 for 1 compliance obligation:

Dr Inventory held for sale (expected to be nil cost)

Cr Revenue (expected to be nil cost)

On expiration of deadline for rectifying increased compliance shortfall by remitting EAs:

Dr Receivable

Cr Revenue

Analysis

a) <u>On creation of free and auctioned EAs</u>:

EAs are "goods" created to be sold or distributed to participants (see analysis in section 3 above). The sales occur on a regular basis and generate revenues in the ordinary course of running the cap and trade program. PS 1200.048 notes that inventories for sale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. The EAs therefore meet the definition of inventories held-for-sale as they are held for sale in the ordinary course and the revenues can be used to finance future operations. Despite being intangible in nature these could be given accounting recognition as an asset. Consistent with current policies of the Province, inventories held-for-sale are measured at the lower of cost or recoverable amount. PSAS does not provide further guidance on what is included in "cost" for inventory. Following the guidance for tangible capital assets that are constructed would result in only direct costs of creation and directly attributable overhead costs being included. The definition of "cost" for inventories in under other frameworks such as IFRS or ASPE includes both direct costs and a systematic allocation of fixed and variable production overheads. As the EAs are intangible in nature it is not expected that any production overheads would be incurred. General overheads (such as general management) are not allocated to inventory.

EAs that are returned to the government and not retired due to increased compliance obligations or breaches of holding limits are measured at their cost, which is expected to be a nominal amount as no

cash or other financial asset is paid to acquire them, and no liability is derecognized in respect of the receipt of these (see Section 4 on recognition of liabilities).

Alternative positions considered and rejected: EAs are intangible (without a physical substance) in nature and many participant's accounting framework include them as intangible assets. As the EAs are internally generated and intangible there is an alternative view that they should not be recognized on the books of the Province prior to sale, given the lack of a PSAS definition of what is included the reference to "Intangible Assets" in PS 1000.58. This view is an acceptable view under PSAS, but was ultimately rejected as the preliminary position because the intent of creating the EAs is for re-sale and not for use as a capital asset that is used in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other assets. The rationale for scoping out "intangible assets" in PS 1000.58 is because there is no recognition and measurement criteria for intangibles. However there is guidance on how to account for inventories held-for-sale, which can be applied. The selected approach of treating EAs as inventory held-for-sale may create an additional accountability of the number of EAs created and provide an opportunity for additional disclosures in the financial statements that would enhance transparency. As the cost is always expected to be nil or nominal because of the nature of the EAs, the accounting for EAs on creation is expected to be immaterial to the financial statements.

b) Escrow proceeds held for auctions:

An asset is recognized by the province as cash is transferred to the Province's escrow settlement account. Prior to the auction process, the Province does not control the cash or LOC/LOGs held in the participant's escrow sub-account and therefore cannot recognize them as assets. The proceeds are held by a third party in a sub-account that identifies the participant and legal title and control is not with the Province. The Province does not control whether or how much a participant bids and therefore if their bids are successful. Only successful bids give the Province any rights to the escrow proceeds. Instead the participant controls whether the escrow proceeds will be used to purchase EAs or will be returned to the entity. If no auction occurs for any reason then the Province does not have any right to the escrowed cash amounts in the sub-account. After consulting with legal counsel from Ministry of Finance and Treasury Board, it has been determined that at the point in time when money is deposited into Ontario's escrow account, that money is "public money" within meaning of the Financial Administration Act (see subsection 1 (3) of that Act) in that it "belongs" to Ontario. Therefore prior to this point, funds (such as those in the participant's sub-accounts) are not considered to belong to Ontario and should not be recognized as an asset. Further if DB fails to make payment to the Province because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for the FSA's error[2]. As the agreements between DB and the Province are still under negotiation, the final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

On the auction date participants place their bids and indicate what amounts they stand ready to transact at. However, until auction certification date the Province has not accepted the bids and therefore there is no contract for the sale and purchase of EAs on the auction date. This occurs only on the certification date because the certification process is considered to be substantive. Certification is considered substantive because the Province reviews the results, analyses the bid data in detail and

[2] Legal position outlined in "Report back on WCI Inc Auction process" Submission to Treasury Board/Management Board of Cabinet, August, 2016.

reviews and accepts the auction report. The jurisdiction could reject the auction report if the auction has not proceeded in accordance with regulatory requirements and internal jurisdiction approvals must be obtained. Auction results are not fully published until certification has been completed and therefore the participants do not know if they are successful until certification. Based on this analysis there are no additional accounting implications of the auction date.

Once certification has occurred there is a contract between a successful bid participant and the Province and the settlement process begins. Once cash has been transferred from participant's sub-account to the Province's escrow account it is an asset of the Province. It is held for the Province's benefit, notwithstanding that it is not transferred to the Province's own GGRA bank account until the validation of the financial reconciliation, which is considered to be only a matter of time. Therefore during the settlement process, as cash payments are received from participants and deposited into the jurisdiction's escrow account or an LOC/LOG is drawn upon and deposited these would be recognized as cash (in escrow) by the Province. As the EAs have not been delivered to the participant the corresponding side of the entry would be to deferred revenue (see Section 6 below). Any cash recognized for successful bid participants would not be considered to be restricted cash as it is not required to be returned to the bidder and is not externally restricted.

Amounts receivable from participants (i.e. those bid guarantees covered by LOC/LOGs) would not be recognized as an asset of the Province prior to settlement of the LOC/LOG and cash being deposited in the Province's escrow settlement account. While there is a contract between the participant and the province neither party has executed on the contract prior to cash being received into Escrow, and therefore it remains an executory contract until one party performs by paying consideration or delivering the goods. As there is no amount receivable (as the Province will never deliver the EAs prior to cash being received) there is no need to consider any provision for impairment of those receivables.

Note that the cash held in escrow will usually be classified as cash because it is expected to meet the definition of cash and cash equivalents in PS Section 1200.97. The time that the cash is expected to be in the Ontario Settlement account is not more than 20 days, therefore the escrow cash is a "short term highly liquid" amount of cash that is subject to an insignificant risk of changes in value. PSAS considers that anything less than three months might be "short term". However, if there were significant concerns about the amount and timing of cash transfers from the settlement account to the GGRA bank account, for example because of concerns about the Escrow Agent's financial stability, the definition of "cash and cash equivalents" might not be met. In this case the amounts would be recorded as a receivable from the Escrow Agent and the need for a valuation allowance would be considered.

By settlement date all the cash proceeds from the auction would be transferred from the participant's sub-accounts and deposited into the Province's Escrow account. On the settlement date, the Escrowed cash is transferred to the Province's GGRA bank account which would result in a reclassification of the restricted cash to "cash" as the GGRA account is only internally restricted. (See Section 6 for the discussion on the GGRA account restrictions and other revenue implications at settlement date.)

Alternative positions considered and rejected:

It was considered whether an asset should be recognized by the province when cash is received into a participant's escrow "sub-account" - which is a sub-account of the Province's escrow account - and only released upon the completion and settlement of the auction, which is under the control of the Minister through the certification and settlement process. For example, the province requires participants to place bid guarantees and can control whether an auction goes ahead and therefore when the proceeds are released back to unsuccessful bidders. A bidder cannot retract their posted financial assurance until after an auction has gone ahead.

Therefore any escrowed cash amounts could be considered similar to customer deposits received in advance that should be recognized on the Province's balance sheet, offset by a liability to return those

deposits, which will be settled either through a refund of the cash in escrow or through the deposit of EAs in the participant's CITSS account. This view was rejected as based on legal assessment the Province does not own or control the participant's cash in Escrow and has no rights to it prior to the auction process.

Trade date accounting: An alternative view is that recognition of the sale of the EAs should be on a "trade-date" accounting basis. See Section 6 on revenue recognition for discussion on accounting for the sale of the EAs on the trade date and why this view was ultimately rejected. The implications for asset recognition under trade date accounting is that, as the sale is recognized on the trade date not the settlement date, a receivable for the entire proceeds of the auctioned EAs would be recognized on the trade date. Receivables recognized would be subject to impairment considerations, although the bid guarantees would mean a valuation allowance would not be required.

Under trade date accounting it would be determined on what the date is there a fixed price commitment which is the date at which a receivable is recognized. If the certification process is considered to be a substantive process that is undertaken by the Province then there would not be a fixed price commitment until the certification date. If the certification process is not considered to be substantive and the Province is committed to the amounts, prices and bid participants that are shown by the auction algorithm and auction report then this would indicate the auction date is the trade date. As trade date accounting has been rejected this issue has not been considered further.

Auction date as contract date: An alternative view to certification date as the contract date between the Province and the participant for the sale of EAs is that there is a contract on the auction date. This view would indicate that the certification process is not substantive and is a matter of course with changes or rejection of the initial auction algorithm results expected to be rare. It might also be argued that while the participant does not know whether they have been successful or not, the Province has run the auction algorithm and does know who the successful bidder are and at what price, and therefore from the Province's perspective there is a contract. This view was ultimately rejected on the basis that the auction certification process is considered to be substantive to ensure the successful bids are legitimate and do not exceed holding limits. Note that based on the preliminary revenue conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

c) Recognition of a derivative

When the province adopts PS 3450 it will need to consider whether the arrangement creates a derivative that needs to be recognized for the contract that exists from the certification date to the settlement of the contract by delivery of EAs date. The contract is a fixed price contract as the Province has agreed to sell a specified number of EAs for the specified price to the successful bid participant. While EAs are financial assets for the purposes of PS 1200/PS1201 it could be argued that they are "non-financial items" because they are inventories held for sale (not in scope of PS 3450) and are not contractual rights to receive cash. PS 3450 scopes out contracts to buy non-financial items from being derivatives when they are made in accordance with the entities normal sale or usage requirements and when those contracts cannot be settled net in cash or another financial instrument. Auction contracts to buy and sell EAs cannot be settled net – they can only be settled gross by exchanging cash for the EAs. Therefore no derivative will be recognized in respect of the contract.

Alternative positions considered and rejected:

No alternative views considered on the basis that EAs are not financial assets for purposes of PS 3450 as discussed below in "EAs in circulation".

d) EAs in circulation:

Once sold EAs in circulation do not represent assets to the Province. The EAs are economic resources as participants ascribe value to them. It may also be argued that the Province controls EAs as it can deny or regulate access to EAs by participants through regulation (PS 3210.16). However, the Province will not obtain any economic future benefits from the existence of EAs in circulation. PS 3210.12 distinguishes between the benefit the public receives and the economic benefit that a public sector entity receives through provision of goods or services, increase in cash inflows or reduction in cash outflow; only the latter resulting in future economic benefits that give rise to an asset. While the Province has a right to receive EAs in the future to settle compliance obligations, those EAs are retired after receipt and never result in an inflow of cash (or reduction in cash outflows) for the Province. Under certain circumstances EAs may be received that are not retired, for example those received as part of a 3 for 1 increased compliance obligation. However, when the EAs are issued the Province cannot expect that any participants will be subject to the 3 for 1 increased compliance obligation and in fact the objective of the cap and trade program is to incentivize participants to purchase their required EAs on the market or reduce emissions and so to avoid the burden of the 3 for 1 increased compliance obligation. Therefore the Province has no basis for expecting future benefits in the form of EAs that will not be retired and can be resold. The EAs do not enhance the government's provision of goods or services as the EAs do not, by themselves, reduce emissions. While EAs exist to further a policy objective of the Province, the benefits of the policy (reduced climate change impact and lower pollution) is a benefit to the Province of Ontario as a whole, not specifically to the government of Ontario.

Alternative positions considered and rejected: An alternative view would be recognize EAs in circulation as an asset based on the Province's right to receive the EAs as a participant emits. This is symmetrical with the participant's accounting for an emission obligation as they emit. However, while the Province arguably has a right to receive an EA due to a past event (the emissions) that the Province controls (through the cap and trade legislation) once returned the EAs do not have future service potential or the ability to generate future economic benefits as they are retired immediately.

Any recognition of a right to receive an EA that is created when a participant emits over time must create revenue as the corresponding credit, as there is no liability that is created by the right to receive an EA. This then results in a write-off to expense when the EA is actually received back. This expense would not reflect the economic substance as it implies that the Province is "better off" financially when emissions are produced despite there being no inflow of economic benefits due to emissions, and "worse off" when EAs are remitted for the pollution, despite there bring no outflow of economic resources (expense) for the Province at the point the EAs are returned and written off. For these reasons this view would not result in a fair presentation.

This alternative view is more consistent when there is a corresponding view that the Province has a liability for EAs in circulation (similar to currency in circulation) and therefore the receipt of the EAs does represent a future economic benefit because it results in the extinguishment of a recognized liability by the Province. This view was rejected because liability accounting for EAs in circulation is rejected as noted in Section 5 below and Appendix B.

It was also considered whether the right to receive EAs gives future economic benefits because the EAs are recognized as assets by participants under their accounting frameworks (e.g. IFRS) and therefore the Province has a right to recall an asset. However this view was rejected because while EAs are assets for participants as they can be used to reduce a recognized obligation, they are not assets for the Province as they do not give the Province access to future economic benefits through the provision of goods or services, future cash inflows or reduction of future cash outflows for the reasons noted above. The only exception is when EAs for a future compliance period are received as part of the 3 for 1 increased compliance obligation as these may be re-sold in the future. However for these EAs, the Province does not control how many EAs may be received back that can be re-sold or how many of these are for a future compliance period and so the asset criteria of control cannot be met in respect of this right to receive EAs for increased compliance obligations. Any recognition of an asset for the right to receive back applied to all EAs would result in a write-off to expense when EAs are remitted for a regular compliance obligation and then retired. This expense would not reflect the economic substance as there has been no outflow of economic resources by the Province at the point the EAs are returned and is therefore not a fair presentation.

e) Failure of participant to pay increased compliance obligation:

An increase compliance obligation is similar to a fine or penalty in that it increases the incentive for a capped participant to obtain enough EA "permits" during the compliance period or the participant must obtain a greater number of permits at a greater cost. However, while the compliance obligation is increased for the participant, the Province does not recognize a right to receive cash for increased compliance obligations until the expiry of the notice period because prior to this point participants, not the Province, control whether they have sufficient EAs to meet their compliance obligations or increased compliance obligations as they can purchase additional EAs on the market at the market price. EAs do not enhance or create expected economic future benefits for the government for the reasons noted in part (d) above in that they are resources that are controlled, but do not lead to future economic benefits for the Province. As participants can settle their obligations with EAs (including those from a future compliance period and after Ontario is linked, those issued by another jurisdiction of the WCI) there is no asset of the Province until a participant has not settled with EAs and under legislation the Province has a right to demand cash as settlement of the compliance obligation (i.e. to levy a cash penalty for non-compliance with the program). The right to demand cash represents a right to future economic benefits (cash flows) and is an asset, regardless of how the Province ultimately agrees to settle the obligation with the participant.

Measurement of the receivable: There is no specific guidance in PSAS on the recognition of receivables of fines or penalties as they are scoped out of PS 3510, *Tax revenues.* However, it would be consistent with PS 3510 and other standard to recognize the receivable at the amount expected to be received at the time of initial recognition. This would take into account the *expected* settlement of the receivable. For example, some or part of the amount might be settled by a reduction in the free allowances that would otherwise be due to a participant in future years. Settlement in this manner does not result in a direct inflow of economic benefits for the Province as the cost of creating free EAs for distribution is nominal (the benefits are indirect in that more EAs would be available for auction sale) and so would reduce the amount expected to be received.

Alternative positions considered and rejected: It was considered whether the ultimate right for the Province to demand cash in settlement of an increased compliance obligation indicated that the EAs in circulation give rise to future economic benefits because the right to receive EAs *might* ultimately end up being settled in cash. However, this view was rejected as it is only when a participant has chosen not settled with EAs that the Province has a right to demand cash as settlement of the compliance

obligation. Therefore there can be no further expected future benefits to be obtained for the Province prior to this point.

5. Identification of liabilities relating to the cap and trade program (excluding deferred revenue) as sponsoring government

Relevant guidance – See Appendix C

PS 1000, Financial statement concepts ("PS 1000")

PS 3200, Liabilities ("PS 3200")

PS 3300, Contingent liabilities ("PS 3300")

PS 3310, Loan guarantees ("PS 3310")

PS 3410, Government Transfers ("PS 3410")

PS 3450, Financial instruments, effective from April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to liabilities under Public Sector Accounting Standards.

a) Financial liabilities: There are no attributes of the cap and trade program that result in financial liabilities for the Province.

b) Other liabilities: There are no attributes of the cap and trade program that result in another type of liability for the Province.

c) Loan guarantees and contingent liabilities: There is no exposure for the Province in respect of Participant's cash financial assurance held in escrow in the participant's sub- accounts.

Analysis

a) Financial liabilities: As noted in the analysis in part 3 above and Appendix B the EAs themselves are not financial instruments and therefore do not create a financial liability, as once the EAs are issued and in circulation there is no contractual obligation of the Province to redeem them for cash or any other financial asset, or exchange them for other financial instruments. For example, if EAs are not required to be remitted by a participant for a compliance period it can be rolled forward for use in a future compliance period, rather than being redeemed for cash or another EA.

After Ontario links with the WCI it was considered if there is an obligation of Ontario to exchange Ontario EAs for those of other jurisdictions, or accept other EAs in lieu of Ontario EAs on terms that might be unfavourable to the Province. No such obligation appears to exist as there is one market for all jurisdictions in the WCI and once issued there is no way to determine whether an EA is an "Ontario" EA or that of another jurisdiction as all EAs are contractually identical. If a market participant has purchased an EA that was issued as an allocation from California or Quebec and redeems it for an

Ontario compliance obligation this does not create any obligation for Ontario to "settle" or return that EA to the originating jurisdiction.

It was considered whether there is any contractual obligation to repurchase the issued EAs or return the purchase price of auctioned EAs in contingent circumstances, such as the termination of the cap and trade program or bankruptcy of a participant. Based on the legislation and regulations there are no terms of the EAs that permit the participant to "put back" the EA to the Province, or require the Province to recall EAs for cash. Rather, Section 70 (3) of the Act specifically notes that the Crown is not obligated to make any payments in respect of retired or removed EAs. The current legislation does not foresee any mechanisms to terminate the program and therefore no current contractual obligation to redeem EAs exists under the terms of the EAs. If the program were to be terminated in the future the settlement of outstanding EAs would be the subject of future legislation and therefore no past event has yet occurred that creates an obligation in the event of termination.

Alternative positions considered and rejected: New Zealand has adopted an accounting policy of accounting for EAs in circulation similar to "currency in circulation", also known as the "Emission Notes" approach. Whether the EAs can be considered similar to "currency in circulation has been considered in Section 3 above". Whether this view would result in a financial liability being recognized by the Province for EAs in circulation is explored further in Appendix B.

b) Other liabilities: There is no liability under PS 3200 for the future issuance of EAs that are predominantly sold through the auction process as these are reciprocal transactions at the market price. The requirement to issue EAs at an auction price does not result in an outflow of economic benefits to the Province, because the Province receives fair value at the time of issuance.

In respect of the EAs that are given away as free allowances, there could be considered to be a constructive obligation to transfer "goods" (being the free EAs) in total or to specific participants. The delivery of free EAs is a transition mechanism and is non-reciprocal (as opposed to the sale of EAs which is a reciprocal transaction). The transfer of EAs is not technically in scope of PS 3410 because EAs are neither monetary assets (as they are not claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangements – PS 3410 GLOSSARY) nor are they tangible capital assets as they are not tangible in nature. However the principles in PS 3410 can be applied to determine whether there is an obligation to deliver free EAs. Under PS 3410 a transferring government has a liability (and expense) for a transfer when the transfer is authorized and all eligibility criteria have been met. The ability to receive free EAs is dependent on the participant registering each year to be eligible to receive the EAs. To the extent that that a capped emitter has registered to get free EAs and the number of EAs that it will receive can be determined under the regulations without continuing discretion from the MOECC to adjust the number then there should be a liability and expense amount recognized for the obligation to issue free EAs. It is noted however, that PS 3410 does not provide guidance on measurement of that liability and expense. As the obligation is to be settled only in the delivery of the free EAs, the best estimate of the amount to settle the obligation by the Province is the cost of the EAs, which is a nominal amount. Therefore, the obligation cannot be material at any time.

After the issue of free EAs or auction of other EAs, there is no legal or constructive or obligation to make payments or otherwise have an outflow of economic benefits in respect of issued EAs. As the cap and trade program is new, there have been no past practices established by which the Province settles outstanding EAs in cash or by transfer of other economic resources. There are no exchange mechanisms to exchange some EAs for others or to settle them in cash outlined in legislation.

Alternative positions considered and rejected:

It was considered whether the Act creates a broader obligation of the Province to reduce greenhouse gas emissions in Ontario in a manner that requires the outflow of economic benefits. Aside from the administration of the cap and trade system, the Act does not require specific actions to be taken by the Province that would result in an outflow of future economic benefits that the Province does not have the discretion to avoid. The question of whether the responsibility to spend auction proceeds on initiatives that are reasonably likely to reduce or support the reduction of greenhouse gases creates a liability as discussed in Section 6 below.

It was also considered if there is an obligation of the Province to run the Cap and Trade Program pursuant to legislation and if this creates a liability for the costs of running the program. Under the government's own legislation the Province is responsible for managing the ETS, which will require an outflow of resources in the form of administration costs, including the costs of administering EA issuance, emissions monitoring and compliance settlement activities at the end of the compliance period. There is also a past event that gives rise to this obligation being the enactment of the ETS legislation. However, as the cap and trade program is pursuant to the Province's own legislation there is still discretion to avoid the future outflows through the ability to change the legislation. The federal government has recently announced plans that mean provinces must come up with some form of carbon pricing scheme or else a federal carbon price will be imposed. Currently there is no indication that the federal government is requiring that Ontario continue with its cap and trade program as that program could be replaced with other carbon pricing mechanisms or could be removed and Ontario become subject to any future federal scheme. As such there is no third party that means Ontario has little or no realistic alternative but to continue with the Cap and Trade Program. Indeed, the actions of the federal government indicate that Ontario could stop its own program at its discretion and rely on any federal scheme to achieve carbon reductions.

Loan guarantees and contingent liabilities: It was considered whether the Province has an implied loan guarantee or contingent liability in respect of Participant's cash financial assurance, and whether the Province has the obligation to ensure the amounts are returned to participants if the auction does not run or they are not successful, even in cases of insolvency or error on the part of DB. Based on a legal analysis the Province does not appear to have exposure for loan guarantees or contingent liabilities to the extent that participants have submitted cash bid guarantees in participant's Escrow accounts as there is recourse under both the indemnification clause of the DB contract and required insurance (depending on the nature of the error). Further, if the DB fails to make payment to a participating jurisdiction because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for DB's error.

Alternative positions considered and rejected: No alternative views considered, based on the understanding of the specific arrangements regarding the escrow accounts. The final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

6. Revenue recognition under the cap and trade program as sponsoring government

Revenue recognition on sale and distribution of EAs

Relevant guidance - See Appendix C for details.

PS 1000, Financial statement concepts ("PS 1000")

PS 1150, Generally accepted accounting principles ("PS 1150")

PS 3410, Government transfers ("PS 3410")

Other GAAP accounting frameworks including IFRS 15, *Revenue from contracts with customers* ("IFRS 15")

PSAB Revenue – Statement of Principles ("Revenue SOP")

Preliminary position: Revenue is recognized for the sale of EAs on the date of delivery of the EAs as this is when the performance obligation is settled by the Province. No revenue is recognized on the distribution of free EAs for no consideration.

Analysis:

The following analysis follows from the preliminary position in Section 3 on the nature of EAs – *The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.* Given the nature of the EAs as intangible goods it is appropriate to consider revenue recognition requirements for exchange transactions. PSAS does not have a specific standard on revenue from exchange transactions. Therefore other sources of GAAP and consideration of the conceptual framework must be applied to develop an accounting policy.

a) <u>What is the performance obligation for the sale of EAs?</u> A performance obligation is defined in IFRS 15 a promise in a contract with a customer to transfer a distinct good or service (or bundle of distinct goods or services) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. This is similar to the proposed definition of performance obligation in the Revenue SOP which defines a performance obligation as an "enforceable promise to provide goods or services to a payor as a result of exchange transactions". The following analysis has applied the IFRS concept, as permitted under PS 1150.

   In both IFRS 15 and the Revenue SOP, performance obligations are identified by reference to a contract – which is an agreement that creates enforceable rights and obligations. A contract does not have to be a formal written bilateral agreement, as long as both parties have an understanding of each party's respective enforceable rights and obligations. In this situation the good or service is the EA that is credited to a participant as a result of the auction process or strategic reserve sale. As discussed in Section 4 above, the auction certification date is the date that a contract is considered to exist.

   Each EA is "distinct" in that the customer (purchaser) can benefit from each EA individually by selling, trading or using those EAs as the customer sees fit, including using those EAs to sell to other participants in the WCI or to settle compliance obligations in other WCI jurisdictions (once linked), and does not need other goods or services to benefit from the EA and the EA is not combined with other goods and services. A purchaser can only purchase an EA if they are a registered participant, however, becoming a registered participant is available to voluntary participants and market participants and therefore is considered to be readily available to all customers. (See IFRS 15.27 in Appendix C for definition of "distinct goods and services")

   Based on the above analysis, a contract is created when a participant successfully bids at auction as confirmed in the auction certification process. The Province has distinct performance obligations to deliver each EA to each successful bidder under these contracts.

   <u>*Alternative positions considered and rejected:*</u> It was considered whether the item delivered to participants in the exchange transaction was a program of carbon (greenhouse gas) reduction rather than the delivery of an EA itself. This was rejected because the individual participants may or may not benefit from a reduction in carbon

in Ontario and may or may not benefit in proportion to the cost of the EAs. Further, when Ontario links with the WCI, the participants may not even be located in Ontario. While the province may have promised the public of Ontario and other parties that they will reduce carbon emissions in Ontario to meet emissions targets, this should be separately analysed as to whether it has created a constructive obligation for Ontario to take actions and incur costs to meet this promise (See analysis in 5 (b) above). This is separate from the obligation in the exchange transaction with participants in respect of the purchase of EAs.

It was also considered whether the performance obligations to participants is both to issue the EA in the auction process, and also a stand-ready promise to redeem the EA in the future to settle a compliance obligation. In other words an EA is an intangible "right" that has been issued that province is obligated to redeem. Under this view, some or all of the proceeds from the auction would not be earned as revenue until the Province redeems the EA. This view was rejected because the obligation to redeem the EA as settlement of a participant's compliance obligation is an obligation that arises when a participant emits pollution and does not arise from the sale of the EAs. For example, Ontario sells 10,000,000 EAs in a compliance period. However total emissions from Ontario participants are only 100,000 tonnes. Ontario does not have an obligation to redeem all of the 10,000,000 EAs that were sold. Rather, Ontario accepts the 100,000 EAs that are submitted by the participants who emitted the 100,000 tonnes of emissions as settlement of their compliance obligations. Therefore Ontario has no obligation to redeem an EA that arises from the original exchange transaction and therefore there is no performance obligation that exists once the EAs have been sold. Similarly, when Ontario has linked to the WCI as Ontario is only obliged to take back EAs in respect of emissions from Ontario participants. There is no obligation to take back EAs sold to participants in other jurisdictions or to market participants, and likewise there is an obligation to redeem EAs submitted by Ontario participants, even when these were purchased from another WCI jurisdiction or another participant.

It was also considered whether the Province has an obligation to continue to provide the cap and trade program and/or a marketplace where participants can buy and sell EAs, on the basis that participants purchasing EAs are doing so on the understanding that they will be able to buy and sell EAs as well as to remit them for compliance obligations (if necessary). For example, if the termination of the cap and trade program would result in an obligation of the Province to return the sale proceeds to the holders of EAs that had been sold at auction this could indicate that there is an ongoing performance obligation that has not been fulfilled as the amounts must be refunded in the event of termination of the program. Under the Act, the Director establishes one or more accounts for registered participants for the purpose of allowing the participant to purchase, sell, trade and otherwise deal with emission allowances and credits. However, these are established and maintained in accordance with regulation for any registered participants, regardless of whether they purchase EAs in the auction process. Therefore the responsibility of creating and maintaining these accounts is a requirement and responsibility to registered participants under the Act and not a performance obligation to the purchasers or holders of EAs. The Act permits the trading of EAs between registered participants, but it does not create a provincially controlled market place for these trades. Registered participants may have an *expectation* of the Province continuing the cap and trade program and may make decisions based on this expectation, but this expectation exists in all registered participants including those that receive free allowances, rather than being a performance obligation that arises from the exchange transaction that is the sale of EAs. Section 5 (b) above discusses whether there is a general liability of the Province to continue the cap and trade program. Finally, it is noted that there is no legislative provisions for the termination of the program and there are no contractual provisions embedded in the EAs that give the participants the right to receive cash in respect of outstanding EAs upon termination of the program. As such, there is no evidence of a written or implied contractual performance obligation to continue the program that is part of the sale of EA exchange transaction.

b) <u>When is the performance obligation satisfied?</u> There are a number of models used in practice for determining when a performance obligation is satisfied. Under IFRS 15 the performance obligations are satisfied as control

of the good or service passes to the customer, regardless of whether the performance obligation is a good or a service. Under other standards such as ASPE Section 3400, *Revenue* or IAS 18, *Revenue* there are different criteria for "goods" or "services" and generally revenue is recognized as risks and rewards of ownership are transferred (for goods) or services are provided (for services). Both would be acceptable ways to approach the timing of revenue recognition for exchange transactions under current public sector accounting standards. However, the Revenue SOP proposes a "control" model similar to IFRS 15, so this approach has been applied in the analysis. Under IFRS 15 an "over time" approach is permitted only in specific circumstances (see IFRS 15.35 in Appendix A). In the case of the EAs the customer does not simultaneously receive and consume the benefits of the EA, the EAs do not create or enhance an asset that the customer controls and there is no additional asset that does not have an alternative use that is created by the province to fulfil the contract. Therefore the performance obligation will be satisfied at a point in time.

IFRS 15 provides indicators of when a point-in-time obligation has been satisfied. These are also included in the Revenue SOP and have been considered in this analysis. See IFRS 15.38 in Appendix C. The indicators have been assessed as follows:

Indicator	Auction day	Auction Certification date	Financial Settlement date	Receipt of proceeds and delivery of EAs
Present right to payment	Possible – there is a right to payment from successful bidders but it has not been confirmed who these are.	Yes. Under the contract payment must be received prior to delivery of EAs	N/A payment must be received before this date	N/A payment must be received before this date
Legal title to the asset	Legally EAs are not "property" under the legislation and therefore the concept of legal title does not technically apply to EAs.			However, EAs can only be traded or used after they have been credited to the participant's account. This occurs only on this date.
The entity has transferred physical possession of the asset	This indicator is not entirely relevant as EAs do not have physical form.			However the record of a participant's EAs is maintained in the CITSS account and so the right to use an EA is confirmed only upon this date.
The customer has accepted the asset	There are no customer acceptance clauses. This indicates is not relevant.			
The customer has significant risks and rewards of ownership of the asset.				

Specifically:				
- Using the EA to settle a compliance obligation (permit to settle a compliance obligation)	No. The EAs cannot be transferred from a participant's holding account to its compliance account to settle an obligation until it has been credited to the holding account.			Yes. Once credited to a holding account a participant can use the EA to settle a compliance obligation.
- Benefiting or suffering from the fluctuations in the market price of EAs	Possibly – the price that the customer pays is set by the auction process. However the customer does not yet know what price that is or how many EAs will be obtained. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	Yes – From this date the participant knows how many EAs they have and for what price. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	N/A already met	N/A already met

Based on the balance of the indicators above it can be concluded that there is most support for recognizing revenue on a "point in time" basis on the date when the EAs are transferred to the participant. As part of this it was considered that the nature of the EAs is ultimately as a permit to settle compliance obligations and therefore this element of risks and rewards was weighted more heavily.

Alternatives considered and rejected:

Auction date/Certification date/financial settlement date: See table above for analysis.

Trade date accounting: It was also considered whether "trade date accounting", as required by PS 3450 for regular way purchases and sales, could be applied to the purchase and sale of EAs. Trade date accounting is accepted for financial instruments to avoid having to recognize a derivative that be created for the period of time between when the fixed price commitment is entered into and it is settled because of the presence of an underlying variable that is not specific to either party. "Regular way" purchases and sales are those that are settled in the regular settlement cycle required for that particular investment. The time of that settlement varies depending on the type of instrument and jurisdiction. There could be an argument that the period between certification date and financial settlement date is the regular settlement cycle required for EAs, and therefore trade date accounting could be applied, which would result in the recognition of revenue (gains) on the sale of the EA on the trade date and not on the settlement date when the EA is actually transferred. However, this view was rejected for the following reasons:

- EAs are not sold through a "recognized exchange or securities market" but through the Province's auction process. While there is anticipated to be a market that develops for trades of EAs it will not be a "recognized exchange" under the Ontario Securities Act.

- As the sale is not on a "recognized exchange or securities market" there is not a customary period to settlement date (e.g. three days for equities, two days for forex swaps). Rather the period between the certification date and final settlement can vary depending on how long it takes for participants to provide cash, the LOCs/LOGs to be drawn upon and the final reconciliation to be approved. Further if the "trade date was considered to be the auction date and not the certification date this would extend the period further and make it more variable as the certification period can vary from 3 – 7 days.
- Trade date accounting is an exception to the usual rules of recognition for executory contracts and/or derivatives. As an exception it should not be extended by analogy to other situations such as EAs which are out of scope of PS 3450 as they are classified as inventories held for sale.

c) What are the implications of free allowances? Free allowances are not sold in an exchange transaction but are distributed in a non-exchange transaction, similar to a government transfer. As noted in Section 5 above, the distribution of EAs are technically not in scope of PS 3410, Government Transfers as they are not tangible capital assets or monetary assets. Further PS 3410 does not provide guidance on the measurement of a government transfer. However, the distribution of EAs to participants is similar to a government grant given that EAs are considered "goods" for which control is transferred at a point in time. This indicates that there is an outflow of economic benefits to participants. Typically under PSAS expenses incurred that are a result of derecognition of assets are measured at the difference between the carrying amount of the asset and the consideration received (in this case nil). The carrying amount of the EAs is at cost; expected to be a nominal amount. This is an acceptable policy under PSAS and consistent with PS 1000.60 (See Appendix C).

Alternatives considered and rejected:

An alternative to measuring the free EAs at cost is to measure them at fair value at the date of distribution being the opportunity cost of the economic resources foregone by not selling the EAs at auction. This policy also appears to be supportable by PS 1000.60 which indicates transactions can be measured at the "fair value ascribed to them when they took place". However this alternative is not proposed because the expense from recognizing the EAs at fair value would be necessarily offset by a gain as the carrying amount of the EAs is nominal. This gain (revenue) does not seem to meet the definition of revenues under the Conceptual framework as there is no inflow of economic benefits to the government from issuing free EAs to participants. Therefore this alternative was rejected as it results in a gross up in the statement of operations that is not a fair presentation of the economic activities of the Province in respect of the issuance of free EAs.

Restrictions on Greenhouse Gas Reduction Account

Relevant guidance – See Appendix C for details

PS 3100, Restricted assets and revenues

PSG-4, Funds and reserves

Preliminary position: The requirement to place the auction proceeds into a Greenhouse Gas Reduction Account is an internal restriction and does not lead to a liability on the statement of financial position.

Analysis:

The legislative requirement to establish the GGRA within the Public Accounts and record the proceeds from the distribution of EAs is found only in the Act, which is legislation of the Province and not of another government. There are no other agreements with other governments or other external parties that restrict the use of the proceeds from the distribution of EAs. Therefore, there are considered to be no external restrictions and the

requirements of PS 3100.11 to defer revenue until the resources are spent on the purpose or purpose specified do not apply.

Instead, the GGRA is an internally established reserve of the Province. The reserve is supported by assets that have been formally designated by the Province for specific uses and therefore meet the definition of "designated assets" in PS 3100, as this designation could be readily changed by amending the Act. Disclosure of designated assets may occur in the notes to the financial statements, but cannot occur on the statement of financial position. Similarly, PSG-4 permits reserves supported by designated assets to be disclosed in the notes, but not in the statement of financial position.

Alternative positions considered and rejected: It was considered whether there was an implied external restriction on the proceeds from the auction process, as when the participants purchase EAs they know that, by legislation, the funds are to be placed in the GGRA and spent on eligible programs. This view was rejected because the participants are purchasing the EAs in an exchange transaction (See discussion on "Sale of EAs as exchange or non-exchange transactions above). If the Province were to change the legislation regarding the use of the auction proceeds, the participants would still continue to purchase the EAs that they require or choose to purchase to meet their compliance obligations or to trade in the marketplace. As such, there is no evidence that the participants intend for there to be an external restriction on the proceeds.

It was also considered whether Ontario's commitments to other governments and parties, such as commitments to the WCI, create external restrictions on the use of auction proceeds for specific greenhouse gas reduction purposes. No external restrictions have been noted.

7. Financial statement presentation and disclosure considerations

- Financial statement disclosure consideration
- Other disclosures outside of the financial statements

8. Accounting for Emission Allowances held by government organizations

- Organizations that are consolidated into the Province's financial statements (hospitals, colleges etc.)
- GBEs that are accounted for using the modified equity method (IFRS) and prepare stand-alone financial statements under US GAAP

9. Anticipated fiscal impact over planning horizon

- Impact on balanced budget legislation

10. Implementation risks and audit considerations

Appendix A – Comparison to other select jurisdictions

	Quebec *Applies Canadian Public Sector Accounting Standards*	New Zealand[3] *Applies International Public Sector Accounting Standards*
Similarities and differences to Ontario	Quebec's cap and trade program substantially the same design as Ontario, as it is intended that Ontario will link into the WCI within the first compliance period	Similarities: Entities must provide New Zealand Units (NZUs) (not cash) to the government based on total emissions. NZUs can be traded between entities. Differences: New Zealand (NZ) had an obligation to the United Nations to keep emissions within the prescribed cap. NZUs are interchangeable with International Assigned Amount Units (AAUs) and New Zealand has an obligation to hold a quantity of international units equal to 90% of its AAU allocation. These units can be used to settle the New Zealand Government's Kyoto obligation. There is no hard domestic cap. International units can be used to settle emissions obligations. If the amount of NZUs are not sufficient for New Zealand to meet its international obligations the government must purchase more AAUs. For every NZU the government stands ready to swap it into an AAU (or equivalent international unit)
Asset recognition	None.	a) Creation of NZUs as "currency" results in inventory prior to issuance b) As Participants emit NZ has a "right to receive" the NZUs, created by legislation. The emissions are similar to a "taxable event"

[3] Information regarding the New Zealand ETS taken from the IPSASB paper "Emissions Trading Schemes" Agenda Item 14, March 2016 and "The Emissions Trading Scheme – Summary information for public entities and auditors"

Liability recognition	None. Although linked to the WCI, there is no cash changing hands with California, therefore no obligations/additional transactions that arise from a combined market.	When issued an NZU is an obligation, similar to "currency in circulation" that represents the obligation to redeem the NZU for their emissions value. NZUs are exchangeable for AAUs and an AAU or equivalent unit can be surrendered instead of an NZU, emphasizing that NZUs are a "medium of exchange" for settling the obligations. The liability is measured by reference to the cash received. For an grant of NZUs it would be nil. For NZUs issued for cash it is measured at the cash amount received. At the end of the compliance period the liability is settled by the return of NZUs (or other acceptable units) recorded under the "right to receive NZUs" asset. There are no assets or liabilities at the end of the compliance period.
Accounting for free allowances	Not recognized in the public accounts as revenue/expense.	Revenue is recognized when the "right to receive" NZUs is recognized – i.e. as the emissions are created by participants. Cash received from sale of NZUs is used to measure the liability representing the obligation to redeem NZUs and is not recognized as a revenue directly.
Accounting for sold/auctioned allowances	Revenue recognized immediately on sale/auction. Rationale was that sold rights are in scope of "unilateral rights" in the Revenue Statement of Principles and therefore result in immediate revenue recognition as government has sole authority to grant the right under constitutional powers and the past event (the auction) has occurred. No further obligations of the government. The revenues are non-refundable. Currently unknown whether recognized on auction date/certification date/settlement date/delivery date. Note that based on auction dates for WCI this is unlikely an issue for the Province of Quebec.	

Appendix B – Currency in circulation model

If the currency in circulation model is applies, as has been applied in New Zealand, the following analysis would be relevant for consideration. It is noted that the results are similar in respect of revenue recognition and liability recognition as for the "exchange transaction model".

The accounting for currency in circulation is not dealt with specifically in PSAS, however central banks typically recognized a liability for currency in circulation when it is issued as the central bank has an obligation to take back or issue notes and coins from banks with an offset to the bank's reserve liability with the central bank – in other words currency in circulation is exchangeable by holders into a different form of financial asset/ financial liability from the perspective of the central bank. In July 2016 IPSASB released a consultation paper on "Public Sector Specific Financial Instruments" that includes a discussion of currency in circulation[4]. This consultation paper lays out the critical questions to the application of this model. It is noted that the consultation paper considers the issuance of currency in circulation for its face value to be an "exchange transaction".

1. Is there a liability created?
2. What are the revenue implications?

Is there a liability created?

The consultation paper analyses the circumstances under which a liability may be created for currency in circulation by reference to the conceptual Framework. The analysis below considered the factors in the Consultation Paper in reference to the PSAS definition of a liability in PS 1000 and Section 3200 (Note that the IPSASB definition of a liability contains similar concepts to the PSAS definition in PS 1000 and PS 3200 although the words used are different).

- A past event has occurred when the EAs are issued, whether distributed for free or sold for cash.
- The issuance of a currency will embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation when there are legally enforceable obligations of the issuing government. For example, laws requiring the government to exchange damaged currency for new currency, hold collateral for the amount in circulation or establish explicit claims against the assets of the government for the currency in circulation. Where these legal obligations exist to redeem currency there is likely to be an outflow of resources required to discharge the obligation.
- If there are not legally enforceable obligations, the issuance of currency may still be a liability if the government has indicated they will accept certain responsibilities, have raised a valid expectation in others and have little or no alternative to avoid an outflow of economic resources. It may be less clear whether

[4] https://www.ifac.org/system/files/publications/files/IPSASB-Consultation-Paper-Public-Sector-Financial-Instruments.pdf

there will be an outflow of economic resources to settle these obligations, but a past practice of settling them (e.g. redeeming for cash) may create a valid expectation that will be settled by an outflow of economic resources.

There are a number of aspects that indicate the Ontario issued EAs do not meet the definition of a liability (and are not similar to the New Zealand Units):

- When they are remitted to the Province they are retired and not re-sold into circulation (with some limited exceptions)
- EAs issued in Ontario do not require the Province to exchange the EA into any other unit that is in turn can be sold by the Province for cash or used to settle a Provincial obligation, and does not require the Province to exchange an EA for cash. Ontario is not obligated to:
    - Hold collateral for amounts of EAs in circulation
    - Exchange EAs for "new" EAs
    - Honour any claims against other assets of the Province through the redemption of EAs
- In the absence of any legal obligation to redeem EAs for cash or another claim on an asset there is also no constructive obligation created by past practice of such claims/redemptions.
- This contrasts with the New Zealand system where New Zealand has an government Kyoto obligation to settle with international units and the government stands ready to exchange New Zealand Units into Assigned Amount Units (AAUs) or equivalent international unit. This may be on terms that are unfavourable or result in the requirement for New Zealand to pay cash to obtain the necessary AAUs for exchange.

Based on an analysis of the cap and trade program applied by Ontario the obligation to repatriate or redeem the EAs does not result in an outflow or sacrifice of future economic benefits as there are no circumstances when the Province must pay cash or other financial assets to settle the obligation to take back EAs for a participant's compliance obligation. Therefore the presentation of an obligation to redeem EAs would not reflect the substance of the arrangements, as the terms of the EAs do not meet the definition of a liability.

What are the revenue implications?

The consultation paper goes on to discuss whether, if no present obligation exists upon the issuance of currency in circulation if and when would revenue be recognized. Similar to IPSASB, under PSAS revenue is an increase in net financial position of the entity. (IPSASB also has the concept of ownership contributions, which are not relevant in this situation). The Consultation paper paragraph 3.43 notes that "when the issuance of currency does not satisfy the definition of a liability in the Conceptual Framework and recognition criteria, it should be recognized as revenue". This indicates that the test for a currency in circulation model is whether any attributes of the issuance of the EAs create a liability, and if not, any proceeds received from their issuance would be immediately credited to revenue as an inflow of economic resources to the government.

Appendix C – Technical guidance

Definition and nature of Assets

The definition of an "Asset" is currently set out in PS 1000.35.

1000.35 Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

PS 3210, *Assets* is effective from April 1, 2017, which expands on this definition. In light of the timing and multi-year nature of the cap and trade program PS 3210 is considered relevant.

PS 3210 defines assets as "economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained". Assets have three essential characteristics:

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

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

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

(PS 3210.03-.04 and PS 1000.36)

Assets may be classified as financial assets or non-financial assets. A financial asset is an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations (PS 1000.39). Examples of financial assets include cash, receivables and inventories held-for-sale. A non-financial asset is an asset that is acquired, constructed or developed and does not normally provide resources to discharge existing liabilities, but instead is normally employed to deliver government services, consumed in the normal course of operations and is not for sale in the normal course of operations (PS 1000.42). Examples of non-financial assets include tangible capital assets, supplies inventory or prepaid expenses.

Inventories are not specifically defined under PSAS, although PS 1200.48 provides guidance that Inventories for resale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. Other frameworks such as IFRS define inventories as assets that are held-for-sale in the ordinary course of business, used in the process or production for sales in the ordinary course of business or are consumed in the production process or rendering of services. This definition is consistent with the PSAS terminology of inventories held-for-sale and inventories held for consumption or use (consumed in the production process or rendering of services).

Intangible assets may meet the definition of an asset under PS 1000 and PS 3210. However, in the absence of appropriate public sector recognition and measurement criteria for intangible assets, no intangible assets are recognized in government financial statements (PS 1000.58). There is no definition provided for "intangible asset" in PSAS, although PS 4230 (applicable only to NPOs) does define Intangible Properties as "capital assets that lack physical substance". Other frameworks such as IFRS define Intangible Assets more broadly as "an identifiable non-monetary asset without physical substance".

Measurement of Assets

There is no specific guidance in PSAS on the initial recognition amounts for inventories. PS 1000.60 notes that generally financial statements are prepared on the "historical cost basis" being the cash or cash equivalents paid or received or the fair value ascribed to them when [the transactions] took place. Inventories held-for-sale are financial assets. Subsequent to initial recognition inventories are measured at their recoverable amount, net of any valuation allowance (PS 1200.049).

Definition and nature of liability

The definition of a "Liability" is currently set out in PS 1000.44-.45 and PS 3200, *Liabilities* which expands on this definition.

PS 3200 defines liabilities as "present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits". Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event or on demand;

c) The transactions or events obligating the government have already occurred.

(PS 3200.05)

PS 3200 states that discretion can be removed by an entity's own actions when this creates a constructive obligation to others. For a constructive obligation to exist the government must accept responsibility for the obligation, create a valid expectation among others and have no realistic obligation but to settle the obligation. This can arise from past practice, established policies, cabinet minutes, orders-in-council, ministerial orders, approved plans, ministerial letters and legislation.

PS 3200 states that the obligation to sacrifice economic benefits must be to a third party, and that entity exists at the financial statement date. The timing of the sacrifice of economic benefits must also be specified.

PS 3450 includes a definition of financial liabilities as "contractual obligations to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government". While PS 3450, *Financial instruments* is not mandatorily effective for the Province until fiscal 2020, given the long term nature of the cap and trade program, it has been considered in the analysis. Under PS 3450 there is no guidance on initial measurement of financial liabilities – typically transaction price is used, although fair value may be appropriate in some circumstances. Subsequently, financial liabilities are measured at amortized cost, unless they are eligible to be designated at fair value.

PSAS also contains guidance on loan guarantees (PS 3310), which are a form of contingent liability (PS 3300). Loan guarantees, as with other contingent liabilities, are accounted for as a liability when a loss is likely and the amount can be reasonably estimated.

Measurement of Liabilities

There is no general measurement guidance for liabilities in PS 3200, although specific standards specify measurement bases to be used. Other standards such as PS 3250, Retirement benefits and PS 3260, Liability for contaminated sites use a measurement model of the best estimate of the "cost" or cash outflows to settle the liability (discounted where appropriate). It is also noted that PS 1000.60 includes the following guidance:

PS 1000.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.

(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

PS 3410 Government Transfers - Scope

04 Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase / sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

.05 This Section does not deal with:

(a) transfers made through a tax system that are authorized through tax legislation;

(b) grants in lieu of taxes;

(c) settlements of lawsuits or other types of legal compensation provided by governments;

(d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments; and

(e) transfers of non-monetary assets other than tangible capital assets. Examples of transfers of non-monetary assets that are excluded from the scope of the Section are: transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures. 4

(footnote 4 - In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements)

PS 3410 Government Transfers - Expense (and liability) recognition

.12 A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Exchange transactions and non-exchange transactions

PS 3510.07 – (a) *Exchange transactions* are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(b) *Non-exchange transactions* are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

PSAS Revenue Statement of Principles –

.026 "Exchange transactions are transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor"

.032 "Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue".

Definition of revenue

PS 1000.46 - "Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period." Revenues are distinguished from gains because gains arise from peripheral or incidental transactions and events affecting a government.

Revenue recognition

PS 1000.59 - "Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting.... Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied."

PS 1150 - When there is no primary source of PSAS that addresses an issue a government uses professional judgement to develop an appropriate accounting policy that is consistent with the primary sources of GAAP and PS 1000. Additional sources can be referred to which include pronouncements of other standard setters (such as IPSASB, GASB, FASAB in the public sector or FASB, IASB or AcSB for private sector equivalents). Exposure drafts and other due process documents may also be considered, although care should be taken when using such documents as they may change before finalization.

The table below various approaches to revenue recognition taken by other standard setters and the pronouncements that could be taken into account in developing an accounting policy.

Source	Standard reference	Revenue recognition model for sale of goods
Public sector standard setters		
IPSASB	IPSAS 9 – Revenue from exchange transactions	As risks and rewards are transferred; no continuing managerial involvement or control; revenue can be reliably measured; probable economic benefit will flow; costs incurred can be measured reliably.
GASB	Principles covered in 1600, Basis of accounting. Some specific issues covered in other standards.	Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.
PSAB	Statement of principles, Revenue (Exposure draft, standard not finalized)	Revenue is recognized as a performance obligation is satisfied. Based on principles of IFRS 15.
Private sector standard setters		
IASB	IAS 18	Same as IPSAS 9
	IFRS 15 (effective 2018)	Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services
FASB	ASC 605	As risks and rewards are transferred; no continuing managerial involvement or control; reasonable assurance of the measurement of consideration. Specifically, there must be persuasive evidence of an arrangement, delivery has occurred or services have been rendered and the sellers price is fixed or determinable
	ASC 606 (effective 2018)	Same as IFRS 15
AcSB – Part II (ASPE)	Section 3400, Revenue	Same as ASC 605

IFRS 15.27 - A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

IFRS 15.35 - An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

IFRS 15. 38 - If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset — if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset — legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs B64–B76, B77–B78 and B79–B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The customer has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset — the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs B83–B86.

Restricted assets and designated assets

PS 3100 applies to funds and reserves that are externally restricted, PSG-4 applies to funds and reserves that are not externally restricted.

PSG-4.3 - .4 - Some funds and reserves are supported by assets. These may meet the definition of designated assets set out in PS 3100.04 (c). PS 3100.30 requires that when a government chooses to provide information about designated assets it does so in the notes and not on the statement of financial position.

PSG- 4.7 - "Therefore, when a government chooses to provide information about any funds or reserve, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations."

PS 3100.04 (a) - "External restrictions are stipulations imposed by an agreement with an external party, or through legislation of another government that specify the purpose or purposes for which resources are to be used."

PS 3100.11 - "Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified."

PS 3100.27-.28 - Designated assets – "...Assets may be designated for a specific purpose as a result of government legislation, by-law or resolution that limits the use of assets to specified purposes. Designated assets are distinct from restricted assets. Unlike restricted assets, governments can readily change the legislation, by-law or resolution and use the designated assets for another purpose if the need arises...."

IPSASB discussions

The International Public Sector Accounting Board (IPSASB) debated a paper in March 2016 that outlined a number of different accounting options that could be applied to various emissions trading schemes including conceptual considerations for and against each model. To date the IPSASB has not concluded on an appropriate model for accounting for emissions trading schemes such as Ontario's cap and trade scheme. The various approaches outlined in the paper were considered in developing the preliminary positions of this memorandum. The proposed approach for Ontario is most closely aligned with "Approach 2" of the paper, altered where necessary to account the specifics of the Ontario cap and trade system and the application within the PSAS Framework.

This paper can be found at: http://www.ipsasb.org/system/files/meetings/files/Agenda-item-14.pdf

Cap and Trade accounting implications - memorandum to file v5 November 20 Tracked changes.pdf

Cap and trade accounting implications memorandum to file – proposed outline

1. Executive summary

2. Background and outline of cap and trade legislation and regulations [NTD – *MOECC to provide comments on accuracy of background terminology*]

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The *Climate Change Mitigation and Low-Carbon Economic Act, 2016* (the "Act") was recently enacted that establishes, amongst other things, a framework for a cap and trade program for the Province of Ontario (the "Province" or "Ontario"). Two regulations, Ontario regulation 144.16 and Ontario regulation 143.16 (together "the Regulations") have been passed under the Act.

Only registered participants to the program (mandatory participants, voluntary participants and market participants) can purchase, hold, sell or trade emission allowances (EAs). Mandatory participants are those that are mandated to participate in the program. Voluntary participants are those that are not mandatory participants but choose to participate in the program for a compliance period. (Voluntary participants may opt out of future compliance periods if they do not meet the criteria to be a mandatory participant for that period). Together mandatory and voluntary participants are referred to as "capped participants" or "capped emitters". Market participants are those that do not have compliance obligations but choose to participate in the program so they can hold, sell and trade EAs.

EAs can be obtained in the following ways:

- Purchased at auctions at the auction price.
- Distribution as a free allowance (~~mandatory~~capped participants only).
- Acquired from other participants in a market trade.

EAs are held in holding accounts that are maintained in the "CITTS" system, which records participant accounts and trades between participants. CITSS is a web-based tool that facilitates participation in the cap and trade program and is administered by the Western Climate Initiative, Inc (WCI Inc) on behalf of participating jurisdictions. Market trades are reported to the MOECC and the MOECC monitors the participant's accounts for compliance with regulations, such as holding levels are within holding limits. If holding limits are exceeded and not remedied within 5 days, the Minister of the Environment and Climate Change (the "Minister") has the ability to remove the excess allowances for no compensation that could then be re-sold at future auctions. However, our understanding is that the systems should not allow sales over the individual limits to be processed so examples of this should be very limited in practice.

Auction process: ~~There~~In accordance with the Regulations there are four auctions a year. ~~MOECC determines~~ EAs are sold at auction classified by "vintage". The Regulations set out how many EAs are created for each vintage and how many EAs of each vintage will be available at each auction, ~~and how many of each "the vintage"~~after the distribution of ~~the EAs is available.~~free EAs. The vintage of an EA determines which compliance period the EA can be submitted for. For example, in 2017 the auctions will be for the "2017" vintage and some for the "2020 vintage~~", but more~~". More than one "vintage" may be sold in any one auction. The first auction will be held March 2017. There is a floor price for each auction. Not all the allowances available at a particular auction may be sold, in which

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case unsold allowances may be offered at a future auction under some circumstances. 5% of EAs are held back as a strategic reserve that may be sold at a later date for a higher value~~.~~, not through the auction process. Only capped emitters may purchase from the reserve. The strategic reserve accumulates over time.

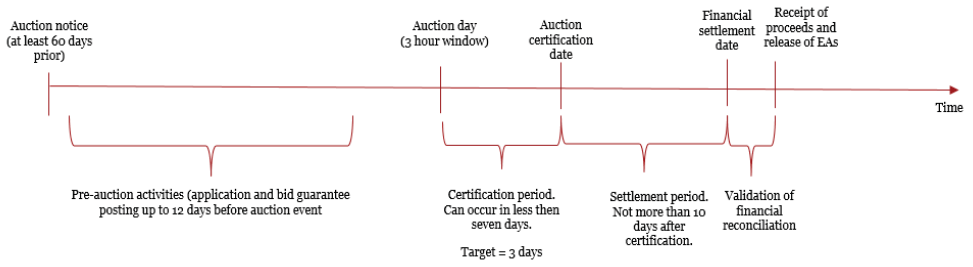
Prior to the auction registered participants must post a bid guarantee. This may be in the form of an irrevocable letter of credit (LOC), letter of guarantee (LOG) or cash, both of which are held in escrow by Deutsche Bank (DB~~).~~.) in the participant's sub-account under the jurisdiction's Escrow account. The Province's escrow account is in the name of WCI, Inc for the benefit of the Ontario Minister of the Environment and Climate Change. The bid guarantee may be posted up to 60 days before the auction, and must exceed the total amount of bids that will be submitted by the participant in the auction.

At the auction the participants place bids for the number of EAs they will purchase at any price point. At the end of the three-hour auction window the auction administrator runs the auction algorithm through a predetermined auction settlement calculation to provide the auction result report indicating the set of successful participants and the number of allowances they won at the auction settlement price.

After the auction, the Province ~~(and a market monitor, for WCI auctions)~~ reviews the results for compliance with the ~~Province's regulations.~~regulatory requirements over the auction process and to obtain the required internal jurisdiction approvals. These steps include reviewing the auction results provided by the auction platform, analyzing bid data in detail and reviewing and accepting the auction report submitted by the market monitor (a third party contractor called Monitoring Analytics). When the results of the auction are confirmed (the "certification date") the results are published on the jurisdiction's website, invoices made available to participants and the process of settlement begins. If a participant is successful in the auction then the participant is invoiced for the amounts due for the EAs purchased. If the participant submitted a cash bid guarantee this cash amount is used to settle the invoices~~.~~ by the amounts being transferred from the participant's sub-account into Ontario's escrow settlement account. If an LOC or LOG was used, the participant can pay separately within 7 days~~, in~~ into their sub-account, which ~~case~~ is then transferred to Ontario's escrow settlement account and the LOC is dissolved or returned. Alternatively if the participant does not submit cash payment within 7 days the invoice is settled by calling on the LOC or LOG. Once ~~payment has~~all the payments have been received from participants and transferred to Ontario's escrow settlement accounting and Ontario's staff have confirmed that the amount in the escrow account match payments due from auction participants, then the escrowed amounts are transferred to the GGRA bank account and the EAs are transferred to the respective participant CITSS accounts. ~~[Question for MOECC – up to the date of auction can a registered participant remove themselves from the auction and get back their cash/LOC or are they locked in until after the auction date?]~~

~~[o/s is to determine if there is an insolvency risk prior to the auction period; if there is, has the Province effectively guaranteed the return of the bid collateral if the escrow holder became insolvent]~~

Auction timeline illustration



Free allowances

~~Mandatory and capped~~Capped emitters may receive free allowances. To receive free allowances the participant must apply each year. The amounts of these are determined by the Minister using formulas applied to the entity specific situation of the participant~~.~~ and are expected to diminish over time as transition to the cap and trade program is completed and inter-provincial "leakage" declines (leakage is where carbon producers move economic activities to a jurisdiction with no or low carbon pricing). Once issued, these EAs are identical to those sold at auction and may be held or traded by participants.

Emissions Compliance

The program operates within 3-year compliance periods (with the first period being a 4-year period). The first compliance period runs from January 1, 2017 – December 31, 2020. EAs are linked to a specific compliance period. For example, EAs with 2021-2023 vintages cannot be used to meet normal emissions obligations under the program for the 2017-2020 compliance period~~.~~ (although they can be used to settle increased compliance obligations). However, EAs from earlier vintages can be carried forward to meet obligations in future compliance periods. EAs do not expire. Participants may purchase EAs from other participants in market trades to be able to meet their obligations. Market trades are negotiated between participants and are then reported to the MOECC, who ensures that the agreed upon EAs or credits are transferred between the participants CITSS accounts. The number of EAs ~~available~~issued for the compliance period is capped by regulation. Therefore if total emissions from all participants are significantly lower than the cap, it should be easy for participants to obtain the necessary EAs in the marketplace at an inexpensive price. Unused EAs for the compliance period can be carried forward and used in future compliance periods. If the total emissions from all participants exceed the cap then there will not be sufficient EAs available for all participants to meet their compliance obligations~~.~~ and the price of any available EAs will increase. The market mechanism allows those participants who can most cheaply reduce their emissions an incentive to do so in order to either sell excess EAs to other participants at a higher price or to save the need to purchase a high priced EA to meet their obligations.

At the end of the compliance period mandatory and voluntary participants report their attributed carbon emissions (greenhouse gas emissions must be quantified, reported and verified) for the compliance period and ensure they have transferred sufficient EAs or credits (see below) from their holding accounts into their compliance accounts. At the compliance "true-up" deadline (by November 2021 for the first compliance period), EAs and offset credits (see below) are removed in a number equal to the participant's obligations under the Regulations (1 EA per 1 tonne of emissions). If a participant does not have sufficient EAs in their account at the true-up date then there is a shortfall. In addition to the EAs required to fulfil the shortfall, the obligation increases on a 3-1 basis; for each EA required to cover the shortfall the participant is required to acquire and submit an additional 3 EAs (the "increased compliance obligation"). This increased compliance obligation may be settled with EAs from future vintages (e.g. 2021 vintages may be used to settle the increased compliance obligation for the 2017-2020 period, however, they cannot be used to settle the original compliance obligation or shortfall).

Due to the increased compliance obligation mechanism if a participant does not expect to have sufficient EAs in their compliance accounts at the true-up deadline there is an incentive for participants to either reduce their emissions over the compliance period or to purchase additional EAs (of vintages valid for the compliance period) in the market prior to the true-up deadline; the market price of which would be expected to increase due to demand exceeding supply.

The EAs that are remitted to the MOECC for a compliance period are ~~cancelled~~retired. They are not re-sold. The exception to this is EAs that are remitted as part of the increased compliance obligation may be re-sold at auction. The purpose of the exception is so that the overall number of available EAs for future compliance periods is not reduced because of the failure of participants to comply at the true-up date.

A participant has a certain period of time (30 days after a notice of a shortfall is issued) to acquire and remit sufficient EAs to meet their compliance obligation, including additional compliance obligations for shortfalls. If

they fail to remedy the shortfall, the Director can issue an order that the outstanding obligation be settled in cash to the Ministry of Finance, based on the settlement price from the most recent auction.

The removal of EAs from a participant's account is without payment to the participant. Specifically Section 70 (3) of the Act states that "No amount is payable by the Crown with respect to any action taken by the Minister or Director under this Act, or by any person acting on their behalf, including any action relating to the removal of emission allowances and credits from a participant's cap and trade accounts".

Credits and offsets

Other than EAs, entities may also obtain "early reduction credits ~~for early action~~" or "offset credits" in certain circumstances. These credits are also tracked by participant and can be used in place of EAs to settle a compliance obligation. Credits can also be sold or purchased by participants on the market. There are limits on how much of a compliance obligation can be settled with credits as opposed to EAs. As emissions can be settled by either EAs or credits and offsets, the creation of credits or offsets essentially increases the total "cap" amount of emissions under the cap and trade program for the compliance period.

Linking to the Western Climate Initiative (WCI)

It is anticipated that Ontario will link to the WCI in 2018. The WCI currently includes Quebec and California. When linked to the WCI, there will be one market for EAs – all participants from participating jurisdictions can buy, sell, hold and trade EAs with other participants. There is one auction process for all participating jurisdictions, with proceeds from the auction being allocated on a pro-rata basis. For example, each jurisdiction determines the number of EAs that they will put up for auction in that vintage based on their cap for the compliance period. This results in a total amount of EAs available of which, say 30% are part of the Ontario emissions cap, 15% for Quebec and 55% for California. The proceeds of the auction would be split 30:15:55 between the participating jurisdictions, regardless of which participants purchase the EAs. If not all the EAs are sold, the sales are attributed on these same rations and unsold EAs from the jurisdiction may be sold at future auctions under certain conditions. EAs are not attributed back to a jurisdiction of issuance and can be used to settle a compliance obligation in any of the participating jurisdictions. For example, an Ontario participant must ensure there are an adequate number of EAs or credits in their compliance account to meet their compliance obligation based on their emissions. It does not matter whether they purchased the EAs at auction or from a California or Quebec participant. The effect is that Ontario participants may produce emissions that exceed the Ontario cap for any compliance period, but this excess would be offset by reductions in Quebec or California below their caps, thus reducing emissions overall~~.~~, and in the jurisdiction where the reduction is the cheapest (most efficient). There is no mechanism by which Ontario transfers or receives cash, financial assets or EAs between jurisdictions. There is no requirement to redeem EAs issued in other jurisdictions by issuing cash or other "Ontario" EAs as all EAs are interchangeable once issued.

Termination of the program

The program does not have a termination date. There is nothing in the current legislation that outlines how the cap and trade program might be terminated. The program could only be terminated through a change in the legislation. We are not aware of any terms in the arrangements with the WCI that would specify how a withdrawal from the WCI might be undertaken.

Greenhouse Gas Reduction Account

The Act establishes an account with the Public Accounts of Ontario called the Greenhouse Gas Reduction Account (GGRA). ~~Any~~Other than limited exceptions, proceeds from the distribution of EAs are included in this account. Amounts of fees, penalties and the settlement of increased compliance obligations in cash are also included in the GGRA. The funds in the GGRA may be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gases. Such uses include the research and development of new technologies or processes, innovation, education and training, and informing the public. The amounts in the GGRA may also be used to fund costs of administration and enforcement of the Act. Annually, the Minister will issue a public notice regarding the evaluation of initiatives funded by the GGRA. In addition an annual report will be prepared describing the activities

of the GGRA. Eligible costs that were incurred by the Crown on or after November 1, 2015 may be reimbursed from the GGRA, even if they were incurred prior to the Act coming into force.

Federal actions to reduce carbon emissions

In October 2016 the federal government announced that Canadian provinces that do not have a carbon pricing mechanism will be subject to a federal benchmark "floor price" for carbon in 2018. Ontario's cap and trade program means that it will not be subject to the federal carbon floor price as the Ontario targets are in excess of the targets imposed by the federal government. As such, actions by the federal government are not expected to have an impact on Ontario's cap and trade program. This must be monitored as subsequent federal actions and/or changes to Ontario's cap and trade program in response to the federal government actions may have accounting impacts.

3. What is the nature of EAs

Relevant guidance - See Appendix C for details.

PS 3450, Financial Instruments ("PS 3450") (effective for years on or after April 1, 2019)

PS 3510, Tax revenue ("PS 3510") (for definition of exchange and non-exchange transactions)

PSAS Revenue Statement of Principles ("Revenue SOP") (non-authoritative due process document)

IPSASB staff paper "Emissions Trading Schemes" Agenda Item 14 March 2016.

Preliminary position:

The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.

Analysis:

In order to determine the appropriate accounting for EAs it is important to understand what they are and what they are not.

An EA is separately identifiable and is a permit (a non-exclusive, non-expiring right) that allows the holder to settle the legislative compliance obligation that arises from producing one ton of emissions. This is subtly different from a "quotas" (for example a milk or fishing quota) that gives a holder the right to produce a certain level of product that the producer can then sell for economic benefit, because the ultimate benefit of the EA to the participant is the permission to avoid a fine or payment that would otherwise be required for non-compliance with the Act[1].

Is it a financial instrument?

Current PSAS does not define financial instruments. However, PS 3450 (effective in 2019) define financial instruments as "any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity". An EA is clearly not an equity instrument, and so it will only meet the definition of a financial instrument if it creates a financial liability to one party (and a financial asset to another). A financial liability is defined in PS 3450 as any liabilities that are contractual obligations (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government. A financial instrument by definition a contract. It could be argued that EAs are statutory instruments created by legislation and issued in a unilateral transaction (see "is it similar to a "tax" on emissions?") in which case an EA could never be a financial instrument. For purposes of this analysis an

[1] This is consistent with the conclusions of Mr. Stephen Morris QC in hearing a case regarding the EU ETS system and the nature of European Union Allowances in Armstrong DLW GmbH v Winnington Networks Ltd (2012).

EA is considered to be a contract between the holder and the Province as both parties know their respective rights and obligations that arise from holding and issuing EAs.

An EA does not create an obligation for any party to pay cash or other financial assets. The province has no contractual requirement to pay cash to redeem an EA and is never required to exchange an EA for another financial asset under any circumstances. (The province may accept cash payment in lieu of EAs for an increased compliance obligation at its discretion). Similarly, once they are the holder of an EA they are not obligated to pay cash or other financial assets to another party under the terms of the individual EA. A participant may be obligated to obtain the necessary number of EAs to meet their compliance obligations under the cap and trade program, to reduce their emissions accordingly, or in some cases to pay an increased compliance obligation in cash, these are obligations that arise through the act of emitting pollutants and not an obligation that is incurred through holding an EA. Rather holding an EA permits the participant to avoid an outflow of cash otherwise payable.

Is it similar to a currency?

Governments are unique in that they have the power to issue currency as legal tender. By analogy the EAs could be viewed as similar to a form of "currency" – a medium of exchange - that must be accepted by the government to settle compliance obligations. Compliance obligations only exist through government legislation, and the government also provides the means by which to settle those obligations (EAs). The maintenance of EAs in circulation is required by Cap and Trade regulation. The issuance of EAs at auction could be an issuance of this "currency" for cash. The distribution of EAs could be similarly a distribution of currency for no consideration (similar to a government grant). EAs can be traded like a currency (with a varying exchange rate to Canadian dollars depending on the market price). This is the position taken by certain governments in accounting for their Emissions Trading Systems such as New Zealand (See Appendix A). The arguments that the EAs are a form of "currency" have some merits. However unlike currency, the EAs in circulation are retired after they are submitted for a compliance obligation and not recirculated. In addition the amount of EAs in circulation is planned to decline over time as emissions are reduced. These caps may also be influenced by external parties such as the Federal Government setting emissions reduction targets that must also be complied with. Further, once Ontario is linked to the WCI it is not the only jurisdiction issuing EAs in circulation that can be used to comply with an Ontario emissions obligation. This means that Ontario could accept back "currency" in excess of that which it issued, or equally never receive back "currency" that it has issued. These factors mean that unlike a currency in circulation, Ontario does not control the EA supply that can be used to settle the compliance obligations. However, for completeness Appendix B considers how the circulation in currency model could be applied to the Ontario cap and trade system.

Is it similar to a "tax" on emissions?

While the mechanics of a cap and trade system are different than a carbon tax, the policy objectives are the same - a price is put on pollution with the purpose of reducing pollution. The primary purpose of the cap and trade system is to reduce emissions and any revenues earned from the sale of EAs is incidental and similar to revenues obtained from taxing other undesired behaviours (such as taxes on alcohol or cigarettes).

The cap and trade legislation requires mandatory participants to purchase EAs in order to settle a legislative obligation to the extent that the participant's emissions exceed their allowance of freely distributed EAs. Under this approach any amounts received, regardless of the timing of those receipts, are considered to be a non-reciprocal transaction as the participants did not have to pay these amounts prior to the implementation of the cap and trade legislation, therefore these costs to the participants are created by legislation in respect of their emissions.

It is the act of emitting in excess of "free" EAs that creates an obligation of participants to pay for a certain amount of EAs. While Participants must obtain EAs in order to meet their compliance obligations which are created by legislation and initially EAs are only available from the Province, it is not the act of auctioning the EAs itself that gives rise to a right to the revenues as there is no legislative requirement that forces a participant to purchase an EA prior to them creating emissions that must be settled through EAs. Further, once linked to the WCI there is no legislative requirement that the participant purchase an EA from the Province.

If the scheme is considered to be in substance like a tax, it would be appropriate that the recognition of revenue would be accounted for in accordance with PS 3510. This would result in "revenue received in advance" for EAs that are sold, and something similar to a "tax concession" for participants that receive free EAs. There would be no accounting recognition for EAs. If the scheme was considered to be another form of unilateral transaction created by the constitutional rights of the Province then it is relevant to consider the proposed guidance in the Revenue SOP. Although not authoritive until a standard is approved, the proposals indicate that revenue for unilateral transactions is recognized when the Authority to collect the revenue exists and the event that gives a right to those revenues has occurred. Paragraph .114 of the SOP states "The past event is specific to the nature of the transaction and the legal authority that gives the public sector entity a right to the revenue. The desired effect is that the past event should be readily identifiable and consistent, both over time and amongst those jurisdictions with similar sources of unilateral revenue. In TAX REVENUE, Section PS 3510, the equivalent concept is the taxable event". It is considered that the event that gives rise to a right to the revenue is the participant's emissions and not solely the auction of EAs.

The key determination to support this view is whether the sale of EAs is an exchange transaction or a non-exchange transaction as those terms are defined in PS 3510. It might be argued that the Province has not given up anything by issuing the EAs regardless of whether they sell the EAs in an auction or freely distribute them because the EAs do not cost anything to create and are to be used only to settle obligations created by the cap and trade regulations. Therefore any amounts received are non-reciprocal.

However, the sale at auction seems to meet the definition of an "exchange transaction" because one entity (the auction participant) receives assets (the EAs – which are assets from the perspective of the participant and assets to the Province immediately prior to the auction) and directly gives approximately equal value in the form of cash to another entity (the Province) as the amount of cash paid for an EA equates to the fair value of the EAs. This is supported by the following facts

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- The province has delivered an asset in exchange for cash. The EAs are assets/economic resources prior to the sale as they are held-for-sale inventory assets prior to the auction (see also Section 4 (a) below).
- Purchasers of EAs have obtained an asset in exchange for cash. Purchasers can include market participants and unlike mandatory or voluntary participants, market participants are not subject to compliance obligations. They are purchasing the EAs because EAs are a resource that can be sold or traded on the marketplace. Mandatory and Voluntary participant also do not have to keep their EAs but can sell and trade them on the market speculatively. Participants recognize EAs as assets in their financial statements (typically as intangible assets under IFRS).
- The participant purchases EAs by giving up cash that is approximately equal in value to the EA as, by definition, the "fair value" of an EA is what a market participant is prepared to pay in an unforced transaction, and the auction process is a mechanism to assist in identifying the fair value of the EAs.
- The Province's right to payment from a participant arises from the auction process and not solely from legislation. If no EAs are purchased at auction the Province has no right to payment. The province has an obligation to deliver the EA to a participant's CITSS account as part of the auction process.
- Once Ontario has linked with the WCI, then mandatory and voluntary participants who create emissions in Ontario could obtain some or all their EAs from California, Quebec or other market participants. There is no direct link between the amount of Ontario-based emissions and the amount of proceeds obtained by the Province; emissions in Ontario could exceed (or be less than) the number of EAs issued by Ontario. Therefore the characterization as a tax on emissions does not hold as there is no consistent basis on which this "tax" is calculated.
- The program is not created under tax legislation and is not legally a tax.

Is it a "good or service" and if so, of what nature?

The analysis in the above section supports the sale of EAs as being an exchange transaction. This is consistent with the proposed definitions of "exchange transactions" and "unilateral transactions" in the Revenue SOP. Because of the exchange nature of the auctions as the EAs can be considered to be a good or service that is provided in exchange for consideration, rather than a receipt of payment without a direct transfer of economic resources to the payor. For example, for any auction there may be no participants or not all EAs may be sold. In these cases, some EAs are not transferred to participants and there are no inflows to the Province or inflows are less than expected.

Prior to pollution pricing mechanisms the ability to emit pollution was a "free good". There was no cost to companies from emitting pollution - rather the costs were born by society as a whole. The cap and trade legislation forces companies to internalize the costs of pollution, thus turning a "free good" into a "good" that has a price. The price of being able to emit pollution is the cost of obtaining an EA i.e. a permit to settle the compliance obligation.

From the perspective of the participant, the EA is a "good or service". Accounting standards do not clearly define the difference between a "good" or a "service". Often it is evident. Goods are usually understood to be tangible items for which physical possession can be transferred. Services are usually understood to be actions that benefit the recipient that are consumed as the service is provided. Other examples of "goods and services" that are less clear are:

- Stand ready obligations, such as standby charges levied to have good or service providers ready to act
- Rights to use tangible or intangible assets, such as leases or licences for intellectual property
- Options to purchase future goods and services (for example, gift cards or future discounts)
- Providing a decision (for example, fees to apply for a driver's licence and its issuance to a qualifying driver)

(see "Revenue" Statement of Principles issued by PSAB, August 2013)

An EA does not fit neatly into any of these categories. It is intangible (it does not have physical form). It is not a right to use an existing asset (tangible or intangible) of the Province as the right relates to an action of the participant (emissions). As the participant can transfer the EA to other participants, it is clear that the issuance of an EA is not provide a benefit to the recipient that is consumed as it is delivered. The EA does not give a participant the right to future goods or services to be provided by the Province, nor does it represent that the province is on "stand-by" to deliver future goods and services as there is no transfer of further goods and services when the EA is remitted in settlement of a compliance obligation.

As an EA is tradeable and can be transferred or sold to other participants it is most similar to a "good", albeit one in intangible form. If a participant receives a good from the Province in a transaction then the Province must be delivering a good. Therefore although the province creates the EA and the use value of the EA is dependent on the Province's own legislation regarding compliance obligations it makes sense to apply symmetry between participants and the Province in respect of the determination of nature of the EAs.

~~3.~~4. *Identification of assets relating to the cap and trade program as sponsoring government*

Summary of relevant guidance – See Appendix ~~A~~C

PS 1000, Financial statement concepts ("PS 1000")

PS 1200, Financial statement presentation ("PS 1200")/PS 1201, Financial statement presentation, effective April 1, 2019 ("PS 1201")

PS 3210, Assets, effective April 1, 2017 ("PS 3210")

PS 3450, Financial instruments, effective April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to assets under Public Sector Accounting Standards.

a) On creation ~~and sales~~ of free and auctioned EAs: EAs that are created by the government, including EAs held in the strategic reserve, are inventories held-for-sale. EAs that have been remitted to the government as payment for increased compliance obligations or because of breaches of holding limits and are available for re-sale at auctions are also inventories held-for-sale.

   Inventories held-for-sale are measured at cost. Newly created EAs do not cost anything to create and are measured at a nominal amount. EAs that are returned to the government and not ~~cancelled~~retired due to increased compliance obligations or breaches of holding limits will be measured at the cost to re-acquire them (also a nominal amount).

~~b) [NTD preliminary conclusions subject to change, based on further understanding of escrow accounts, whether "delivery of EAs" is substantive, importance of certification date vs auction date and subject to discussion with TBS.]~~

   Note that as it is expected that these amounts will be nominal this preliminary position has not material impact on the Public Accounts.

b) Escrow proceeds held for auctions: Escrow proceeds received for bid guarantees are not recorded by the Province prior to the ~~date of the auction~~transfer of funds into the Province's escrow settlement account.

   ~~On the~~After auction ~~date, a receivable~~certification cash from successful bidders is ~~recognized by the Province for the sale of EAs.~~transferred to the Province's escrow settlement account, resulting in recognition of an asset (cash in Escrow). A corresponding amount is recognized ~~in Revenue~~as deferred revenue until the contract is settled by the transfer of EAs to the participants (see ~~Part 5).~~section 6 below). On settlement EAs held in inventory are removed from inventory and included in Cost of Sales, although these are expected to be at nominal amounts and so this entry would not be material.

c) Period between the auction certification date and the delivery date of the EAs: From the date of the contract between the Province and the successful bidder and the settlement of the contract by delivery of EAs there is no derivative instrument required to be recognized.

~~c)~~d) EAs in circulation: EAs in circulation or the right to receive back EAs in circulation as emissions are produced by participants are not recognized as assets, whether sold at auction or issued as free allowances.

~~d)~~e) Failure of participant to pay increased compliance obligation: The right to demand payment in lieu of EAs for an increased compliance obligation is recognized after the time period that a participant has to rectify the shortfall by remitting EAs as expired, e.g. on the deadline specified in a notice issued under Section 14 (8) of the participant's outstanding obligations.

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The above can be summarized in the following journal entries:

On creation of EAs or receipt of EAs that can be re-sold:

Dr Inventory held-for-sale (expected to be nil cost)

Cr Cash (expected to be nil cost)

~~*On auction date:*~~

On distribution of "free" EAs to capped emitters (see section 6 - included here for completeness of entries)

Dr ~~Receivable (from successful participants/Escrowed amounts)~~

~~Cr Revenue~~

~~Dr Cost of sales~~Expense (expected to be nil as at cost of inventory)

Cr Inventory held-for-sale (expected to be nil cost)

~~*On settlement date:*~~

~~Dr Cash~~

~~Cr Receivable (~~*As payment from successful bidders is received and placed into Ontario Settlement account:*

Dr Cash (in Escrow)

Cr Deferred Revenue

On date of receipt of proceeds to GGRA and transfer of EAs to participant CITSS accounts:

Dr Deferred revenue

Cr Revenue

Dr Cash (GGRA account)

Cr Cash (in Escrow)

As emissions are made by participants~~/Escrowed amounts~~

No journal entry required

On receipt of EAs for the current compliance period in respect of compliance obligations or increased compliance obligations:

No journal entry required

On receipt of any EAs of future vintages settled in respect of a 3 for 1 compliance obligation:

Dr Inventory held for sale (expected to be nil cost)

Cr Revenue (expected to be nil cost)

On expiration of deadline for rectifying increased compliance shortfall by remitting EAs:

Dr Receivable

Cr Revenue

Analysis

~~*Analysis*~~

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a) On creation ~~and sales~~ of free and auctioned EAs:

EAs are "goods" created to be sold or distributed to participants~~. These~~ (see analysis in section 3 above). The sales occur on a regular basis and generate revenues in the ordinary course of running the cap and trade program. ~~Therefore despite being intangible in nature,~~ PS 1200.048 notes that inventories for sale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. The EAs ~~also~~therefore meet the definition of inventories held-for-sale ~~and~~as they are held for sale in the ordinary course and the revenues can be used to finance future operations. Despite being intangible in nature these could be given accounting recognition as an asset. Consistent with current policies of the Province, inventories held-for-sale are measured at the lower of cost or recoverable amount.

~~EAs that are returned to the government and not cancelled due to increased compliance obligations or breaches of holding limits are measured at their cost, which is expected to be a nominal amount as no cash or other financial asset is paid to acquire them, and no liability is derecognized in respect of the receipt of these (see Section 4 on recognition of liabilities).~~ PSAS does not provide further guidance on what is included in "cost" for inventory. Following the guidance for tangible capital assets that are constructed would result in only direct costs of creation and directly attributable overhead costs being included. The definition of "cost" for inventories in under other frameworks such as IFRS or ASPE includes both direct costs and a systematic allocation of fixed and variable production overheads. As the EAs are intangible in nature it is not expected that any production overheads would be incurred. General overheads (such as general management) are not allocated to inventory. ~~[ASK MOECC CREATION PROCESS – EXPECTATION IS THAT NO FIXED PRODUCTION OVERHEADS EITHER – ALL WOULD BE GENERAL MANAGEMENT I.E. IF NO PRODUCTION OCCURRED WOULD ANY OVERHEAD COSTS BE ELIMINATED.]~~

~~It is noted that upon the adoption of PS 3450 in fiscal 2020, inventories held-for-sale would be in scope of PS 3450 as they are classified as financial assets under PS 1201 (currently PS 1200). PS 3450 requires financial assets other than equity instruments that are quoted in an active market to be measured at amortized cost, net of any allowance for recovery. While EAs may be considered to trade in an active market, if an active market develops, EAs are not equity instruments and therefore will not be required to be measured at fair value.~~

~~Under PS 3450 financial assets can be designated as measured at fair value when they are part of a portfolio of instruments that is managed at fair value or contain an embedded derivative. It is unlikely that the Province would be considered to manage newly created EAs on a fair value basis and there have not been any embedded derivatives identified in the EAs. Therefore EAs held as inventory must be measured at cost.~~ EAs that are returned to the government and not retired due to increased compliance obligations or breaches of holding limits are measured at their cost, which is expected to be a nominal amount as no cash or other financial asset is paid to acquire them, and no liability is derecognized in respect of the receipt of these (see Section 4 on recognition of liabilities).

Alternative positions considered and rejected: EAs are intangible (without a physical substance) in nature and many participant's accounting framework include them as intangible assets. As the EAs are internally generated and intangible there is an alternative view that they should not be recognized on the books of the Province prior to sale, given the lack of a PSAS definition of what is included the reference to "Intangible Assets" in PS 1000.58. This view is an acceptable view under PSAS, but was ultimately rejected as the preliminary position because the intent of creating the EAs is for re-sale and not for use as a capital asset that is used in the provision of services, for administrative purposes, for

production of goods or for the maintenance, repair, development or construction of other assets. The rationale for scoping out "intangible assets" in PS 1000.58 is because there is no recognition and measurement criteria for intangibles. However there is guidance on how to account for inventories held-for-sale, which can be applied. The selected approach of treating EAs as inventory held-for-sale may create an additional accountability of the number of EAs created and ~~lead to~~provide an opportunity for additional disclosures in the financial statements that would enhance transparency. As the cost is always expected to be nil or nominal because of the nature of the EAs, the accounting for EAs on creation is expected to be immaterial to the financial statements.

b) Escrow proceeds held for auctions:

An asset is recognized by the province as cash is transferred to the Province's escrow settlement account. Prior to the auction process, the Province does not control the ~~proceeds~~ cash or LOC/LOGs held in the participant's escrow sub-account and therefore cannot recognize them as assets. The proceeds are held by a third party ~~(DB)~~ in a sub-account that identifies the participant and legal title and control is not with the Province. The Province does not control whether or how much a participant bids~~, or~~ and therefore if their bids are successful ~~and therefore whether~~. Only successful bids give the Province ~~has~~ any rights to the escrow proceeds ~~prior to the auction being held. Rather~~. Instead the participant controls whether the escrow proceeds will be used to purchase EAs or will be returned to the entity. ~~[NTD – Add additional support if bidders can retract bid guarantees prior to auction date.]~~ If no auction occurs for any reason then the Province does not have any right to the escrowed ~~amounts. [NTD – to confirm]~~cash amounts in the sub-account. After consulting with legal counsel from Ministry of Finance and Treasury Board, it has been determined that at the point in time when money is deposited into Ontario's escrow account, that money is "public money" within meaning of the Financial Administration Act (see subsection 1 (3) of that Act) in that it "belongs" to Ontario. Therefore prior to this point, funds (such as those in the participant's sub-accounts) are not considered to belong to Ontario and should not be recognized as an asset. Further if DB fails to make payment to the Province because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for the FSA's error[2]. As the agreements between DB and the Province are still under negotiation, the final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

~~From the auction date there is a contract between the Province and the purchasers of EAs. While the Province has not yet credited EAs to the recipient's account, the process of crediting EAs is considered not to be substantive as EAs are not in physical form and the Province controls the recording of EAs in the participants' accounts. Rather, the legal and contractual rights of the EAs are obtained by a purchaser on the auction date. In addition, the participant has also substantially performed under the contract as payment has already been made either through a cash bid guarantee or by the submission of an adequate LOC or LOG. The Province would recognize this as a receivable to the extent that the cash has not been received from Deutsche Bank.~~

~~This position is also analogous to "trade date" accounting which is required by PS 3450.A16 for financial assets traded on a recognized exchange in regular way purchases and sales. While the initial auction of EAs is not on a recognized exchange, they are financial assets and they are auctioned into a~~

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[2] Legal position outlined in "Report back on WCI Inc Auction process" Submission to Treasury Board/Management Board of Cabinet, August, 2016.

~~market place on a regular basis and give rise to a fixed price commitment between the participant and the government, therefore an analogy to the trade date requirement may be appropriate.~~

~~*Measurement of receivable:* The receivable would be measured at the auction price, being the amount of consideration expected to be received from the sale. Due to the bid guarantees it would be expected that the full auction price would be received. [IF EXPOSED TO DB CREDIT RISK MAY NEED TO ADD SOMETHING REGARDING BAD DEBT EXPENSE]~~

On the auction date participants place their bids and indicate what amounts they stand ready to transact at. However, until auction certification date the Province has not accepted the bids and therefore there is no contract for the sale and purchase of EAs on the auction date. This occurs only on the certification date because the certification process is considered to be substantive. Certification is considered substantive because the Province reviews the results, analyses the bid data in detail and reviews and accepts the auction report. The jurisdiction could reject the auction report if the auction has not proceeded in accordance with regulatory requirements and internal jurisdiction approvals must be obtained. Auction results are not fully published until certification has been completed and therefore the participants do not know if they are successful until certification. Based on this analysis there are no additional accounting implications of the auction date.

Once certification has occurred there is a contract between a successful bid participant and the Province and the settlement process begins. Once cash has been transferred from participant's sub-account to the Province's escrow account it is an asset of the Province. It is held for the Province's benefit, notwithstanding that it is not transferred to the Province's own GGRA bank account until the validation of the financial reconciliation, which is considered to be only a matter of time. Therefore during the settlement process, as cash payments are received from participants and deposited into the jurisdiction's escrow account or an LOC/LOG is drawn upon and deposited these would be recognized as cash (in escrow) by the Province. As the EAs have not been delivered to the participant the corresponding side of the entry would be to deferred revenue (see Section 6 below). Any cash recognized for successful bid participants would not be considered to be restricted cash as it is not required to be returned to the bidder and is not externally restricted.

Amounts receivable from participants (i.e. those bid guarantees covered by LOC/LOGs) would not be recognized as an asset of the Province prior to settlement of the LOC/LOG and cash being deposited in the Province's escrow settlement account. While there is a contract between the participant and the province neither party has executed on the contract prior to cash being received into Escrow, and therefore it remains an executory contract until one party performs by paying consideration or delivering the goods. As there is no amount receivable (as the Province will never deliver the EAs prior to cash being received) there is no need to consider any provision for impairment of those receivables.

Note that the cash held in escrow will usually be classified as cash because it is expected to meet the definition of cash and cash equivalents in PS Section 1200.97. The time that the cash is expected to be in the Ontario Settlement account is not more than 20 days, therefore the escrow cash is a "short term highly liquid" amount of cash that is subject to an insignificant risk of changes in value. PSAS considers that anything less than three months might be "short term". However, if there were significant concerns about the amount and timing of cash transfers from the settlement account to the GGRA bank account, for example because of concerns about the Escrow Agent's financial stability, the definition of "cash and cash equivalents" might not be met. In this case the amounts would be recorded as a receivable from the Escrow Agent and the need for a valuation allowance would be considered.

By settlement date all the cash proceeds from the auction would be transferred from the participant's sub-accounts and deposited into the Province's Escrow account. On the settlement date, the Escrowed cash is transferred to the Province's GGRA bank account which would result in a reclassification of the

restricted cash to "cash" as the GGRA account is only internally restricted. (See Section 6 for the discussion on the GGRA account restrictions and other revenue implications at settlement date.)

Alternative positions considered and rejected: ~~Three alternative views were considered for asset recognition – 1) at the posting of bid guarantees; 2) on settlement date; and 3) on auction certification date.~~

~~*Posting of bid guarantees:* For this option, escrow amounts meet definition of an asset when the participant posts a bid guarantee in cash. Under this view it is argued that the Province~~It was considered whether an asset should be recognized by the province when cash is received into a participant's escrow "sub-account" - which is a sub-account of the Province's escrow account - and only released upon the completion and settlement of the auction, which is under the control of the Minister through the certification and settlement process. For example, the province requires participants to place bid guarantees and can control whether an auction goes ahead and therefore when the proceeds are released back to unsuccessful bidders~~, therefore effectively controlling the escrowed amounts. The cash held in escrow is therefore held on behalf of the Province (an asset) with a corresponding liability to either return the cash or EAs. This view was rejected as the use of escrow accounts, as opposed to deposits lodged directly with the Province, sets out the relevant terms as to how and when escrow proceeds are released and therefore the Province does not have discretion to direct the funds as they wish. As the Province has not yet delivered any EAs they do not have a right to the amounts in escrow, and nor do they have legal title. Therefore, the Province does not have any substantive mechanisms of control over the escrow accounts.~~. A bidder cannot retract their posted financial assurance until after an auction has gone ahead.

Therefore any escrowed cash amounts could be considered similar to customer deposits received in advance that should be recognized on the Province's balance sheet, offset by a liability to return those deposits, which will be settled either through a refund of the cash in escrow or through the deposit of EAs in the participant's CITSS account. This view was rejected as based on legal assessment the Province does not own or control the participant's cash in Escrow and has no rights to it prior to the auction process.

Trade date accounting: An alternative view is that recognition of the sale of the EAs should be on a "trade-date" accounting basis. See Section 6 on revenue recognition for discussion on accounting for the sale of the EAs on the trade date and why this view was ultimately rejected. The implications for asset recognition under trade date accounting is that, as the sale is recognized on the trade date not the settlement date, a receivable for the entire proceeds of the auctioned EAs would be recognized on the trade date. Receivables recognized would be subject to impairment considerations, although the bid guarantees would mean a valuation allowance would not be required.

Under trade date accounting it would be determined on what the date is there a fixed price commitment which is the date at which a receivable is recognized. If the certification process is considered to be a substantive process that is undertaken by the Province then there would not be a fixed price commitment until the certification date. If the certification process is not considered to be substantive and the Province is committed to the amounts, prices and bid participants that are shown by the auction algorithm and auction report then this would indicate the auction date is the trade date. As trade date accounting has been rejected this issue has not been considered further.

Auction date as contract date: An alternative view to certification date as the contract date between the Province and the participant for the sale of EAs is that there is a contract on the auction date. This view would indicate that the certification process is not substantive and is a matter of course with changes or rejection of the initial auction algorithm results expected to be rare. It might also be argued

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that while the participant does not know whether they have been successful or not, the Province has run the auction algorithm and does know who the successful bidder are and at what price, and therefore from the Province's perspective there is a contract. This view was ultimately rejected on the basis that the auction certification process is considered to be substantive to ensure the successful bids are legitimate and do not exceed holding limits. Note that based on the preliminary revenue conclusions (revenue recognized on delivery of EAs to CITSS accounts) if this view was taken it would not substantially change any of the accounting entries.

c) Recognition of a derivative

When the province adopts PS 3450 it will need to consider whether the arrangement creates a derivative that needs to be recognized for the contract that exists from the certification date to the settlement of the contract by delivery of EAs date. The contract is a fixed price contract as the Province has agreed to sell a specified number of EAs for the specified price to the successful bid participant. While EAs are financial assets for the purposes of PS 1200/PS1201 it could be argued that they are "non-financial items" because they are inventories held for sale (not in scope of PS 3450) and are not contractual rights to receive cash. PS 3450 scopes out contracts to buy non-financial items from being derivatives when they are made in accordance with the entities normal sale or usage requirements and when those contracts cannot be settled net in cash or another financial instrument. Auction contracts to buy and sell EAs cannot be settled net – they can only be settled gross by exchanging cash for the EAs. Therefore no derivative will be recognized in respect of the contract.

Alternative positions considered and rejected; ~~*On settlement date:* It could be considered that the contract is wholly unperformed until the Province has received the cash released from escrow (or other cash payment from participants) as this cash must be received before the EAs are credited to participant accounts. Under this view an asset and revenue is only recorded once cash has been received. This view was rejected as the bid guarantee and escrow process means it is only a matter of time before the funds are received by the Province and therefore this is not substantive enough to preclude asset recognition as the Province controls a right to cash from the date of auction under the cap and trade auction mechanism.~~

~~*On auction certification date:* It could be considered was that the certification date is the point for asset recognition as prior to this the auction may not have been valid. This was rejected because the certification date is only to confirm compliance and does not change the date that the contractual arrangements between the Province and the participant for the sale of EAs was made. However, if the certification process rejected certain sales or the auction as a whole, this would be an adjusting subsequent event that would be considered in determining whether assets/revenue from the auction process should be recognized.~~

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No alternative views considered on the basis that EAs are not financial assets for purposes of PS 3450 as discussed below in "EAs in circulation".

~~c)~~d) EAs in circulation:

Once sold EAs in circulation do not represent assets to the Province. The EAs are economic resources as participants ascribe value to them. It may also be argued that the Province controls EAs as it can

deny or regulate access to EAs by participants through regulation (PS 3210.16). However, the Province will not obtain any economic future benefits from the existence of EAs in circulation. PS 3210.12 distinguishes between the benefit the public receives and the economic benefit that a public sector entity receives through provision of goods or services, increase in cash inflows or reduction in cash outflow; only the latter resulting in future economic benefits that give rise to an asset. While the Province has a right to receive EAs in the future to settle compliance obligations, those EAs are ~~cancelled~~retired after receipt and never result in an inflow of cash (or reduction in cash outflows) for the Province. Under certain circumstances EAs may be received that are not retired, for example those received as part of a 3 for 1 increased compliance obligation. However, when the EAs are issued the Province cannot expect that any participants will be subject to the 3 for 1 increased compliance obligation and in fact the objective of the cap and trade program is to incentivize participants to purchase their required EAs on the market or reduce emissions and so to avoid the burden of the 3 for 1 increased compliance obligation. Therefore the Province has no basis for expecting future benefits in the form of EAs that will not be retired and can be resold. The EAs do not enhance the government's provision of goods or services as the EAs do not, by themselves, reduce emissions. While EAs exist to further a policy objective of the Province, the benefits of the policy (reduced climate change impact and lower pollution) is a benefit to the Province of Ontario as a whole, not specifically to the government of Ontario.

Alternative positions considered and rejected: An alternative view would be recognize EAs in circulation as an asset based on the Province's right to receive the EAs~~. This alternative view would be consistent with a~~ as a participant emits. This is symmetrical with the participant's accounting for an emission obligation as they emit. However, while the Province arguably has a right to receive an EA due to a past event (the emissions) that the Province controls (through the cap and trade legislation) once returned the EAs do not have future service potential or the ability to generate future economic benefits as they are retired immediately.

Any recognition of a right to receive an EA that is created when a participant emits over time must create revenue as the corresponding credit, as there is no liability that is created by the right to receive an EA. This then results in a write-off to expense when the EA is actually received back. This expense would not reflect the economic substance as it implies that the Province is "better off" financially when emissions are produced despite there being no inflow of economic benefits due to emissions, and "worse off" when EAs are remitted for the pollution, despite there bring no outflow of economic resources (expense) for the Province at the point the EAs are returned and written off. For these reasons this view would not result in a fair presentation.

This alternative view is more consistent when there is a corresponding view that the Province has a liability for EAs in circulation (similar to currency in circulation) and therefore the receipt of the EAs does represent a future economic benefit because it results in the extinguishment of a recognized liability by the Province. This view was rejected because liability accounting for EAs in circulation is rejected as noted in Section ~~4~~5 below~~.~~ and Appendix B.

It was also considered whether the right to receive EAs gives future economic benefits because the EAs are recognized as assets by participants under their accounting frameworks (e.g. IFRS) and therefore the Province has a right to recall an asset. However this view was rejected because while EAs are assets for participants as they can be used to reduce a recognized obligation, they are not assets for the Province as they do not give the Province access to future economic benefits through the provision of goods or services, future cash inflows or reduction of future cash outflows for the reasons noted above. ~~Therefore~~ The only exception is when EAs for a future compliance period are received as part of the ~~right to receive an EA is also not an asset. The~~3 for 1 increased compliance obligation as these may be

re-sold in the future. However for these EAs, the Province does not control how many EAs may be received back that can be re-sold ~~(i.e. those remitted~~ or how many of these are for a future compliance period and so the asset criteria of control cannot be met in respect of this right to receive EAs for increased compliance obligations~~) and so any~~. Any recognition of an asset for the right to receive back ~~was recognized for~~ applied to all EAs~~,~~ would result in a write-off to expense when EAs are remitted for a regular compliance obligation and then ~~cancelled~~retired. This expense would not reflect the economic substance as there has been no outflow of economic resources by the Province at the point the EAs are returned and is therefore not ~~appropriate accounting~~a fair presentation.

~~d)~~e) Failure of participant to pay increased compliance obligation:

~~The~~An increase compliance obligation is similar to a fine or penalty in that it increases the incentive for a capped participant to obtain enough EA "permits" during the compliance period or the participant must obtain a greater number of permits at a greater cost. However, while the compliance obligation is increased for the participant, the Province does not recognize a right to receive cash for increased compliance obligations until the expiry of the notice period because prior to this point participants, not the Province, control whether they have sufficient EAs to meet their compliance obligations or increased compliance obligations~~. As participants~~ as they can ~~settle their obligations with~~purchase additional EAs ~~that~~on the market at the market price. EAs do not enhance or create expected economic future benefits for the government~~. It~~ for the reasons noted in part (d) above in that they are resources that are controlled, but do not lead to future economic benefits for the Province. As participants can settle their obligations with EAs (including those from a future compliance period and after Ontario is ~~only when~~linked, those issued by another jurisdiction of the WCI) there is no asset of the Province until a participant has not settled with EAs ~~that~~and under legislation the Province has a right to demand cash as settlement of the compliance obligation~~.~~ (i.e. to levy a cash penalty for non-compliance with the program). The right to demand cash represents a right to future economic benefits (cash flows) and is an asset, regardless of how the Province ultimately agrees to settle the obligation with the participant.

Measurement of the receivable: ~~The~~ There is no specific guidance in PSAS on the recognition of receivables of fines or penalties as they are scoped out of PS 3510, *Tax revenues*. However, it would be consistent with PS 3510 and other standard to recognize the receivable ~~would be recognized~~ at the amount expected to ~~-~~be received at the time of initial recognition. This would take into account the *expected* settlement of the receivable. For example, some or part of the amount might be settled by a reduction in the free allowances that would otherwise be due to a participant in future years. Settlement in this manner does not result in a direct inflow of economic benefits for the Province as the cost of creating free EAs for distribution is nominal (the benefits are indirect in that more EAs would be available for auction sale) and so would reduce the amount expected to be received.

Alternative positions considered and rejected: It was considered whether the ultimate right for the Province to demand cash in settlement of an increased compliance obligation indicated that the EAs in circulation give rise to future economic benefits because the right to receive EAs *might* ultimately end up being settled in cash. However, this view was rejected as it is only when a participant has chosen not settled with EAs that the Province has a right to demand cash as settlement of the compliance obligation. Therefore there can be no further expected future benefits to be obtained for the Province prior to this point.

~~4.~~5. Identification of liabilities relating to the cap and trade program (excluding deferred revenue) as sponsoring government

Relevant guidance – See Appendix C

PS 1000, Financial statement concepts ("PS 1000")

PS 3200, Liabilities ("PS 3200")

PS 3300, Contingent liabilities ("PS 3300")

PS 3310, Loan guarantees ("PS 3310")

PS 3410, Government Transfers ("PS 3410")

PS 3450, Financial instruments, effective from April 1, 2019 ("PS 3450")

Preliminary positions

We considered whether any attributes of the cap and trade program give rise to liabilities under Public Sector Accounting Standards.

a) Financial liabilities: There are no attributes of the cap and trade program that result in financial ~~liability~~liabilities for the Province.

b) Other liabilities: There are no attributes of the cap and trade program that result in another type of liability for the Province.

c) Loan guarantees and contingent liabilities: There is no exposure for the Province in respect of Participant's cash financial assurance held in escrow in the participant's sub-accounts.

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Analysis~~Loan guarantees and contingent liabilities: **EITHER** There may be an implicit loan guarantee by the Province in respect of the funds held in escrow for the participants prior to the auction date and up to the date of settlement. Absent any specific information to the contrary regarding DB's solvency it would usually be considered not likely that the Province would have to pay any amounts in respect of the escrow proceeds and no accrual would be made. To the extent that there are escrowed proceeds held over a balance sheet date disclosures of the implicit loan guarantee should be made, if material.~~

~~**OR** There are no contingent liabilities or loan guarantees by the Province in respect of the funds held in escrow for the participants either prior to the auction date or between the auction date and settlement date.~~
~~[NTD – position to be confirmed based on discussion of insolvency risk with DB~~

c) ~~—~~Financial liabilities: As noted in the analysis in part 3 above and Appendix B the EAs themselves are not financial instruments and therefore do not create a financial liability, as once~~accounts. I'm not sure there is, but if it is considered to be "public money" prior or post auction then the Province might have a duty to repay it.]~~

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~~*Analysis*~~

~~a) Financial liabilities: Under the cap and trade legislation the Province will issue a certain number of EAs under the program (the cap) and, as EAs are financial assets, being inventory held-for-sale (see Section 3 (a) above) this is an obligation to deliver financial assets. However the obligation, such that it exists (see also (b) below), is not a contractual obligation with the participants, as it is brought about through the cap and trade legislation and regulations not individual contracts with participants.~~

a) ~~Once~~ the EAs are issued and in circulation there is no contractual obligation of the Province to redeem them ~~in a manner that results in a sacrifice of economic benefits. Under the legislation, the EAs can only be redeemed to settle a participant's compliance obligation under the legislation and cannot be redeemed~~ for cash or any other financial asset, or ~~exchanged~~exchange them for other financial instruments. For example, if EAs are not required to be remitted by a participant for a compliance period it can be rolled forward for use in a future compliance period, rather than being redeemed for cash or another EA.

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After Ontario links with the WCI it was considered if there is an obligation of Ontario to exchange Ontario EAs for those of other jurisdictions, or accept other EAs in lieu of Ontario EAs on terms that might be unfavourable to the Province. No such obligation appears to exist as there is one market for all jurisdictions in the WCI and once issued there is no way to determine whether an EA is an "Ontario" EA or that of another jurisdiction as all EAs are contractually identical. If a market participant has purchased an EA that was issued as an allocation from California or Quebec and redeems it for an Ontario compliance obligation this does not create any obligation for Ontario to "settle" or return that EA to the originating jurisdiction.

It was considered whether there is any contractual obligation to repurchase the issued EAs or return the purchase price of auctioned EAs in contingent circumstances, such as the termination of the cap and trade program or bankruptcy of a participant. Based on the legislation and regulations there are no terms of the EAs that permit the participant to "put back" the EA to the Province, or require the Province to recall EAs for cash. Rather, Section 70 (3) of the Act specifically notes that the Crown is not obligated to make any payments in respect of ~~cancelled~~retired or removed EAs. The current legislation does not foresee any mechanisms to terminate the program and therefore no current contractual obligation to redeem EAs exists under the terms of the EAs. If the program were to be terminated in the future the settlement of outstanding EAs would be the subject of future legislation and therefore no past event has yet occurred that creates an obligation in the event of termination.

Alternative positions considered and rejected: New Zealand has adopted an accounting policy of accounting for EAs in circulation similar to "currency in circulation", also known as the "Emission Notes" approach ~~and recognizes a liability for the obligation to repatriate or redeem the EAs for their emissions value to the participant (Dr Cash (auction EAs) or Dr Expense (free EAs) and Cr Liability for Emissions Notes for market price), along with a right to receive EAs from participants to settle the EA obligation as emissions occur (Dr Receivable, Cr Revenue). This accounting has the benefit of being most symmetrical with the common accounting methods used by participants under other Frameworks such as IFRS.~~. Whether the EAs can be considered similar to "currency in circulation has been considered in Section 3 above". Whether this view would result in a financial liability being recognized by the Province for EAs in circulation is explored further in Appendix B.

~~Our understanding is that New Zealand took this view, in part, because their EAs (NZUs) are interchangeable with "Kyoto AAU's" (International units), which may create an obligation for New Zealand to accept Kyoto AAUs for NZUs under terms that could be unfavourable. However, this view was rejected as based on the cap and trade program applied by Ontario the obligation to repatriate or redeem the Emissions Notes does not result in an outflow or sacrifice of future economic benefits as~~

there are no circumstances when the Province must pay cash or other financial assets to settle the obligation to take back EAs for a participant's compliance obligation. Therefore the presentation of an obligation to redeem EAs would not reflect the substance of the arrangements, as the terms of the EAs do not meet the definition of a liability.

b) Other liabilities: There is no liability under PS 3200 for the future issuance of EAs that are predominantly sold through the auction process as these are reciprocal transactions at the market price. The requirement to issue EAs at an auction price does not result in an outflow of economic benefits to the Province, because the Province receives fair value at the time of issuance.

In respect of the EAs that are given away as free allowances, there could be considered to be a constructive obligation to deliver transfer "goods" (being the free EAs) in total or to specific participants. Ultimately however, the The delivery of free EAs is a transition mechanism and is at the discretion of the Province, rather than a contractual or constructive obligation non-reciprocal (as opposed to the participants, as the Province retains discretion over the issuance sale of EAs which is a reciprocal transaction). The transfer of free EAs. [To confirm with MOECC – may have to switch to the alternative view if MOECC EAs is not comfortable with the idea technically in scope of PS 3410 because EAs are neither monetary assets (as they are not claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangements – PS 3410 GLOSSARY) nor are they tangible capital assets as they are not tangible in nature. However the principles in PS 3410 can be applied to determine whether there is no an obligation to deliver free EAs. Under PS 3410 a transferring government has a liability (and expense) for a transfer when the transfer is authorized and all eligibility criteria have been met. The ability to receive free EAs is dependent on the participant registering each year to be eligible to receive the EAs. To the extent that that a capped emitter has registered to get free EAs and the number of EAs that it will receive can be determined under the regulations without continuing discretion from the MOECC to adjust the number then there should be a liability and expense amount recognized for the obligation to issue free EAs]. It is noted however, that PS 3410 does not provide guidance on measurement of that liability and expense. As the obligation is to be settled only in the delivery of the free EAs, the best estimate of the amount to settle the obligation by the Province is the cost of the EAs, which is a nominal amount. Therefore, the obligation cannot be material at any time.

After the issue of free EAs or auction of other EAs, there is no legal or constructive or obligation to make payments or otherwise have an outflow of economic benefits in respect of issued EAs. As the cap and trade program is new, there have been no past practices established by which the Province settles outstanding EAs in cash or by transfer of other economic resources. There are no exchange mechanisms to exchange some EAs for others or to settle them in cash outlined in legislation.

Alternative positions considered and rejected:

~~*Alternative positions considered and rejected:* It could be argued that there is a constructive (rather than contractual) obligation to deliver free allowances to certain participants, due to actions and communications of the Province that have raised valid expectations for specific participants that they will receive free allowances in order to meet their compliance obligations. The obligation would be settled when free allowances are issued. However, even if this view is taken, the best estimate of the amount to settle the obligation by the Province is the cost of the EAs, which is a nominal amount. Therefore, the obligation cannot be material.~~

It was considered whether the Act creates a broader obligation of the Province to reduce greenhouse gas emissions in Ontario in a manner that requires the outflow of economic benefits. Aside from the administration of the cap and trade system, the Act does not require specific actions to be taken by the

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Province that would result in an outflow of future economic benefits that the Province does not have the discretion to avoid. The question of whether the responsibility to spend auction proceeds on initiatives that are reasonably likely to reduce or support the reduction of greenhouse gases creates a liability as discussed in Section ~~5~~6 below.

~~c) Loan guarantees and contingent liabilities: [TBD – To be supported by facts, if any, that indicate the Province may be liable for the return of amounts held in escrow if DB goes insolvent and does not return the escrowed amounts to participants. If it is concluded that there is no implicit guarantee or contingent liability because the Province cannot be liable for the return of the escrowed amounts, the facts will support that position.]~~

It was also considered if there is an obligation of the Province to run the Cap and Trade Program pursuant to legislation and if this creates a liability for the costs of running the program. Under the government's own legislation the Province is responsible for managing the ETS, which will require an outflow of resources in the form of administration costs, including the costs of administering EA issuance, emissions monitoring and compliance settlement activities at the end of the compliance period. There is also a past event that gives rise to this obligation being the enactment of the ETS legislation. However, as the cap and trade program is pursuant to the Province's own legislation there is still discretion to avoid the future outflows through the ability to change the legislation. The federal government has recently announced plans that mean provinces must come up with some form of carbon pricing scheme or else a federal carbon price will be imposed. Currently there is no indication that the federal government is requiring that Ontario continue with its cap and trade program as that program could be replaced with other carbon pricing mechanisms or could be removed and Ontario become subject to any future federal scheme. As such there is no third party that means Ontario has little or no realistic alternative but to continue with the Cap and Trade Program. Indeed, the actions of the federal government indicate that Ontario could stop its own program at its discretion and rely on any federal scheme to achieve carbon reductions.

Loan guarantees and contingent liabilities: It was considered whether the Province has an implied loan guarantee or contingent liability in respect of Participant's cash financial assurance, and whether the Province has the obligation to ensure the amounts are returned to participants if the auction does not run or they are not successful, even in cases of insolvency or error on the part of DB. Based on a legal analysis the Province does not appear to have exposure for loan guarantees or contingent liabilities to the extent that participants have submitted cash bid guarantees in participant's Escrow accounts as there is recourse under both the indemnification clause of the DB contract and required insurance (depending on the nature of the error). Further, if the DB fails to make payment to a participating jurisdiction because it has lost or mishandled funds provided by a successful bidder, the respective rights and obligations of the bidder and participating jurisdiction is governed by the agreed to terms and conditions governing the auction. The participating jurisdiction should not be liable for DB's error.

Alternative positions considered and rejected: No alternative views considered, based on the understanding of the specific arrangements regarding the escrow accounts. The final arrangements between DB and the Province of Ontario should be considered to confirm the above analysis.

~~5.~~6. Revenue recognition under the cap and trade program as sponsoring government

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This section is divided into three sub-sections. The first examines whether the transactions being accounted for are exchange (reciprocal) or non-exchange (non-reciprocal) transactions. The second considers what performance obligations exist. The third section looks at the pattern and timing of revenue recognition for the performance obligations identified.

Sale of EAs as exchange or non-exchange transactions

Revenue recognition on sale and distribution of EAs

Relevant guidance - See Appendix AC for details.

PS 3510, Tax revenue (definition of exchange and non-exchange transactions)

PSAS Revenue Statement of Principles (non-authoritative due process document)

Preliminary position – The sale of EAs are exchange transactions.

Analysis:

The auctioning of the EAs is meets the definition of an "exchange transaction" in PS 3510 as participants receive an asset (an EA) and gives approximately equal value in exchange. This is supported by the following facts

- The province has delivered an asset in exchange for cash. The EAs are assets/economic resources prior to the sale as they are held-for-sale inventory assets prior to the auction (see Section 3 (a) above).
- Purchasers of EAs have obtained an asset in exchange for cash. Purchasers can include market participants and unlike mandatory or voluntary participants, market participants are not subject to compliance obligations. They are purchasing the EAs because EAs are a resource that can be sold or traded on the marketplace. Mandatory and Voluntary participant also do not have to keep their EAs but can sell and trade them on the market speculatively. Participants recognize EAs as assets in their financial statements (typically as intangible assets under IFRS).
- The participant purchases EAs by giving up cash that is approximately equal in value to the EA as, by definition, the "fair value" of an EA is what a market participant is prepared to pay in an unforced transaction, and the auction process is a mechanism to assist in identifying the fair value of the EAs.
- Once Ontario has linked with the WCI, then mandatory and voluntary participants who create emissions in Ontario could obtain some or all their EAs from California, Quebec or other market participants. There is no direct link between the amount of Ontario-based emissions and the amount of proceeds obtained by the Province; emissions in Ontario could exceed (or be less than) the number of EAs issued by Ontario. Therefore the characterization as a tax on emissions does not hold as there is no consistent basis on which this "tax" is calculated.
- The program is not created under tax legislation and is not legally a tax.

The analysis above is consistent with the proposed definitions of "exchange transactions" and "unilateral transactions" in the PSAS Revenue Statement of principles, as the EAs are considered to be a good or service that is provided in exchange for consideration, rather than a receipt of payment without a direct transfer of economic resources to the payor. The Province's right to payment from a participant arises from the auction process and not solely from legislation. For example, for any auction there may be no participants or not all EAs may be sold. In these cases, some EAs are not transferred to participants and there are no or reduced inflows to the Province.

Alternative positions considered and rejected: An alternative view is that the cap and trade legislation forces mandatory participants to purchase EAs in order to settle a legislative obligation. Participants *must* obtain EAs in

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~~order to meet their compliance obligations which are created by legislation, and initially EAs are only available from the Province. Therefore, in substance the purchase of EAs equates to a pre-paid "tax" on emissions, and therefore there is a non-reciprocal transaction as participants do not get anything of economic benefit in exchange, but rather have an outflow of cash to the Province that they previously did not have to pay prior to the cap and trade legislation. This view was rejected for the reasons given in support of "exchange transactions" above as the nature of the cap and trade program and the auction mechanisms are designed to create a carbon market, and under this system EAs become a "good" that has economic value. Therefore the characterization of the sale of EAs as non-exchange transaction would not be consistent with the substance of the cap and trade program.~~

~~Revenue recognition for sale of EAs (Exchange transactions)~~

~~*Relevant guidance* - See Appendix A for details.~~

PS 1000, Financial statement concepts ("PS 1000")

PS 1150, Generally accepted accounting principles ("PS 1150")

PS 3410, Government transfers ("PS 3410")

Other GAAP accounting frameworks including IFRS 15, *Revenue from contracts with customers* ("IFRS 15")

PSAB Revenue – Statement of Principles ("Revenue SOP")

Preliminary position: Revenue is recognized for the sale of EAs on the ~~auction~~ date of delivery of the EAs as ~~there are no further substantive~~this is when the performance ~~obligations~~obligation is settled by the Province. No revenue is recognized on the distribution of free EAs for no consideration.

Analysis:

The following analysis follows from the preliminary position in Section 3 on the nature of EAs – *The sale of EAs are exchange transactions. The distribution of EAs for no consideration is a non-exchange transaction. EAs are intangible permits (rights) that are "goods" that are transferred to participants.* Given the nature of the EAs as intangible goods it is appropriate to consider revenue recognition requirements for exchange transactions. PSAS does not have a specific standard on revenue from exchange transactions. Therefore other sources of GAAP and consideration of the conceptual framework must be applied to develop an accounting policy.

a) What is the performance obligation~~?~~ for the sale of EAs? A performance obligation is defined in IFRS 15~~/ASC 606~~ a promise in a contract with a customer to transfer a distinct good or service (or bundle of distinct goods or services) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. This is similar to the proposed definition of performance obligation in the ~~PSAS~~ Revenue ~~Statement of Principles~~SOP which defines a performance obligation as an "enforceable promise to provide goods or services to a payor as a result of exchange transactions". ~~This~~The following analysis has applied the IFRS concept, as permitted under PS 1150.

~~a)~~ In both IFRS 15~~/ASC 606~~ and the ~~PSAS~~ Revenue ~~Statement of Principles~~SOP, performance obligations are identified by reference to a contract – which is an agreement that creates enforceable rights and obligations. A contract does not have to be a formal written bilateral agreement, as long as both parties have an understanding of each party's respective enforceable rights and obligations. In this situation the good or service is the EA that is credited to a participant as a result of the ~~standard auction process. The completion of the auction bid process creates the enforceable right of the province to payment and the obligation to credit the EA to the participant, as well as creating the right of the participant to the EA and the obligation to pay the Province. The auction mechanisms are published and standardized such that each participant understands the~~

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~~enforceable rights and obligations that are entered into when an auction occurs.~~auction process or strategic reserve sale. As discussed in Section 4 above, the auction certification date is the date that a contract is considered to exist.

Each EA is "distinct" in that the customer (purchaser) can benefit from each EA individually by selling, trading or using those EAs as the customer sees fit, including using those EAs to sell to other participants in the WCI or to settle compliance obligations in other WCI jurisdictions (once linked), and does not need other goods or services to benefit from the EA and the EA is not combined with other goods and services. A purchaser can only purchase an EA if they are a registered participant, however, becoming a registered participant is available to voluntary participants and market participants and therefore is considered to be readily available to all customers. (See IFRS 15.27 in Appendix ~~A~~C for definition of "distinct goods and services")

Based on the above analysis, a contract is created when a participant successfully bids at auction~~,~~ as confirmed in the auction certification process. The Province has ~~only one~~ distinct performance ~~obligation~~obligations to deliver each EA to each successful bidder under ~~this contract, which is the delivery of the EAs~~these contracts.

Alternative positions considered and rejected: It was considered whether the item delivered to participants in the exchange transaction was a program of carbon (greenhouse gas) reduction rather than the delivery of an EA itself. This was rejected because the individual participants may or may not benefit from a reduction in carbon in Ontario and may or may not benefit in proportion to the cost of the EAs. Further, when Ontario links with the WCI, the participants may not even be located in Ontario. While the province may have promised the public of Ontario and other parties that they will reduce carbon emissions in Ontario to meet emissions targets, this should be separately analysed as to whether it has created a constructive obligation for Ontario to take actions and incur costs to meet this promise (See analysis in ~~4~~5 (b) above). This is separate from the obligation in the exchange transaction with participants in respect of the purchase of EAs.

It was also considered whether the performance obligations to participants is both to issue the EA in the auction process, and also a stand-ready promise to redeem the EA in the future to settle a compliance obligation. In other words an EA is an intangible "right" that has been issued that province is obligated to redeem. Under this view, some or all of the proceeds from the auction would not be earned as revenue until the Province redeems the EA. This view was rejected because the obligation to redeem the EA as settlement of a participant's compliance obligation is an obligation that arises when a participant emits pollution and does not arise from the sale of the EAs. For example, Ontario sells 10,000,000 EAs in a compliance period. However total emissions from Ontario participants are only 100,000 tonnes. Ontario does not have an obligation to redeem all of the 10,000,000 EAs that were sold. Rather, Ontario ~~has an obligation to redeem only~~accepts the 100,000 EAs that are submitted by the participants who emitted the 100,000 tonnes of emissions~~.~~ as settlement of their compliance obligations. Therefore ~~this~~Ontario has no obligation to redeem ~~cannot arise~~an EA that arises from the original exchange transaction and ~~is~~ therefore ~~not a~~there is no performance obligation ~~of~~ that ~~transaction~~exists once the EAs have been sold. Similarly, when Ontario has linked to the WCI as Ontario is only obliged to take back EAs in respect of emissions from Ontario participants. There is no obligation to take back EAs sold to participants in other jurisdictions or to market participants, and likewise there is an obligation to redeem EAs submitted by Ontario participants, even when these were purchased from another WCI jurisdiction or another participant.

It was also considered whether the Province has an obligation to continue to provide the cap and trade program and/or a marketplace where participants can buy and sell EAs, on the basis that participants purchasing EAs are doing so on the understanding that they will be able to buy and sell EAs as well as to remit them for compliance obligations (if necessary). For example, if the termination of the cap and trade program would result in an obligation of the Province to return the sale proceeds to the holders of EAs that had been sold at

auction this could indicate that there is an ongoing performance obligation that has not been fulfilled as the amounts must be refunded in the event of termination of the program. Under the Act, the Director establishes one or more accounts for registered participants for the purpose of allowing the participant to purchase, sell, trade and otherwise deal with emission allowances and credits. However, these are established and maintained in accordance with regulation for any registered participants, regardless of whether they purchase EAs in the auction process. Therefore the responsibility of creating and maintaining these accounts is a requirement and responsibility to registered participants under the Act and not a performance obligation to the purchasers or holders of EAs. The Act permits the trading of EAs between registered participants, but it does not create a provincially controlled market place for these trades. Registered participants may have an *expectation* of the Province continuing the cap and trade program and may make decisions based on this expectation, but this expectation exists in all registered participants including those that receive free allowances, rather than being a performance obligation that arises from the exchange transaction that is the sale of EAs. Section 5 (b) above discusses whether there is a general liability of the Province to continue the cap and trade program. Finally, it is noted that there is no legislative provisions for the termination of the program~~,~~ and there are no contractual provisions embedded in the EAs that give the participants the right to receive cash in respect of outstanding EAs upon termination of the program. As such, there is no evidence of a written ~~of~~or implied contractual performance obligation to continue the program that is part of the sale of EA exchange transaction.

b) When is the performance obligation satisfied? There are a number of models used in practice for determining when a performance obligation is satisfied. Under IFRS 15~~/ASC 606~~ the performance obligations are satisfied as control of the good or service passes to the customer, regardless of whether the performance obligation is a good or a service. Under other standards such as ASPE Section 3400, *Revenue* or IAS 18, *Revenue* there are different criteria for "goods" or "services" and generally revenue is recognized as risks and rewards of ownership are transferred (for goods) or services are provided (for services). Both would be acceptable ways to approach the timing of revenue recognition for exchange transactions under current public sector accounting standards. However, the ~~PSAS~~ Revenue ~~Statement of Principles~~SOP proposes a "control" model similar to IFRS 15~~/ASC 606~~, so this approach has been applied in the analysis. Under IFRS 15~~/ASC 606~~ an "over time" approach is permitted only in specific circumstances (see IFRS 15.35 in Appendix A). In the case of the EAs the customer does not simultaneously receive and consume the benefits of the EA, the EAs do not create or enhance an asset that the customer controls and there is no additional asset that does not have an alternative use that is created by the province to fulfil the contract. Therefore the performance obligation will be satisfied at a point in time.

IFRS 15~~/ASC 606~~ provides indicators of when a point-in-time obligation has been satisfied. These are also included in the ~~PSAS~~ Revenue ~~Statement of Principles~~SOP and have been considered in this analysis. See IFRS 15.38 in Appendix ~~A~~C. The indicators have been assessed as follows:

~~Present right to payment – As noted in Section 3 above, there is a present right to payment at the auction date.~~

~~Legal title to the asset – Legal title is transferred when the EAs are credited to the participants account. This occurs after the auction certification and settlement process is completed. [MOECC implementation group to confirm when legal title transfers is this analysis correct?]~~

~~The entity has transferred physical possession of the asset – This indicator is not relevant as EAs do not have physical form.~~

~~The customer has significant risks and rewards of ownership of the asset – The participant has significant risks and rewards of ownership of the asset from the auction date. If the price of EAs increases after the auction date, the customer can benefit from this increase by selling the EA. Similarly if the price decreases after the auction date, the customer bears this decrease in value. The participant can decide what to do with the EA – sell it, keep it or use it to settle a compliance obligation - from the date of the auction. While EAs are credited to a~~

~~participants account only after auction certification and settlement process are completed, these are administrative processes that do not substantively change the risks and rewards of ownership of the EAs.~~

~~The customer has accepted the asset – There are no customer acceptance clauses. While the auction process is subject to certification this is not performed by the participant, but rather by the Province.~~

Indicator	Auction day	Auction Certification date	Financial Settlement date	Receipt of proceeds and delivery of EAs
Present right to payment	Possible – there is a right to payment from successful bidders but it has not been confirmed who these are.	Yes. Under the contract payment must be received prior to delivery of EAs	N/A payment must be received before this date	N/A payment must be received before this date
Legal title to the asset	Legally EAs are not "property" under the legislation and therefore the concept of legal title does not technically apply to EAs.			However, EAs can only be traded or used after they have been credited to the participant's account. This occurs only on this date.
The entity has transferred physical possession of the asset	This indicator is not entirely relevant as EAs do not have physical form.			However the record of a participant's EAs is maintained in the CITSS account and so the right to use an EA is confirmed only upon this date.
The customer has accepted the asset	There are no customer acceptance clauses. This indicates is not relevant.			
The customer has significant risks and rewards of ownership of the asset. Specifically:				
- Using the EA to settle a compliance obligation (permit to settle a compliance obligation)	No. The EAs cannot be transferred from a participant's holding account to its compliance account to settle an obligation until it has been credited to the holding account.			Yes. Once credited to a holding account a participant can use the EA to settle a compliance obligation.
- Benefiting or	Possibly – the price	Yes – From this date	N/A already met	N/A already met

suffering from the fluctuations in the market price of EAs	that the customer pays is set by the auction process. However the customer does not yet know what price that is or how many EAs will be obtained. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.	the participant knows how many EAs they have and for what price. Any changes in EA value after this date will be obtained or absorbed by the customer if they choose to sell.		

Based on the balance of the indicators above it can be concluded that there is most support for recognizing revenue on a "point in time" basis on the ~~auction date.~~date when the EAs are transferred to the participant. As part of this it was considered that the nature of the EAs is ultimately as a permit to settle compliance obligations and therefore this element of risks and rewards was weighted more heavily.

Alternatives considered and rejected: ~~It was considered whether revenue should be recognized at a point in time when the EAs are credited to the participant account (legal title to the asset has transferred). This was rejected as the delay between the auction date and crediting the participant account is to confirm the settlement of the auction payment and that the auction was carried out legally and in accordance with the regulations. IFRS 15.38 (b) notes that "If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset". Therefore, limited weight was placed on the fact that the participant's accounts are not credited until some time after the auction.~~

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Auction date/Certification date/financial settlement date: See table above for analysis.

Trade date accounting: It was also considered whether "trade date accounting", as required by PS 3450 for regular way purchases and sales, could be applied to the purchase and sale of EAs. Trade date accounting is accepted for financial instruments to avoid having to recognize a derivative that be created for the period of time between when the fixed price commitment is entered into and it is settled because of the presence of an underlying variable that is not specific to either party. "Regular way" purchases and sales are those that are settled in the regular settlement cycle required for that particular investment. The time of that settlement varies depending on the type of instrument and jurisdiction. There could be an argument that the period between certification date and financial settlement date is the regular settlement cycle required for EAs, and therefore trade date accounting could be applied, which would result in the recognition of revenue (gains) on the sale of the EA on the trade date and not on the settlement date when the EA is actually transferred. However, this view was rejected for the following reasons:

- EAs are not sold through a "recognized exchange or securities market" but through the Province's auction process. While there is anticipated to be a market that develops for trades of EAs it will not be a "recognized exchange" under the Ontario Securities Act.
- As the sale is not on a "recognized exchange or securities market" there is not a customary period to settlement date (e.g. three days for equities, two days for forex swaps). Rather the period between the certification date and final settlement can vary depending on how long it takes for

participants to provide cash, the LOCs/LOGs to be drawn upon and the final reconciliation to be approved. Further if the "trade date was considered to be the auction date and not the certification date this would extend the period further and make it more variable as the certification period can vary from 3 – 7 days.

- Trade date accounting is an exception to the usual rules of recognition for executory contracts and/or derivatives. As an exception it should not be extended by analogy to other situations such as EAs which are out of scope of PS 3450 as they are classified as inventories held for sale.

c) What are the implications of free allowances? Free allowances are not sold in an exchange transaction but are distributed in a non-exchange transaction, similar to a government transfer. As noted in Section 5 above, the distribution of EAs are technically not in scope of PS 3410, Government Transfers as they are not tangible capital assets or monetary assets. Further PS 3410 does not provide guidance on the measurement of a government transfer. However, the distribution of EAs to participants is similar to a government grant given that EAs are considered "goods" for which control is transferred at a point in time. This indicates that there is an outflow of economic benefits to participants. Typically under PSAS expenses incurred that are a result of derecognition of assets are measured at the difference between the carrying amount of the asset and the consideration received (in this case nil). The carrying amount of the EAs is at cost; expected to be a nominal amount. This is an acceptable policy under PSAS and consistent with PS 1000.60 (See Appendix C).

Alternatives considered and rejected:

An alternative to measuring the free EAs at cost is to measure them at fair value at the date of distribution being the opportunity cost of the economic resources foregone by not selling the EAs at auction. This policy also appears to be supportable by PS 1000.60 which indicates transactions can be measured at the "fair value ascribed to them when they took place". However this alternative is not proposed because the expense from recognizing the EAs at fair value would be necessarily offset by a gain as the carrying amount of the EAs is nominal. This gain (revenue) does not seem to meet the definition of revenues under the Conceptual framework as there is no inflow of economic benefits to the government from issuing free EAs to participants. Therefore this alternative was rejected as it results in a gross up in the statement of operations that is not a fair presentation of the economic activities of the Province in respect of the issuance of free EAs.

Restrictions on Greenhouse Gas Reduction Account

Relevant guidance – See Appendix ~~A~~C for details

PS 3100, Restricted assets and revenues

PSG-4, Funds and reserves

Preliminary position: The requirement to place the auction proceeds into a Greenhouse Gas Reduction Account is an internal restriction and does not lead to a liability on the statement of financial position.

Analysis:

The legislative requirement to establish the GGRA within the Public Accounts and record the proceeds from the distribution of EAs is found only in the Act, which is legislation of the Province and not of another government. There are no other agreements with other governments or other external parties that restrict the use of the proceeds from the distribution of EAs. Therefore, there are considered to be no external restrictions and the requirements of PS 3100.11 to defer revenue until the resources are spent on the purpose or purpose specified do not apply.

Instead, the GGRA is an internally established reserve of the Province. The reserve is supported by assets that have been formally designated by the Province for specific uses and therefore meet the definition of "designated assets" in PS 3100, as this designation could be readily changed by amending the Act. Disclosure of designated assets may occur in the notes to the financial statements, but cannot occur on the statement of financial position. Similarly, PSG-4 permits reserves supported by designated assets to be disclosed in the notes, but not in the statement of financial position.

Alternative positions considered and rejected: It was considered whether there was an implied external restriction on the proceeds from the auction process, as when the participants purchase EAs they know that, by legislation, the funds are to be placed in the GGRA and spent on eligible programs. This view was rejected because the participants are purchasing the EAs in an exchange transaction (See discussion on "Sale of EAs as exchange or non-exchange transactions above). If the Province were to change the legislation regarding the use of the auction proceeds, the participants would still continue to purchase the EAs that they require or choose to purchase to meet their compliance obligations or to trade in the marketplace. As such, there is no evidence that the participants intend for there to be an external restriction on the proceeds.

It was also considered whether Ontario's commitments to other governments and parties, such as commitments to the WCI, create external restrictions on the use of auction proceeds for specific greenhouse gas reduction purposes. No external restrictions have been noted. ~~[NTD – to confirm that all interested parties agree with this statement]~~

~~6.~~7. Financial statement presentation and disclosure considerations

- Financial statement disclosure consideration
- Other disclosures outside of the financial statements

~~7.~~8. Accounting for Emission Allowances held by government organizations

- Organizations that are consolidated into the Province's financial statements (hospitals, colleges etc.)
- GBEs that are accounted for using the modified equity method (IFRS) and prepare stand-alone financial statements under US GAAP

~~8.~~9. Anticipated fiscal impact over planning horizon

- Impact on balanced budget legislation

~~9.~~10. Implementation risks and audit considerations

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Appendix A – Comparison to other select jurisdictions

	Quebec *Applies Canadian Public Sector Accounting Standards*	New Zealand[3] *Applies International Public Sector Accounting Standards*
Similarities and differences to Ontario	Quebec's cap and trade program substantially the same design as Ontario, as it is intended that Ontario will link into the WCI within the first compliance period	Similarities: Entities must provide New Zealand Units (NZUs) (not cash) to the government based on total emissions. NZUs can be traded between entities. Differences: New Zealand (NZ) had an obligation to the United Nations to keep emissions within the prescribed cap. NZUs are interchangeable with International Assigned Amount Units (AAUs) and New Zealand has an obligation to hold a quantity of international units equal to 90% of its AAU allocation. These units can be used to settle the New Zealand Government's Kyoto obligation. There is no hard domestic cap. International units can be used to settle emissions obligations. If the amount of NZUs are not sufficient for New Zealand to meet its international obligations the government must purchase more AAUs. For every NZU the government stands ready to swap it into an AAU (or equivalent international unit)
Asset recognition	None.	a) Creation of NZUs as "currency" results in inventory prior to issuance b) As Participants emit NZ has a "right to receive" the NZUs, created by legislation. The emissions are similar to a "taxable event"

[3] Information regarding the New Zealand ETS taken from the IPSASB paper "Emissions Trading Schemes" Agenda Item 14, March 2016 and "The Emissions Trading Scheme – Summary information for public entities and auditors"

Liability recognition	None. Although linked to the WCI, there is no cash changing hands with California, therefore no obligations/additional transactions that arise from a combined market.	When issued an NZU is an obligation, similar to "currency in circulation" that represents the obligation to redeem the NZU for their emissions value. NZUs are exchangeable for AAUs and an AAU or equivalent unit can be surrendered instead of an NZU, emphasizing that NZUs are a "medium of exchange" for settling the obligations. The liability is measured by reference to the cash received. For an grant of NZUs it would be nil. For NZUs issued for cash it is measured at the cash amount received. At the end of the compliance period the liability is settled by the return of NZUs (or other acceptable units) recorded under the "right to receive NZUs" asset. There are no assets or liabilities at the end of the compliance period.
Accounting for free allowances	Not recognized in the public accounts as revenue/expense.	Revenue is recognized when the "right to receive" NZUs is recognized – i.e. as the emissions are created by participants. Cash received from sale of NZUs is used to measure the liability representing the obligation to redeem NZUs and is not recognized as a revenue directly.
Accounting for sold/auctioned allowances	Revenue recognized immediately on sale/auction. Rationale was that sold rights are in scope of "unilateral rights" in the Revenue Statement of Principles and therefore result in immediate revenue recognition as government has sole authority to grant the right under constitutional powers and the past event (the auction) has occurred. No further obligations of the government. The revenues are non-refundable. Currently unknown whether recognized on auction date/certification date/settlement date/delivery date. Note that based on auction dates for WCI this is unlikely an issue for the Province of Quebec.	

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Appendix B – Currency in circulation model

If the currency in circulation model is applies, as has been applied in New Zealand, the following analysis would be relevant for consideration. It is noted that the results are similar in respect of revenue recognition and liability recognition as for the "exchange transaction model".

The accounting for currency in circulation is not dealt with specifically in PSAS, however central banks typically recognized a liability for currency in circulation when it is issued as the central bank has an obligation to take back or issue notes and coins from banks with an offset to the bank's reserve liability with the central bank – in other words currency in circulation is exchangeable by holders into a different form of financial asset/ financial liability from the perspective of the central bank. In July 2016 IPSASB released a consultation paper on "Public Sector Specific Financial Instruments" that includes a discussion of currency in circulation[4]. This consultation paper lays out the critical questions to the application of this model. It is noted that the consultation paper considers the issuance of currency in circulation for its face value to be an "exchange transaction".

1. Is there a liability created?
2. What are the revenue implications?

Is there a liability created?

The consultation paper analyses the circumstances under which a liability may be created for currency in circulation by reference to the conceptual Framework. The analysis below considered the factors in the Consultation Paper in reference to the PSAS definition of a liability in PS 1000 and Section 3200 (Note that the IPSASB definition of a liability contains similar concepts to the PSAS definition in PS 1000 and PS 3200 although the words used are different).

- A past event has occurred when the EAs are issued, whether distributed for free or sold for cash.
- The issuance of a currency will embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation when there are legally enforceable obligations of the issuing government. For example, laws requiring the government to exchange damaged currency for new currency, hold collateral for the amount in circulation or establish explicit claims against the assets of the government for the currency in circulation. Where these legal obligations exist to redeem currency there is likely to be an outflow of resources required to discharge the obligation.
- If there are not legally enforceable obligations, the issuance of currency may still be a liability if the government has indicated they will accept certain responsibilities, have raised a valid expectation in others

[4] https://www.ifac.org/system/files/publications/files/IPSASB-Consultation-Paper-Public-Sector-Financial-Instruments.pdf

and have little or no alternative to avoid an outflow of economic resources. It may be less clear whether there will be an outflow of economic resources to settle these obligations, but a past practice of settling them (e.g. redeeming for cash) may create a valid expectation that will be settled by an outflow of economic resources.

There are a number of aspects that indicate the Ontario issued EAs do not meet the definition of a liability (and are not similar to the New Zealand Units):

- When they are remitted to the Province they are retired and not re-sold into circulation (with some limited exceptions)
- EAs issued in Ontario do not require the Province to exchange the EA into any other unit that is in turn can be sold by the Province for cash or used to settle a Provincial obligation, and does not require the Province to exchange an EA for cash. Ontario is not obligated to:
    - Hold collateral for amounts of EAs in circulation
    - Exchange EAs for "new" EAs
    - Honour any claims against other assets of the Province through the redemption of EAs
- In the absence of any legal obligation to redeem EAs for cash or another claim on an asset there is also no constructive obligation created by past practice of such claims/redemptions.
- This contrasts with the New Zealand system where New Zealand has an government Kyoto obligation to settle with international units and the government stands ready to exchange New Zealand Units into Assigned Amount Units (AAUs) or equivalent international unit. This may be on terms that are unfavourable or result in the requirement for New Zealand to pay cash to obtain the necessary AAUs for exchange.

Based on an analysis of the cap and trade program applied by Ontario the obligation to repatriate or redeem the EAs does not result in an outflow or sacrifice of future economic benefits as there are no circumstances when the Province must pay cash or other financial assets to settle the obligation to take back EAs for a participant's compliance obligation. Therefore the presentation of an obligation to redeem EAs would not reflect the substance of the arrangements, as the terms of the EAs do not meet the definition of a liability.

What are the revenue implications?

The consultation paper goes on to discuss whether, if no present obligation exists upon the issuance of currency in circulation if and when would revenue be recognized. Similar to IPSASB, under PSAS revenue is an increase in net financial position of the entity. (IPSASB also has the concept of ownership contributions, which are not relevant in this situation). The Consultation paper paragraph 3.43 notes that "when the issuance of currency does not satisfy the definition of a liability in the Conceptual Framework and recognition criteria, it should be recognized as revenue". This indicates that the test for a currency in circulation model is whether any attributes of the issuance of the EAs create a liability, and if not, any proceeds received from their issuance would be immediately credited to revenue as an inflow of economic resources to the government.

Appendix C – Technical guidance

Definition and nature of Assets

The definition of an "Asset" is currently set out in PS 1000.35~~-.37.~~.

1000.35 Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

PS 3210, *Assets* is effective from April 1, 2017, which expands on this definition. In light of the timing and multi-year nature of the cap and trade program PS 3210 is considered relevant.

PS 3210 defines assets as "economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained". Assets have three essential characteristics:

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

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

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

(PS 3210.03-.04 and PS 1000.36)

Assets may be classified as financial assets or non-financial assets. A financial asset is an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations (PS 1000.39). Examples of financial assets include cash, receivables and inventories held-for-sale. A non-financial asset is an asset that is acquired, constructed or developed and does not normally provide resources to discharge existing liabilities, but instead is normally employed to deliver government services, consumed in the normal course of operations and is not for sale in the normal course of operations (PS 1000.42). Examples of non-financial assets include tangible capital assets, supplies inventory or prepaid expenses.

Inventories are not ~~defined under PSAS.~~specifically defined under PSAS, although PS 1200.48 provides guidance that Inventories for resale and other assets held for sale are items that are held for sale in the ordinary course of operations and, therefore, are expected to provide resources to discharge existing liabilities or finance future operations. Other frameworks such as IFRS define inventories as assets that are held-for-sale in the ordinary course of business, used in the process or production for sales in the ordinary course of business or are consumed in the production process or rendering of services. This definition is consistent with the PSAS terminology of inventories held-for-sale and inventories held for consumption or use (consumed in the production process or rendering of services).

Intangible assets may meet the definition of an asset under PS 1000 and ~~OS~~PS 3210. However, in the absence of appropriate public sector recognition and measurement criteria for intangible assets, no intangible assets are recognized in government financial statements (PS 1000.58). There is no definition provided for "intangible asset" in PSAS, although PS 4230 (applicable only to NPOs) does define Intangible Properties as "capital assets that lack physical substance". Other frameworks such as IFRS define Intangible Assets more broadly as "an identifiable non-monetary asset without physical substance".

Measurement of Assets

There is no specific guidance in PSAS on the initial recognition amounts for inventories. PS 1000.60 notes that generally financial statements are prepared on the "historical cost basis" being the cash or cash equivalents paid or received or the fair value ascribed to them when [the transactions] took place. Inventories held-for-sale are financial assets. Subsequent to initial recognition inventories are measured at their recoverable amount, net of any valuation allowance (PS 1200.049). ~~After the adoption of PS 3450, which is currently effective for the Province for~~

~~fiscal 2020, financial assets may be designated into the "fair value" category but only if they are managed and evaluated on a fair value basis in accordance with a risk management or investment strategy or they contain embedded derivatives.~~

Definition and nature of liability

The definition of a "Liability" is currently set out in PS 1000.44-.45 and PS 3200, *Liabilities* which expands on this definition.

PS 3200 defines liabilities as "present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits". Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event or on demand;

c) The transactions or events obligating the government have already occurred.

(PS 3200.05)

PS 3200 states that discretion can be removed by an entity's own actions when this creates a constructive obligation to others. For a constructive obligation to exist the government must accept responsibility for the obligation, create a valid expectation among others and have no realistic obligation but to settle the obligation. This can arise from past practice, established policies, cabinet minutes, orders-in-council, ministerial orders, approved plans, ministerial letters and legislation.

PS 3200 states that the obligation to sacrifice economic benefits must be to a third party, and that entity exists at the financial statement date. The timing of the sacrifice of economic benefits must also be specified.

~~PS 3200 does not contain measurement guidance for liabilities. Other standards such as PS 3250, *Retirement benefits* and PS 3260, *Liability for contaminated sites* use a measurement model of the best estimate of the "cost" or cash outflows to settle the liability (discounted where appropriate).~~

PS 3450 includes a definition of financial liabilities as "contractual obligations to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government". While PS 3450, *Financial instruments* is not mandatorily effective for the Province until fiscal 2020, given the long term nature of the cap and trade program, it has been considered in the analysis. Under PS 3450 there is no guidance on initial measurement of financial liabilities – typically transaction price is used, although fair value may be appropriate in some circumstances. Subsequently, financial liabilities are measured at amortized cost, unless they are eligible to be designated at fair value.

PSAS also contains guidance on loan guarantees (PS 3310), which are a form of contingent liability (PS 3300). Loan guarantees, as with other contingent liabilities, are accounted for as a liability when a loss is likely and the amount can be reasonably estimated.

Measurement of Liabilities

There is no general measurement guidance for liabilities in PS 3200, although specific standards specify measurement bases to be used. Other standards such as PS 3250, Retirement benefits and PS 3260, Liability for contaminated sites use a measurement model of the best estimate of the "cost" or cash outflows to settle the liability (discounted where appropriate). It is also noted that PS 1000.60 includes the following guidance:

PS 1000.60 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances.

(a) Replacement cost is the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value is the amount that would be received by selling an asset. This may be used, for example, to value portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

PS 3410 Government Transfers - Scope

04 Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase / sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

.05 This Section does not deal with:

(a) transfers made through a tax system that are authorized through tax legislation;

(b) grants in lieu of taxes;

(c) settlements of lawsuits or other types of legal compensation provided by governments;

(d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments; and

(e) transfers of non-monetary assets other than tangible capital assets. Examples of transfers of non-monetary assets that are excluded from the scope of the Section are: transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures. 4

(footnote 4 - In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements)

PS 3410 Government Transfers - Expense (and liability) recognition

.12 A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Exchange transactions and non-exchange transactions

PS 3510.07 – (a) *Exchange transactions* are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(b) *Non-exchange transactions* are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

PSAS Revenue Statement of Principles –

.026 "Exchange transactions are transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor"

.032 "Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue".

Definition of revenue

PS 1000.46 - "Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period." Revenues are distinguished from gains because gains arise from peripheral or incidental transactions and events affecting a government.

Revenue recognition

PS 1000.59 - "Items recognized in government financial statements are accounted for in accordance with the accrual basis of accounting.... Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied."

PS 1150 - When there is no primary source of PSAS that addresses an issue a government uses professional judgement to develop an appropriate accounting policy that is consistent with the primary sources of GAAP and PS 1000. Additional sources can be referred to which include pronouncements of other standard setters (such as IPSASB, GASB, FASAB in the public sector or FASB, IASB or AcSB for private sector equivalents). Exposure drafts and other due process documents may also be considered, although care should be taken when using such documents as they may change before finalization.

The table below various approaches to revenue recognition taken by other standard setters and the pronouncements that could be taken into account in developing an accounting policy.

Source	Standard reference	Revenue recognition model for sale of goods
Public sector standard setters		
IPSASB	IPSAS 9 – Revenue from exchange transactions	As risks and rewards are transferred; no continuing managerial involvement or control; revenue can be reliably measured; probable economic benefit will flow; costs incurred can be measured reliably.
GASB	Principles covered in 1600, Basis of accounting. Some specific issues covered in other standards.	Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.
PSAB	Statement of principles, Revenue (Exposure draft, standard not finalized)	Revenue is recognized as a performance obligation is satisfied. Based on principles of IFRS 15.
Private sector standard setters		
IASB	IAS 18	Same as IPSAS 9
	IFRS 15 (effective 2018)	Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services
FASB	ASC 605	As risks and rewards are transferred; no continuing managerial involvement or control; reasonable assurance of the measurement of consideration. Specifically, there must be persuasive evidence of an arrangement, delivery has occurred or services have been rendered and the sellers price is fixed or determinable
	ASC 606 (effective 2018)	Same as IFRS 15
AcSB – Part II (ASPE)	Section 3400, Revenue	Same as ASC 605

IFRS 15.27 - A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

IFRS 15.35 - An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

IFRS 15. 38 - If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset — if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset — legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs B64–B76, B77–B78 and B79–B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The customer has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset — the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs B83–B86.

Restricted assets and designated assets

PS 3100 applies to funds and reserves that are externally restricted, PSG-4 applies to funds and reserves that are not externally restricted.

PSG-4.3 - .4 - Some funds and reserves are supported by assets. These may meet the definition of designated assets set out in PS 3100.04 (c). PS 3100.30 requires that when a government chooses to provide information about designated assets it does so in the notes and not on the statement of financial position.

PSG- 4.7 - "Therefore, when a government chooses to provide information about any funds or reserve, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations."

PS 3100.04 (a) - "External restrictions are stipulations imposed by an agreement with an external party, or through legislation of another government that specify the purpose or purposes for which resources are to be used."

PS 3100.11 - "Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified."

PS 3100.27-.28 - Designated assets – "...Assets may be designated for a specific purpose as a result of government legislation, by-law or resolution that limits the use of assets to specified purposes. Designated assets are distinct from restricted assets. Unlike restricted assets, governments can readily change the legislation, by-law or resolution and use the designated assets for another purpose if the need arises...."

IPSASB discussions

The International Public Sector Accounting Board (IPSASB) debated a paper in March 2016 that outlined a number of different accounting options that could be applied to various emissions trading schemes including conceptual considerations for and against each model. To date the IPSASB has not concluded on an appropriate model for accounting for emissions trading schemes such as Ontario's cap and trade scheme. The various approaches outlined in the paper were considered in developing the preliminary positions of this memorandum. The proposed approach for Ontario is most closely aligned with "Approach 2" of the paper, altered where necessary to account the specifics of the Ontario cap and trade system and the application within the PSAS Framework.

This paper can be found at: http://www.ipsasb.org/system/files/meetings/files/Agenda-item-14.pdf

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Security clearance.rtf

From: david.j.beddow@ca.pwc.com [david.j.beddow@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Mario Chasse [mario.chasse@ca.pwc.com]; sean.cable@pwc.com [sean.cable@pwc.com]; Lucy Durocher [lucy.durocher@ca.pwc.com]; michael.walke@pwc.com [michael.walke@pwc.com]; Martin Boucher [martin.boucher@ca.pwc.com]; kendra.rodewald@ca.pwc.com [kendra.rodewald@ca.pwc.com]; robert.urbanoski@ca.pwc.com [robert.urbanoski@ca.pwc.com]; david.c.greenall@ca.pwc.com [david.c.greenall@ca.pwc.com]; michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]
Subject: Security clearance
Date: Monday, October 24, 2016 09:04:06

Hi Virani

I am the DO along with Kendra Rodewald and your point of contact should you have any further enquiries into clearance status of PwC staff. My records show none of the recipients have a current Provincial Government security clearance.

Mario Chasse - No current clearance held on record
Sean Cable - No clearance
Lucy Durocher - No clearance
Michael Walke - No clearance
Martin Boucher - Clearance expired April 2016 - C-0035796
Michael Hawtin - No clearance
David Greenall - No clearance

Please let me know if you intent to initiate clearances via Triton so we can send the recipients additional information on completing the process. Details of the contracting division would also be useful as we (National Security) don't have line of site to this information.

Regards
David

David J. Beddow DO
PwC | Senior Manager, IFS, National Security
T: +1 416 815 5173
Email: david.j.beddow@ca.pwc.com
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From: "Virani, Shyrose (TBS)" <Shyrose.Virani@ontario.ca>
Date: October 23, 2016 at 2:38:30 PM EDT
To: "Mario Chasse" <mario.chasse@ca.pwc.com>, "sean.cable@pwc.com" <sean.cable@pwc.com>, "Lucy Durocher" <lucy.durocher@ca.pwc.com>, "michael.walke@pwc.com" <michael.walke@pwc.com>, "Martin Boucher" <martin.boucher@ca.pwc.com>
Cc: "Robert Urbanoski" <robert.urbanoski@ca.pwc.com>
Subject: security clearance

Hi

I just need to find out if you have been screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks
Shyrose Virani

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Signed PwC Confidentiality Agreements.rtf

From: tracey.whelan@ca.pwc.com [tracey.whelan@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Signed PwC Confidentiality Agreements
Date: Monday, September 26, 2016 15:17:04
Attachment 1: PwC signed confidentiality agreements.pdf

Please see attached from Lucy Durocher:

Tracey Whelan
PwC, Audit and Assurance Group
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PwC signed confidentiality agreements.pdf

Confidentiality Agreement

During and following the term of the Agreement between **Pricewaterhouse Coopers LLP** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **President of Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and OPS Entities, and "**OPS**" has the same meaning.

The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the Freedom of Information and Protection of Privacy Act ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: MARTIN BOUCHER Signature: [signature]

Date: 23 September 2016

Witness: STÉPHANIE LAPOINTE Signature: [signature]

Date; 23 September 2016

Confidentiality Agreement

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Name: LUCY DURCHER Signature: [signature]

Date: 16/09/2016

Witness: Michael Walke Signature: [signature]

Date; 16/09/2016.

Confidentiality Agreement

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Name: Michael Walke

Signature: Mwalke

Date: Sept 16/2016

Witness: LUCY DUROCHER

Signature: Lucy Durocher

Date; Sept 16/2016

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Name: Christopher Sean Cable Signature: [signature]

Date: 9-23-16

Witness: LUCY DUROCHER Signature: [signature]

Date; 9-25-16

Statement of Facts and Assumptions (Final September 30).docx.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Statement of Facts and Assumptions (Final September 30).docx
Date: Friday, September 30, 2016 11:48:12
Attachment 1: @

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Hi Nadine and Cindy,

Here is the statement of facts that we think should be included in the opinion. Can you please review and just ensure that you are ok with them in this final form? Kerry has u

Attachments:
Statement of Facts and Assumptions (Final September 30).docx (20 KB)
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201706288682382~20160930154835000~Z~D1143AFFBFDF762EA47CFB8F11644C51&AttachmentId=1Statement of Facts and Assumptions (Final September 30).docx

Statement of Facts and Assumptions (Final September 30).docx.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Statement of Facts and Assumptions (Final September 30).docx
Date: Friday, September 30, 2016 11:48:12
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---

Hi Nadine and Cindy,

Here is the statement of facts that we think should be included in the opinion. Can you please review and just ensure that you are ok with them in this final form? Kerry has updated Cindy on the status of our communication with the AG, but we figured we would send this to you one final time to confirm you are ok with these as well.

Thanks

Matt

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Statement of Facts and Assumptions (Final September 30).pdf

Statement of Facts and Assumptions

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

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

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

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

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

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

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

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

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

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

- As a jointly sponsored plan, the Plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of PS 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of $13.2 billion as at January 1, 2016, as reported on the OTPP website. The OTPP's public financial statements showed a deficit for accounting purposes of $1.8 billion in its financial

statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.

- As at March 31, 2016, there were no written agreements in place to access the Plan surplus to reduce future minimum contributions or withdraw any amounts from the Plan.
- The OTPP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.
- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as "Neither the PBA nor the regulations to the PBA (the "Regulations") require the Superintendent's consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTPP." Further, although changes to the OTPP text would be required to be registered with the Superintendent, "The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations." (Source: Osler memo dated September 26, 2016).
- The Auditor General's Office provided a letter dated September 26, 2016 setting out their views. We have read and considered the contents of that letter.

Relevant Extracts from the TPA

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

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

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

Relevant Extracts from the Partners' Agreement

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

[1] Partners' Agreement, section 110.

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

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

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

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

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

Relevant Extracts from the FMP

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

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

i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).

ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).

iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for

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

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

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

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

Statement of facts.rtf

From: Veinot, Cindy (TBS) []
To: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
Subject: Statement of facts
Date: Tuesday, September 27, 2016 10:41:48

· The OTPP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.

Hi Matt and Kerry – Legal has reviewed this bullet in the statement of facts – they think the words in yellow should be changed (used to say funding plans). Otherwise can we attribute this fact to the AG?

Status request.rtf

From: Petsche, Nadine (TBS) []
To: 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)' [mcolley@deloitte.ca]; Colavecchia, Pina (CA - Toronto) (pcolavecchia@deloitte.ca) [pcolavecchia@deloitte.ca]
Subject: Status request
Date: Thursday, November 24, 2016 15:50:43
Attachment 1: Supplement to Pension Asset Position Paper- HOOPPopcd to pc.docx

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Matt/Pina,

Cindy is requesting a status update on analysis for OPSEUPP and CAATPP.

We are attaching a revised version of the draft HOOPP analysis shared late last week. Additional edits will be forthcoming for the section marked.

Please advise as to when we might receive copies of the analysis for OPSEUPP and CAATPP. Cindy is quite keen on getting this analysis done for the Panel ASAP.

Thanks.

Nadine

Supplement to Pension Asset Position Paper- HOOPPopcd to pc.pdf

Accounting by the Province of Ontario for the Healthcare of Ontario Pension Plan

1.0 Preamble

This document addresses the accounting for a net pension asset under Public Sector Accounting Standards (PSAS) by the Province of Ontario in relation to the Healthcare of Ontario Pension Plan (HOOPP).

As at March 31, 2016; HOOPP was not in an accrued benefit asset position for accounting purposes however, HOOPP may achieve this status in the near future.

2.0 Issue to be considered

This position paper addresses the following three questions in relation to the accounting for HOOPP:

1. For accounting purposes, what type of pension plan is HOOPP (i.e. how should HOOPP be classified under PSAS)?
2. As a result of the classification, how should the Province of Ontario account for a pension surplus of HOOPP in the Public Accounts?
3. How should a pension asset of HOOPP be measured in the Public Accounts of the Province of Ontario?

3.0 Conclusions

The following conclusions were reached regarding each of the above questions:

1. Classification of HOOPP - The Province has concluded that HOOPP meets the definition of a mulitemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of HOOPP as a mulitemployer benefit plan for accounting purposes has been consistent for over 10 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.
2. Recognition of a pension asset for a mulitemployer benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset in respect of a mulitemployer benefit plan. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The Province's portion of a pension surplus for HOOPP meets the definition of an accrued benefit asset under Section PS 3250. For HOOPP, the Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers).
3. Measurement of a pension asset - The Province has concluded that the attributes of the multiemployer arrangement for HOOPP do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of HOOPP. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

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4.0 Background information

4.1 Overview of HOOPP

HOOPP was established by the Ontario Hospital Association (OHA) in 1960 to provide post-retirement benefits to Ontario's health care community. HOOPP is a multi-employer contributory defined benefit, where factors, such as earnings and years of service, define members' benefits. The plan was established under an Agreement and Declaration of Trust for the benefit of eligible employees of participating employers.

HOOPP operates in accordance with:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for HOOPP ; and
d) HOOPP's policies and procedures.

HOOPP is governed by a board of trustees (the Board) consisting of 16 voting members. OHA appoints eight trustees, and four unions, the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees Union (OPSEU) and the Service Employees International Union (SEIU), each appoint two Trustees. There are also two non-voting Board members. One observer representing pensioners is appointed by the OHA, and one is appointed by the Settlor Unions. Each Trustee has a legal obligation to administer the plan in the best interests of all its members, regardless of their union or other affiliation. Neither the OHA nor the four unions are controlled by Province of Ontario nor included in the government reporting entity.

The HOOPP Board is responsible for administering the Plan. The Board oversees all aspects of the plan and the HOOPP Trust Fund. The Boards' duties include:

- approving changes to the Plan and benefits;
- setting contribution levels;
- establishing investment policy;
- monitoring investment performance; and
- approving annual operating budgets.

The design of the Board is such that the Province of Ontario does not have voting decision making authority on the HOOPP Board and therefore does not appear to have the ability to exercise control over key decisions such as approving changes to the Plan and benefits, setting contribution levels and approving annual operating budgets.

Based on the latest information received from HOOPP as at March 31, 2016, approximately 85% of the membership in HOOPP represents employees from consolidated hospitals (the other 15% are members from consolidated and primarily non-consolidated health agencies). Currently, 4 out of the Province's 146 consolidated hospitals are not members of HOOPP.

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4.2 Accounting for HOOPP by the Province

In accordance with RETIREMENT BENEFITS, Section PS 3250 of PSAS, the Province has accounted for HOOPP as a multi-employer plan.

As at March 31, 2016 the Province's consolidated financial statements reported 39.1% of the net liability of HOOPP which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers). The 56% is determined in reference to the employer to employee contribution ratio which currently stands at $1.26[1] employer contribution for each $1.00 contributed by the employee. As such, the $1.26 employer contribution is 56% of total contributions of $2.26.

85% of the employer contributions for HOOPP, in the amount of $747 million for the year ended March 31, 2016 are included in the Salaries, Wages and Benefits expenses of the hospitals sector (Schedule 10) and in the expenses of the Ministry of Health and Long-Term Care (Schedule 4) in the Province of Ontario's consolidated financial statements.

The pension liability as well as the consolidation % used in the reporting by the Province of Ontario for HOOPP for the prior 10 years is reflected in Appendix A.

4.3 Applicability of PS 3250 as primary source of GAAP

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of generally accepted accounting principles (GAAP) are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250).

There have not been consequential changes to Section PS 3250 since its introduction into the PSA Handbook in 2001.

5.0 Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of a pension surplus in HOOPP, calculated in accordance with PSAS under Section PS 3250, would represent a reportable asset to the Province of Ontario in the Public Accounts.

[1] Per the 5-year agreement reached between HOOPP and the Government of Ontario in October 2012

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5.1 RETIREMENT BENEFITS PSAS 3250

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

> *PURPOSE AND SCOPE*
>
> .001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

> .003 Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for HOOPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province (funded through its consolidated hospitals) to provide retirement benefits to the members of the plan in return for their services.

5.1.2 PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multiemployer and multiple-employer benefit plans.

The definitions of a multiemployer and defined benefit plan are included in the glossary to Section PS 3250 as follows:

> A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the

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contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

A **defined benefit plan** specifies either the benefits to be received by employees after retirement or the method for determining those benefits. The most commonly used defined benefit plans are:

Final pay plan — Bases benefits on an employee's length of service and compensation over a specified number of years (usually the years of an employee's highest earnings).
Flat benefit plan — Provides a specified benefit for each year of service rendered; the benefit earned in each period is usually fixed and determinable under the terms of the plan and the amount of benefits to be received varies only with the years of service rendered.

HOOPP specifies the method for determining benefits to be received by employees after retirement in the Plan text. It is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity (for example, one specific hospital) are not segregated in a separate account or restricted to provide benefits only to employees of the entity.

The classification of HOOPP as a multiemployer benefit plan for accounting purposes by the Office of the Provincial Controller has been consistent for over 10 years and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

5.2 Conclusion on classification

The Province has concluded that HOOPP meets the definition of a mulitemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of HOOPP as a mulitemployer benefit plan for accounting purposes has been consistent for over 10 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.

6.0 Question 2 – Recognition of a pension asset for a multiemployer benefit plan

6.1 Standards in the PSA Handbook

RETIREMENT BENEFITS, Section PS 3250 paragraphs .105 to .111 provide guidance on the accounting for a mulitemployer benefit plan in the financial statements of a government sponsor as follows:

Multiemployer plans

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Accounting by the Province of Ontario for the Healthcare of Ontario Pension Plan

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

.106 The federal and most provincial governments sponsor defined benefit plans in which many public sector organizations participate. Many local governments participate in such multiemployer plans. When benefits are provided to employees through a multiemployer plan, the amount for which an individual government is obligated under the plan may not be quantified. Generally, a contribution rate is established for each period to ensure that the plan assets are adequate to cover the plan's future benefit payments.

.107 When a government sponsors a defined benefit multiemployer retirement benefit plan, it has the responsibility to ensure that the defined benefits promised to employees are met. In that circumstance the sponsoring government is at risk for future experience gains or losses and would account for its related obligation for the entire multiemployer plan as a defined benefit plan.

.108 When a government sponsors a defined benefit multiemployer retirement plan, the government should follow the standards for defined benefit plans in accounting for its obligation for the plan. [SEPT. 2001]

.109 Although a multiemployer plan may have the characteristics of a defined benefit plan, sufficient information to follow the standards for defined benefit plans is normally not available for each participating employer other than the sponsoring government. For this reason, a multiemployer plan is accounted for by each participating government following the standards for defined contribution plans.

.110 When benefits are provided to employees through a multiemployer retirement benefit plan, each entity participating in the plan, other than the sponsoring government, should follow the standards for defined contribution plans. [SEPT. 2001]

.111 The government should disclose any available information about any surplus or deficit in a multiemployer plan, the basis used to determine the surplus or deficit and the implications, if any, for the government. [SEPT. 2001]

Section PS 3250 paragraph .108 states that "When a government sponsors a defined benefit multiemployer retirement plan, the government should follow the standards for defined benefit plans in accounting for its obligation for the plan." Additionally, paragraph .107 indicates the sponsoring government "... would account for its related obligation for the entire multiemployer plan as a defined benefit plan." Therefore Section PS 3250 paragraphs .050 to .059 (guidance for defined benefit plans) are applicable to government sponsors in a multiemployer plan. These paragraphs (which also apply to the accounting for joint defined benefit plan) require an accrued benefit asset to be reported net of a

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valuation allowance.

The term "sponsor" is not defined in PSAS. A common definition of the term is "a person or organization that provides funds for a project or activity carried out by another, in particular." Since the participating employers to HOOPP (primarily hospitals) receive the majority of their funding from the Province of Ontario (for example, approximately 85% of the funding for the broader public sector was from the Province for 2015/2016 per Schedule 10), it can be suggested that the Province of Ontario is the sponsor of HOOPP. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The HOOPP Board and the Province have negotiated in the past (most recently October 2012 regarding a 5 year agreement) on the funding ratio between the employees and employers of HOOPP.

As mentioned, paragraphs .107 and .108 of Section PS 3250, indicate that only the government's portion of the plan is included in the government's financial statements following the requirements of Section PS 3250 for defined benefit plans (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). While PSAS is not explicit as to how a government sponsor would calculate its obligation or related obligation, if it was intended that no pension asset/liability could be recognized for a multiemployer plan Section PS 3250 paragraphs .107 and .108 would have made this clear. Similarly, if it was intended the government sponsor report 100% of the pension asset/liability, these paragraphs would not have referred to "its obligation" or "its related obligation".

This paper discusses the question of measurement separately in Question 3.

6.4 Conclusion on recognition

The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset in respect of a mulitemployer benefit plan. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The Province's portion of a pension surplus for HOOPP meets the definition of an accrued benefit asset under Section PS 3250. For HOOPP, the Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers). The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, discussed in Question 3 of this position paper.

7.0 Question 3 – Measurement of a pension asset

7.1 Standards in the PSA Handbook

Section PS 3250 addresses how to measure a pension asset. This is a two-step process for HOOPP which is consistent with the calculation for the Ontario Teachers' Pension Plan (OTPP).

Consistent with OTPP, the relevant guidance for HOOPP is Section PS 3250 paragraphs .050-.059 which are included below for completeness and ease of reference:

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Limit on the carrying amount of an accrued benefit asset

.50 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.* [SEPT. 2001]

.51 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.52 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.53 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.54 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.55 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.56 A government determines its expected future benefit as the sum of:

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

b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan

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and any applicable laws and regulations.

.57 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.58 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.59 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Section 3250 paragraph .052 states that a government may benefit from an accrued benefit asset by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an accrued benefit asset and why a valuation allowance may be needed.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a

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government expects to realize from a plan surplus". A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the expected future benefit as the sum of:

a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Each of these is discussed separately.

7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

For HOOPP, according to the Plan text, there is no ability for the Province to withdraw a surplus. Section 14.5 (1) of the Plan text indicates that a surplus in the plan is to be used for improving benefits or reducing the total annual cost of the plan. A paragraph from Section 14.5 (1) is as follows:

> If the actuary determines on an on-going basis that there is a surplus in the trust fund at a triennial valuation date equal to or less than ten percent of actuarial liabilities, the administrator, in consultation with the actuary, shall determine the portion, if any, of the surplus to be used for the purpose of improving benefits or reducing the total annual cost.

There are no provisions in the HOOPP Plan text to permit the withdrawal of a surplus.

7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a))

Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

In the event of a surplus, the HOOPP Board is responsible for making decisions in the Plan members' best interest regarding improving benefits and/or the reducing contributions. One might assume that the

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Board is inherently motivated to oppose the reduction of contributions because the design of HOOPP effectively allows for employees to earn a 26% premium for employee contributions under the current arrangement. Additionally, there is no incentive for union appointees on the Board, who represent the interests of employees and OHA appointees, who do not have direct accountability to represent the interests of the Province of Ontario to reduce contributions as this would go against the best interests of Plan members.

The employers, primarily Ontario Hospitals, also do not have decision making authority on the HOOPP Board and as such, the likelihood of a reduction of contributions to HOOPP as a result of surpluses is very low.

~~As HOOPP has been in a liability position for over the prior 10 years, there is no recent history of surplus utilization to provide evidence of the Board's willingness to use surpluses to reduce future contributions.~~

[Open point: Need to determine if HOOPP has a history of using surpluses to reduce contributions. This information is not readily available from HOOPP website. However, the HOOPP website does indicate that HOOPP has maintained the same contribution rates for our members and employers since 2004.]

Commented [np1]: Jim – please follow up with Pauline to see if we have any details. If not, will have to follow up with Mark Donaldson.

Alicia has requested information

7.8 Conclusion on measurement

The Province has concluded that the attributes of the multiemployer arrangement for HOOPP do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of HOOPP. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

This conclusion is consistent with the Province of British Columbia who disclosed the following in its 2015/16 public accounts:

> Where plans are in a net asset position and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. The province records a liability for its share where plans are in a net obligation position.

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Appendix A – Pension liability for HOOPP including the consolidation % used in the reporting by the Province of Ontario for the prior 10 years

Financial year-end date	Province's Pension Liability for HOOPP (in $ millions)	% of HOOPP members from consolidated hospitals	% of employer contributions
March 31, 2007	153	88.5%	56%
March 31, 2008	198	88.5%	56%
March 31, 2009	317	88.5%	56%
March 31, 2010	501	88.5%	56%
March 31, 2011	634	88.5%	56%
March 31, 2012	802	86.6%	56%
March 31, 2013	991	85.9%	56%
March 31, 2014	1,112		56%
March 31, 2015	1,056	84.4%	56%
March 31, 2016	872	85.2%	56%

DRAFT

Status update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Status update
Date: Friday, April 07, 2017 16:58:58
Attachment 1: image003.jpg

Hi Nadine,

As discussed, here is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Asset ceiling test for OTPP document updated

2. Draft asset ceiling test for OPSEUPP document provided

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) – EY

4. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD

5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD

Next week and after

1. Excel tool update and associated “audit checklist”

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
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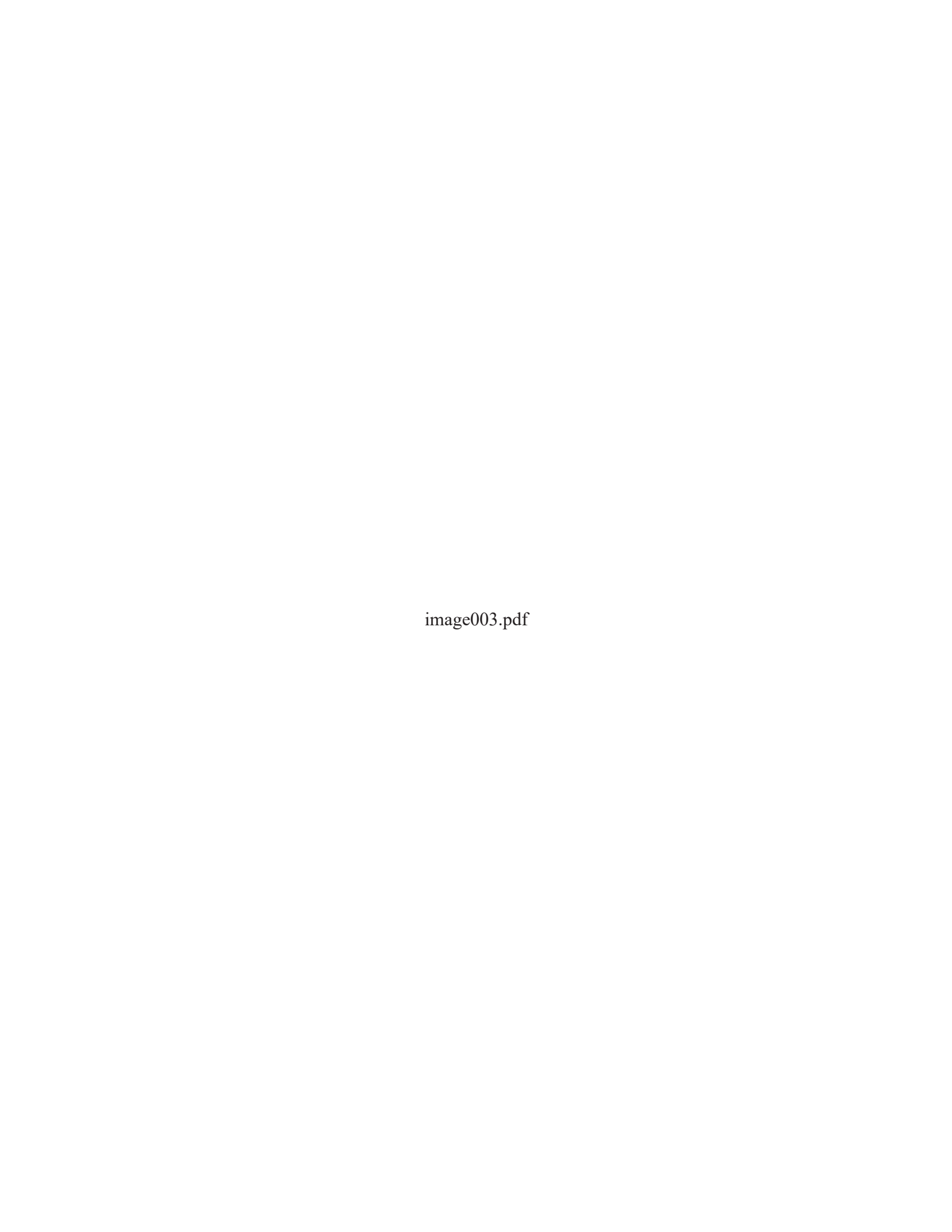
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Subject: Status update
Date: Friday, April 07, 2017 16:58:58
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CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Status update
Date: Monday, April 03, 2017 17:40:50
Attachment 1: image003.jpg

Hi Nadine,

As discussed during our call, here is the summary of our work and priorities based on our discussions to-date.

Let us know if you would like us to structure it any differently going forward. Also, please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed last week

1. Draft ELHTs memo provided **(should we look into obligations other than 3250/3255 with Blake Langill and Suzie Gignac as per our SOW?)**

2. Draft OTPP's asset ceiling test letter provided

In progress this week

1. Review of draft ELHTs memo – OPCD

2. Finalize OTPP's asset ceiling test letter – EY

3. Prepare OPSEU's asset ceiling test letter – EY

4. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) - EY

5. Assist with sponsor agreement and funding policy review, related to item #4 – OPCD

6. Continue discussions related to contributions by other agencies – EY & OPCD

Next week and after

1. Finalize item #4-6 above
2. Update ELHTs memo, subsequent to OPCD's review
3. Excel tool update and associated "audit checklist"
4. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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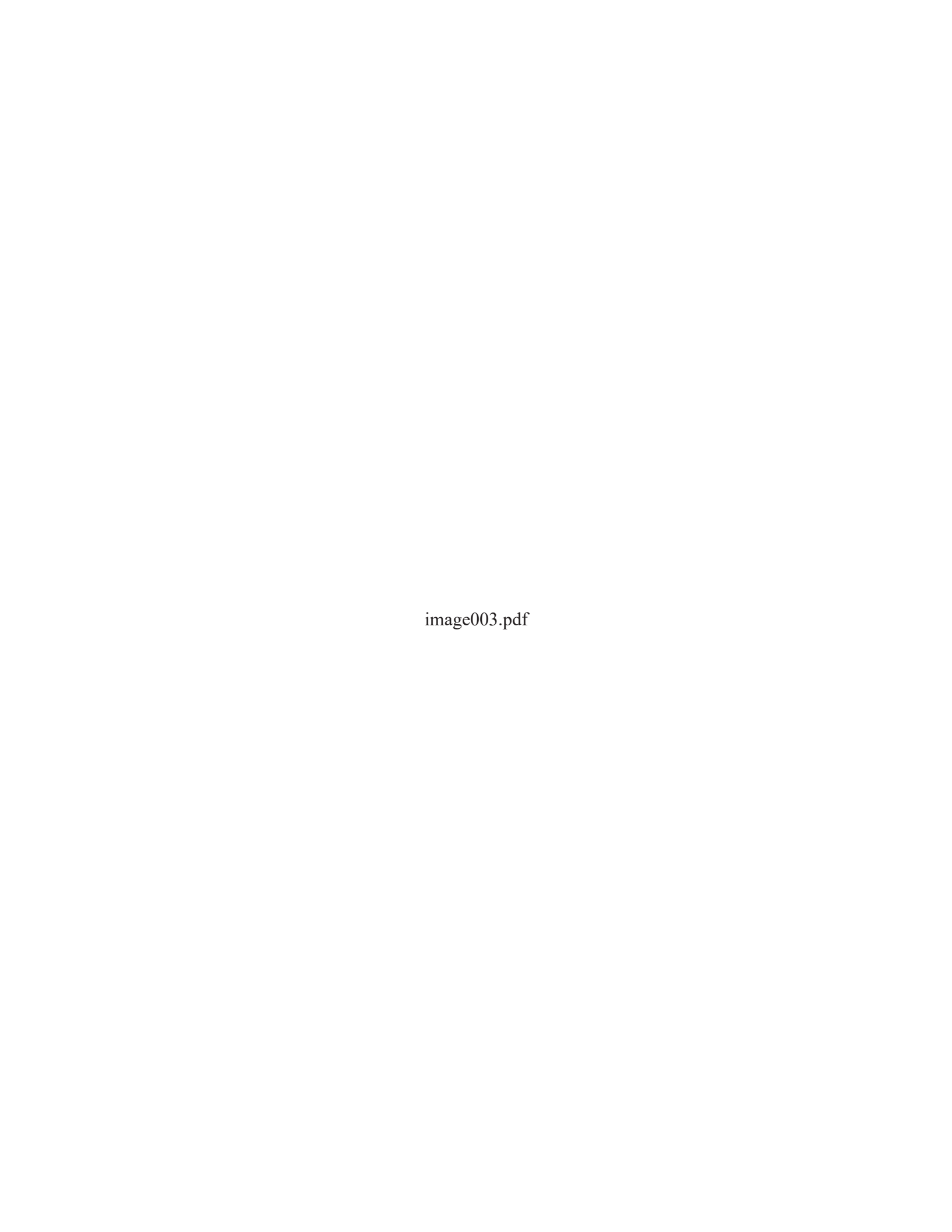
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Subject: Status update
Date: Monday, April 03, 2017 17:40:50
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Subject: Status update
Date: Friday, April 07, 2017 16:58:58
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Hi Nadine,

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Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

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1. Asset ceiling test for OTPP document updated

2. Draft asset ceiling test for OPSEUPP document provided

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Research on other public plans and identify ones which are comparable to CAATT/HOOPP (BC, Alberta) – EY

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5. Continue discussions related to balance sheet adjustment of 2,246M (includes differences in contributions due to lags and agency contributions) – EY & OPCD

Next week and after

1. Excel tool update and associated “audit checklist”

2. SERP/SRAs reporting

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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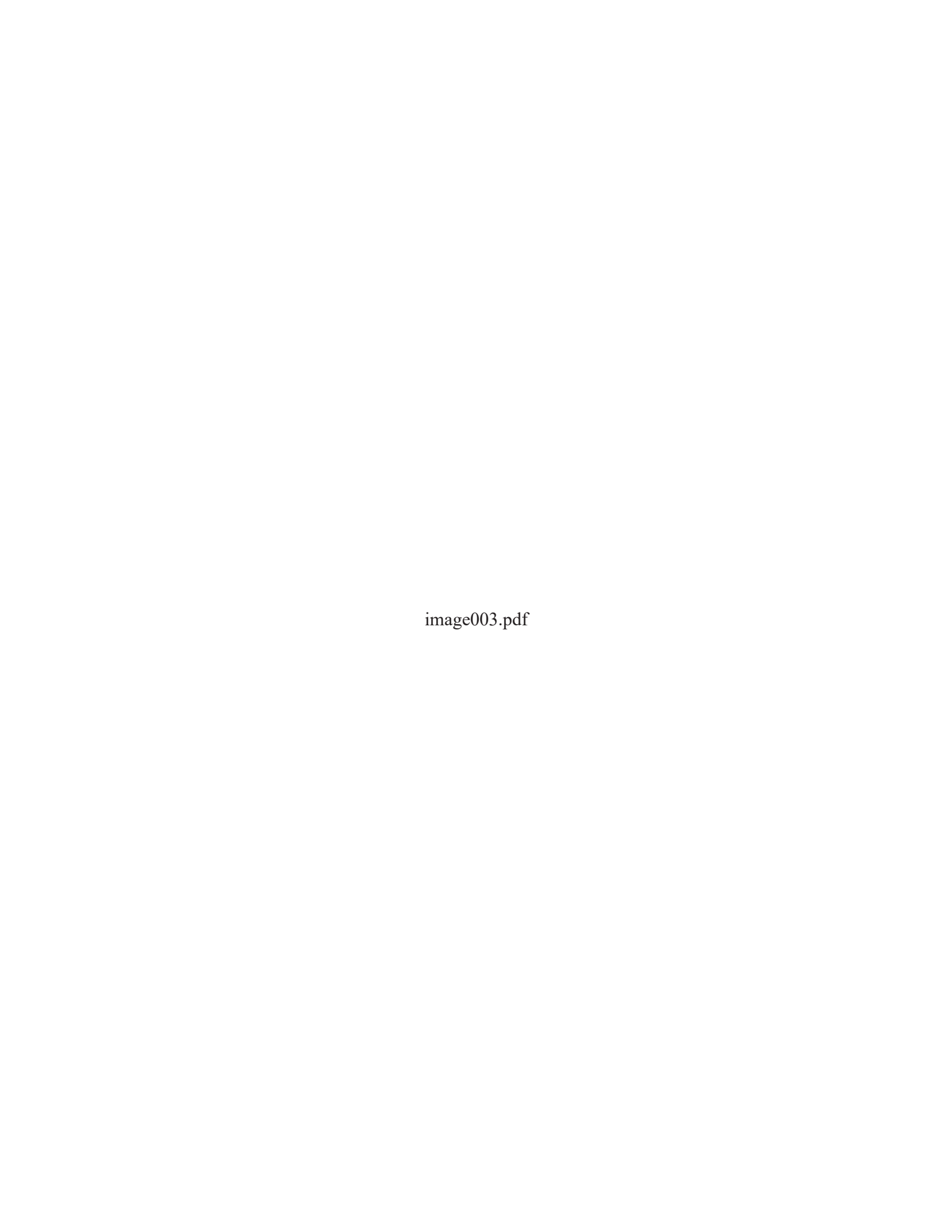
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Summary description of work.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Gregory Winston [gregory.winston@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: Summary description of work
Date: Tuesday, September 19, 2017 17:12:40
Attachment 1: image003.jpg
Attachment 2: Models - summary description of work (19 Sept 2017 DRAFT).pdf

---

Hi Alicia,

As requested, please find attached a draft version of our summary description of our work related to the models used for preparing pension accounting results.

Let us know if you have any comments or concerns. We will follow up with a final version upon confirming the letter meets your expectations.

Have a great evening.

Regards,

Christina

Christina Chan, FSA | People Advisory Services | Manager

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Upcoming out of office alert: September 22, 2017 to October 20, 2017, inclusive

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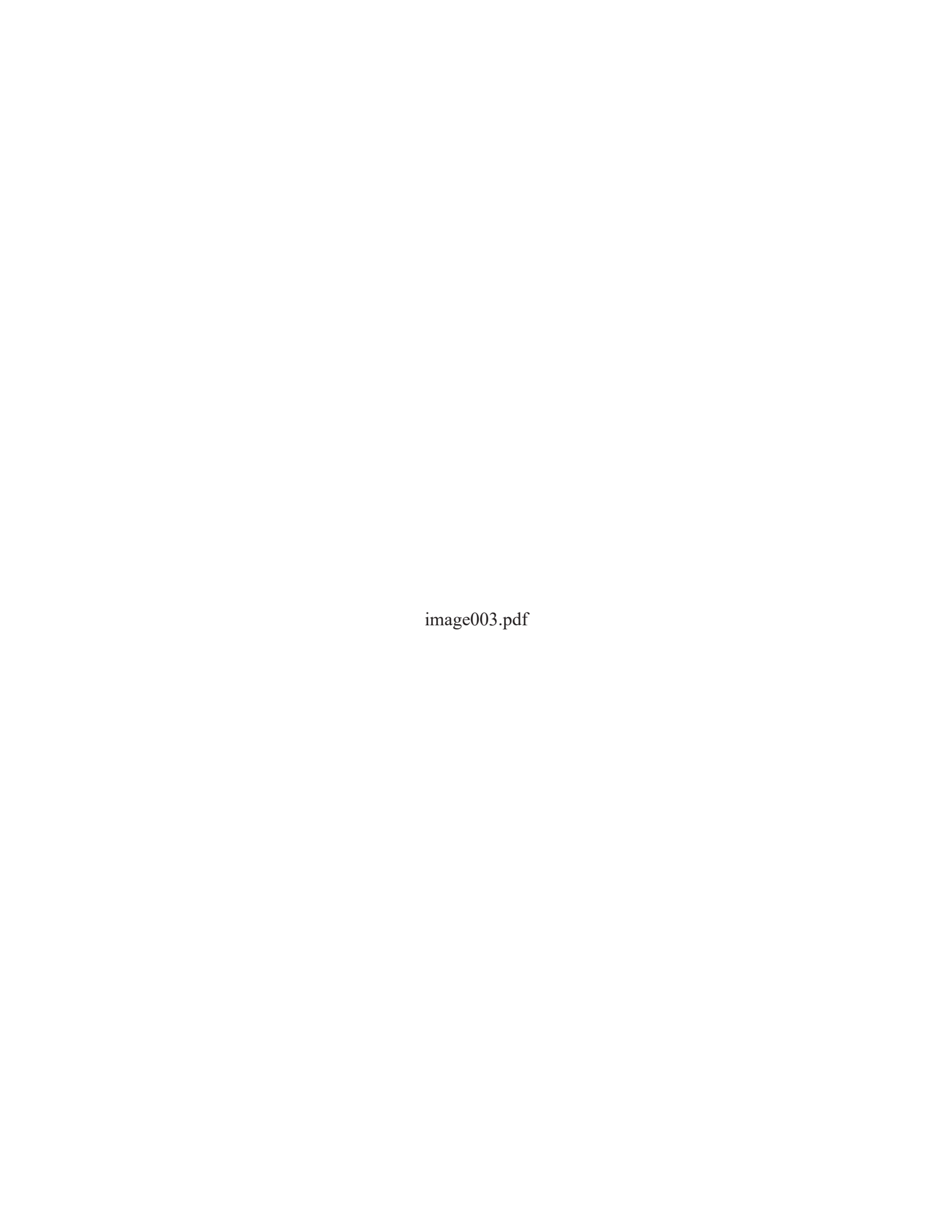
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Models - summary description of work (19 Sept 2017 DRAFT).pdf

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Alicia Sun
Manager, Broader Public Sector Reporting
Office of the Provincial Controller Division
Office of the Treasury Board, Treasury Board Secretariat
Frost Building South, 7 Queen's Park Cres E
Toronto ON M7A 1Y7

19 September 2017
DRAFT

Dear Alicia,

You have requested a summary description of our work related to the models used by the Provincial Controller's Accounting Policy and Financial Reporting Branch ("APFR") to prepare pension accounting results related to the defined benefit pension plans reflected on the Province's fiscal year 2016-2017 ("FY2017") financial statements under Public Sector Accounting Standard 3250 ("PS 3250"). This work was part of our Statement of Work effective 3 February 2017 (RFS TBS-OTB-OPCD-20).

Our work does not constitute an accounting opinion and should not be used as such. This document is intended for Office of the Provincial Controller Division's ("OPCD") use only. Please inform us in writing if you would like to share this document more broadly.

Our work related to the following defined benefit pension plans ("Pension Plans"):

- Ontario Teacher's Pension Plan ("OTPP")
- Ontario Public Service Employees Union Pension Plan ("OPSEUPP")
- College of Applied Arts and Technology Pension Plan ("CAATPP")
- Healthcare of Ontario Pension Plan ("HOOPP")
- Public Service Pension Plan ("PSPP")
- Public Sector Supplementary Plan ("PSSP")
- Ontario Teacher's Retirement Compensation Arrangement ("RCA")

For each Pension Plan, on a whole plan's basis (i.e. 100%), we reviewed the following elements of the OPCD models and identified any potential refinements and/or issues with the computation integrity of the expense and disclosure under PS 3250:

- Inputs[1]
  - Actuarial information provided to OPCD, and the correct interpretation and appropriate reflection of the information in OPCD's calculation models
  - Assumptions, valuation method and data used by the actuaries in determining the actuarial information for OPCD, and their appropriateness for PS 3250 reporting purposes

[1] While we assisted OPCD with understanding the inputs provided and assessing whether inputs are used appropriately for accounting reporting, we did not review the reasonableness of inputs.

- Net liability/asset position
  - Beginning of fiscal year plan asset, obligation, unamortized gain/loss balances, and their consistency with the amounts at the prior fiscal year-end
  - The ending net liability/asset position reconciliation from the opening net liability/asset position, considering current year's expense and contributions
  - The ending net liability/asset position reconciliation from the ending position of obligation, asset, and unamortized gain/loss balance
- Pension expense
  - Magnitudes of the interest cost and expected return on plan asset, given the assumptions at the beginning of the fiscal year and the opening net position of the Plan
  - Magnitude of the actuarial gain/loss recognized in the fiscal year's expense; given the unamortized gain/loss schedule at the beginning of the year and the expected remaining service lifetime (EARSL)
  - Past service cost/(credit) recognition and/or adjustment to gain/loss schedule due to plan amendment (if applicable)
- Unamortized gain/loss
  - Reconciliation of unamortized gain/loss; given the opening balance, new net actuarial gain/loss, plan amendment (if applicable), and the amount amortized in the fiscal year expense
- Assets
  - Plan asset determination on a market-related value of asset basis and the smoothing adjustment, considering the gain/loss on a market-value of asset basis
- Limitation on accrued benefit asset
  - Asset ceiling test and valuation allowance, if applicable[2]

We then subsequently considered the following elements and identified any potential refinements and/or issues related the portion of each Plan determined by OPCD to be reported under the Province's consolidated financial statement:

- The approach in estimating the portion of each Plan to be reported by the Province
- The calculation integrity of the Province's portion of expense and disclosure in the Province's financial statement
- The accounting treatment related to consolidated and non-consolidated agencies/employers
- The accounting treatment related to employee contributions
- Consistency in accounting models among Pension Plans
- The existing balance sheet adjustments made by OPCD (historical cumulative transfer, contribution gain/loss)
- The determination of the contribution gain/loss for the Province

Based on the procedures performed, we have provided recommended refinements to the existing models related to the following:

- Clarification on inputs received by OPCD
- Consideration of the appropriateness of actuarial information provided (method used) and the revision of OPCD's accounting valuation method for PSSP to be consistent with the requirement under PS 3250; with the understanding that the Plan is immaterial to the Province's consolidated financial statements

[2] Refer to the "OPSEUPP recognition of accrued benefit asset" and "OTPP recognition of accrued benefit assets" dated 23 August 2017 for more details of our analysis

- Consistent MRVA calculation among Pension Plans (without changing the length of the existing smoothing period); MRVA calculation to be performed by OPCD and eliminate reliance on external actuaries
- Estimation of the Province's portion of each Plan, based on the contribution allocation among the Province, consolidated, and non-consolidated employers/agencies
- Accounting treatment of the substantial lag in contributions for OTPP and considerations on portion of assets to be reported by the Province
- Reversal of existing Province's specific year-end adjustments, related to historical cumulative transfer, contribution differences gain/loss[3]
- Simplification and improved usability of calculation models

We have also provided a recommended checklist of pension reporting procedures which OPCD can use as a reference when reviewing the computation integrity of the expense and disclosure prepared.

CC: Cindy Veinot
Mark Donaldson

[3] Refer to the "comparative figures – narrative and commentary (draft)" dated 19 May 2017 for more details of our analysis

Summary of FMP (helpful).rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Summary of FMP (helpful)
Date: Saturday, September 17, 2016 15:42:54
Attachment 1: FMP Coles Notes.pdf

Hi Lucy.

Attached is a doc that was shared by external council. I think that you might find it helpful. Please call if you need anything. I'm working on various related items as well.

Nadine

416 562 8509

FMP Coles Notes.pdf

FIGURE 1. FUNDING MANAGEMENT POLICY (FMP) FRAMEWORK DESCRIPTION

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
Application (Article I):	**Section 1.01 and 1.02** ▪ Requires the Board to use Board's "best estimates assumptions," including a margin for adverse deviation in the case of the discount rate. ▪ Sets out what best estimates economic assumptions may be based on. ▪ Requires the Board to maintain indices to record inflation adjustments for post-2009 service. **Sections 1.03 and 1.04** ▪ If the Board uses a discount rate different from that outlined in the FMP and this discount rate is more conservative (that is, produces a larger deficit or a smaller surplus), the FMP becomes void in 12 months unless both Partners notify the Board otherwise. These sections serve as an "exit" provision for the Partners. **Section 1.05** sets out under what circumstances each section of the FMP applies. **Section 1.06** limits surplus distributions or contribution decreases to those permitted by law. **Section 1.07** makes temporary improvements conditional on not having a restoration basis deficit.
Definitions (Article II):	**Section 2.01** Defines key terms, including: ▪ Basic contributions (contributions as per Sch.1 on January 1, 2012), which is used throughout the FMP as the target contribution rate (10.4% on earnings up to the YMPE/12% above the YMPE). ▪ Run-rate benefits (benefits as per Sch.1 on January 1, 2009), which include 100% inflation protection and assume basic contributions. ▪ Reference Rate (rate chosen by the Board representing Government of Canada nominal and real return bonds, which may be based on market or smoothed data; has recently been 36 month smoothed nominal and real return bonds). ▪ Remaining amortization value (difference between the temporary improvement value and the commitment value). ▪ Temporary improvement value (present value of a temporary improvement amortized over 3-10 years; if amortized over fewer than 10 years, improvement for a year is limited to the amount of basic contributions paid during a year).
Restore basic contributions and benefits (Article III):	**Section 3.01** ▪ Restoration basis is used (*reference rate* + 1.55%). ▪ Defines assets (refers to PBA Regulations) and current and revised liabilities. **Section 3.02** ▪ Sets out that current and revised liabilities are calculated using the restoration basis, plus an adjustment. The phrase "plus an adjustment" is used throughout the FMP and reflects the fact that the Board often files using a basis that is higher than required under the FMP. **Section 3.03** ▪ Outlines how indexing is accounted for in the valuation (that is, level of indexing provided in current filing zone continues).
Restoration Basis: *Surplus* (Article III continued)	*Sections 3.04 to 3.08 apply when surplus exists using the restoration basis and current contributions are higher than target, partial indexing (for previous years or go forward) exists or other benefits have been reduced.* **Section 3.04** Sets conditions under which sections 3.05-3.08 apply: ▪ If Assets > Liabilities (surplus reported); and ▪ Current contributions > Basic contributions (i.e., contributions are above long-term target level); or ▪ Current Benefits < Run-Rate Benefits (i.e. contributions are above long-term target level or benefits are below the long-term target level). **Section 3.06** Sets out the order of how to restore past benefit reductions or contribution increases: ▪ Actions can consist of increasing benefits to run-rate (long-term target) including prospective restoration or lowering contributions to basic (target) or a combination. ▪ First, increase go-forward indexing to 50% for post-2013 service period, then to 100% on all post-2009 service periods. Second, restore current pension amounts to run rate level, as much as possible, starting with the years where indexing was less than 50% until all years of partial indexation are restored to the same level and then restore to 100% for all service periods. ▪ Partners reserve the right to reconsider order in the future. **Section 3.07** A number of conditions apply after a decision: ▪ Assets equal to or greater than revised liabilities (i.e. no deficit created); ▪ Inflation indexing restored to no more than if 100% of inflation was provided;

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
	▪ Inflation indexing restored to no less than current level (i.e. can't lower prior inflation indexing given); ▪ The value of revised benefits needs to be between current and run-rate benefits (similarly, contributions must be between current and target). **Section 3.08** (Expires December 30, 2017) Sets out the limits from the 2013 Term Sheet (commonly known as the JSPP Agreement) with respect to escalated adjustments and benefit improvements: ▪ Escalated adjustments if assets are greater than 100% of the current liabilities (and not below 100% after). ▪ Benefit improvement or restoration if net assets available for benefits are greater than 105% of the current (unsmoothed) liabilities (and not below 105% after).
Restoration Basis: *Deficit* (Article III continued)	*Sections 3.09 to 3.14 apply when the liabilities are greater than the assets using the restoration basis; thus the Partners must raise contribution rates, lower the amount of indexing and/or decrease other benefits.* **Section 3.09** Sets conditions under which Sections 3.10 to 3.14 apply: ▪ If Current liabilities > Assets (i.e., deficit reported). **Section 3.11** Sets out that deficit can be eliminated by changing contributions or benefits provided that: ▪ Assets are equal to or greater than revised liabilities; and ▪ Revised member contributions are no more than 15% (above YMPE). **Section 3.12** The Partners can agree to change benefits or contribution level as long as: ▪ Partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and ▪ No indexing granted gets taken away. **Section 3.13** Outlines the current intention that member contributions will be increased up to 15% (above YMPE) before benefits are reduced or less than full indexing is provided. **Section 3.14** Sets out the limits with respect to the 2013 Term Sheet regarding employer contribution increases.
Funding Zone: Temporary (Article IV):	**Section 4.01** ▪ Temporary basis is used (*reference rate* + 1.25%). ▪ Defines: - Assets (either market value of net assets or assets defined in PBA Regulations; that is, if smoothing creates surplus that otherwise would not exist, it cannot be spent). - Current liabilities (liabilities including the greater of current and run-rate benefits and any remaining amortization value from a previous temporary commitment). - Revised liabilities (liabilities including the greater of revised and run-rate benefits and any remaining amortization value from a previous temporary commitment). - Reference rate (ensures that smoothed data is not used to get a surplus if there otherwise would not be surplus). **Section 4.02** Sets out that the liabilities are calculated using the temporary basis, plus an adjustment. *Sections 4.03 to 4.06 apply when the plan has a surplus using the temporary basis; that is, there is surplus available for improving benefits, decreasing contributions or distributing surplus, all on a temporary basis. The surplus spend is amortized over a period of three to ten years, at the partners' choice. If amortization period is less than ten years, the annual spend limit is the amount of basic contributions for a year.* **Section 4.03** Sets out conditions under which Sections 4.04 and 4.05 apply: - If assets > liabilities; and - Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and - Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and - Full inflation indexing has been provided. **Section 4.04**

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
	The Board reports the commitment value (the amount of surplus that can be used to provide a temporary improvement). **Section 4.05** The Partners can agree to temporary improvements so long as after the change, assets over revised liabilities are equal to or greater than zero. **Section 4.06** provides a requirement for a side agreement setting out how Minister contributions may be adjusted if there is a surplus distribution or temporary improvement of benefits.
"Do Nothing" Zone (Article IV continued):	*Sections 4.07 to 4.09 apply if assets are equal to or less than current liabilities using the temporary basis; that is, if there is a deficit using the temporary basis.* **Section 4.09** States that the Partners will not provide new improvements if there is a temporary basis deficit. That is, the Partners will do nothing, and Article III (restoration basis) will apply. However, no actions result from move to restoration because contributions and indexing are already at run-rate in order to be in temporary zone. The Partners could, however, have to file a valuation (using the restoration basis) if the filing schedule required a filing.
Funding Zone: Distributions (Article V):	**Section 5.01** ▪ Distribution basis is used (*reference rate* + 0.5%). ▪ Defines: - Assets (either market value of net assets or assets defined in PBA Regulations; that is, if smoothing creates surplus that otherwise would not exist, it cannot be spent) - Liabilities (includes remaining amortization value) - Current targeted funding amount - Revised targeted funding amount - Reference rate (ensures that smoothed data is not used to get a surplus if there otherwise would not be surplus) **Section 5.02** Sets out that the liabilities are calculated using the distribution basis, plus an adjustment. *Sections 5.03 to 5.05 apply when the plan has a surplus using the distribution basis; that is, there is usable surplus for improving benefits above run-rate permanently or decreasing contributions below target level permanently.* **Section 5.03** Sets out conditions under which Sections 5.04 and 5.05 apply: - If Assets **>** 110% of Liabilities; and - Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and - Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and - Full inflation indexing has been provided prospectively and benefits are fully restored. **Section 5.05** The Partners can agree to change benefits or contributions so long as after the change assets remain greater than 110% of the liabilities and a side agreement has been entered into to set out how Minister contributions may be adjusted if there is a surplus distribution or temporary improvement of benefits. *Sections 5.06 to 5.08 apply when the plan has a funding ratio that is at least 100% but less than 110% and valued using contribution rates at the basic or target level, full indexing provided prospectively and benefits fully restored.* **Section 5.06** Sets out the conditions under which Sections 5.07 and 5.08 apply: ▪ If Assets ≤ 110% of Liabilities; and ▪ Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and ▪ Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and ▪ Full inflation indexing has been provided prospectively and benefits are fully restored. **Section 5.08** If the conditions in Section 5.06 are satisfied, there is not sufficient surplus to provide a permanent improvement; therefore, Article IV will apply to determine whether there is surplus using the temporary basis.

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
Post-December 30, 2017 Valuations (Article VI):	*This section articulates at a high level the use of the surplus credits (earned pre-January 1, 2018) after December 30, 2017. OTF earns surplus credit for any unmatched forgone inflation (i.e., inflation indexing less than 50%) prior to January 1, 2018 or via other benefit reductions made before January 1, 2018. See the JSPP Agreement for more detail.* **Section 6.01** ▪ Restoration basis is used (*reference rate* + 1.55%). ▪ Defines: - Assets (PBA regulations) - Current Liabilities - Revised Liabilities **Section 6.02** Provides overriding provision for post-December 30, 2017: for valuations where assets are greater than current liabilities, Section 6.03 applies (with reference to the 2013 Term Sheet). **Section 6.03** Sets out the use of surplus credits: ▪ OTF has first call on surplus up to a limit; ▪ Surplus credits include foregone pension payment amounts.
Valuation frequency and filing (Article VII):	*This section reinforces an earlier section of the Partners' Agreement that specifies that it is the Partners' joint decision whether to file (other than in a required filing year).* ▪ Partners' decision when to file. ▪ Partners will notify the Board within 7 months of valuation date.
Arbitration (Article VIII):	Refers to Arbitration already in prior section of the Partners' Agreement.
Limitations (Article IX):	FMP does not apply for changes required by law or for changes that increase the liabilities by less than 0.5% or for changes that use the $76m in section 60 *(Note $76m was utilized with January 1, 2008 filing).*

Summary of Opinion.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Summary of Opinion
Date: Thursday, November 17, 2016 21:29:33
Attachment 1: @

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Hi Cindy,

Please find attached the summary of our opinion.

Kind regards,

Matt

Matthew Colley
Sr. Manager | Audit Advisory
Deloitte LLP
22 Adelaide Street West,
Toronto, Onta

Attachments:

Picture (Device Independent Bitmap) 1.jpg (3 KB)
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Summary of Opinion.rtf

From: Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
Subject: Summary of Opinion
Date: Thursday, November 17, 2016 21:29:33
Attachment 1: Picture (Device Independent Bitmap) 1.jpg
Attachment 2: Deloitte Summary.pdf

Hi Cindy,

Please find attached the summary of our opinion.

Kind regards,

Matt

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Deloitte Summary.pdf

Deloitte Accounting Opinion

Briefing Summary

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Summary of impact based on proposed year-end adjustments.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Summary of impact based on proposed year-end adjustments
Date: Friday, May 26, 2017 11:01:58
Attachment 1: image002.jpg
Attachment 2: Summary of impact based on proposed adjustments - by year (EY 26 May 2017).pdf
Attachment 3: Summary of impact based on proposed adjustments (EY 26 May 2017).pdf

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Hi everyone,

Thank you for forwarding us the most updated spreadsheets for all plans. We have reflected them accordingly for our analysis.

As promised, please find attached a summary of impact based on the proposed year-end adjustments. We have prepared an one-pager with both years on it (on legal size paper), as well as an individual summary page for each of the two comparative years.

Let us know if you have any questions.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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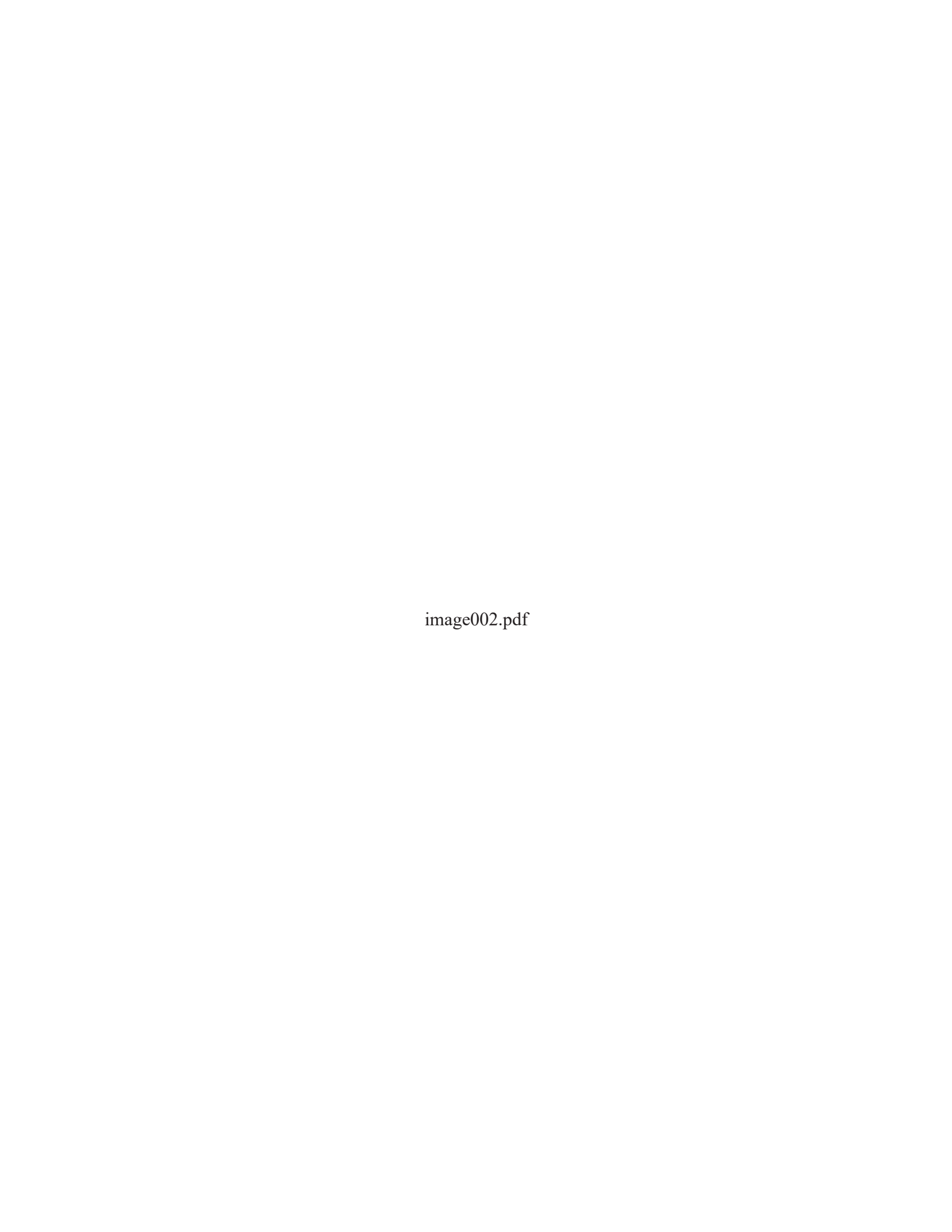
image002.pdf

Summary of impact based on proposed adjustments - by year (EY 26 May 2017).pdf

Summary of impact based on proposed adjustments as at 31 March 2016 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(906)	(7,768)
Pension expenditure	118	538	180	761	194.3	(47)	1,744
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(10,147)	1,385	(521)	872	16.7	(953)	(9,347)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(906)	(7,768)
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	906	531
Pension expenditure	232	560	155	754	194.3	-	1,895
Less: portion of contributions allocated in excess of ON	(13)		-	(4)	-	-	(17)
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(9,395)	741	(823)	778	16.5	-	(8,683)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	-	-	-	-	-	-	-
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	906	531
Pension expenditure	114	22	(25)	(7)	-	47	151
Less: portion of contributions allocated in excess of ON	(13)	-	-	(4)	-		(17)
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2016	752	(645)	(302)	(94)	(0.2)	953	664

Summary of impact based on proposed adjustments as at 31 March 2017 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.3%	50.0%		
Opening pension liability	(10,147)	1,385	(521)	872	16.7	(953)	(9,347)
Pension expenditure	(508)	518	132	621	198.7	*(47)*	915
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(12,290)	1,535	(608)	502	(0)	(1,000)	(11,861)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.3%	50.0%		
Opening pension liability	(9,395)	741	(823)	778	16.5	-	(8,683)
Pension expenditure	(381)	464	113	615	198.7	-	1,010
Less: portion of contributions allocated in excess of ON	40	-	-	(5)	0.5	-	36
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(11,371)	837	(929)	397	0	-	(11,066)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	752	(645)	(302)	(94)	(0.2)	953	664
Pension expenditure	127	(54)	(19)	(6)	-	47	95
Less: portion of contributions allocated in excess of ON	40.0	-	-	(5.0)	0.5	-	36
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2017	919	(698)	(321)	(105)	0.3	1,000	795

Summary of impact based on proposed adjustments (EY 26 May 2017).pdf

Summary of impact based on proposed adjustments - DRAFT

For illustration purposes only

Current	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016
Pension Liability - Continuity	50.0%	50.0%	100.0%	100.0%	50.0%	50.0%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(10,147)	1,208	1,385	(487)	(521)	1,056	872	28.5	16.7	(906)	(953)	(7,768)	(9,347)
Pension expenditure	118	(508)	538	518	180	132	761	621	194.3	198.7	(47)	(47)	1,744	915
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(10,147)	(12,290)	1,385	1,535	(521)	(608)	872	502	16.7	(0.1)	(953)	(1,000)	(9,347)	(11,861)

Proposed	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Pension Liability - Continuity	49.0%	49.0%	100.0%	100.0%	47.7%	47.7%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(9,395)	1,208	741	(487)	(823)	1,056	778	28.5	16.5	(906)	-	(7,768)	(8,683)
Opening balance adjustment (in aggregate)	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	906	-	531	-
Pension expenditure	232	(381)	560	464	155	113	754	615	194.3	198.7	-	-	1,895	1,010
Less: portion of contributions allocated in excess of ON	(13)	40		-	-	-	(4)	(5)	-	0.5	-	-	(17)	36
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(9,395)	(11,371)	740	837	(823)	(929)	778	397	16.5	0.2	-	-	(8,683)	(11,066)

Differences	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Opening pension liability	-	752	-	(645)	-	(302)	-	(94)	-	(0.2)	-	953	-	664
Opening balance adjustments at 1 April 2015	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	906	-	**531**	-
Pension expenditure	114	127	22	(54)	(25)	(19)	(7)	(6)	-	-	47	47	151	95
Less: portion of contributions allocated in excess of ON	(13)	40	-	-	-	-	(4)	(5)	-	0.5			(17)	36
Less: contributions made by ON	-	-	(0)	-	-	-	-	-	-	-	-	-	(0)	-
Ending fiscal pension liability, at 31 March 2017	752	919	(645)	(698)	(302)	(321)	(94)	(105)	(0.2)	0.3	953	1,000	664	795
F2016 differences, excluding opening balance adjustment		167		(54)		(19)		(11)		0.5		47		**131**

Commentary

1. Reflect all proposed adjustments (contribution receivable, unamortized contribution differences, cumulativetransfer, reflect other participating employers)
2. Need to consider the treatment of recognizing difference between the portion of contributions included in assets and actual ON contributions
   For HOOPP, expense is subsequently determined based on the calculated opening and ending pension liability and actual contributions by other source. As such, it's implicitly included in pension expense (outside of calculation tool)
3. Pension expenditure for HOOPP reflects immediate gain/loss recognition arising from change in % allocation
   This is consistent with OPCD's current practice performed outside of the calculation spreadsheet
4. Increase of approximately $100M on OTPP's annual pension expense relates to removal of expected return on contribution receivable
5. F2016 Pension expense (income) for other agencies is estimated based on F2015 for illustration purposes
6. Above figures do not reflect asset ceiling test and the adjustment for the differential use of the Rate Stabilization Fund ("RSF") for OPSEUPP

security clearance.rtf

From: Virani, Shyrose (TBS) []
To: Gregory Winston [gregory.winston@ca.ey.com]
Subject: security clearance
Date: Monday, September 11, 2017 14:56:51

Hi Greg:

We have already received the clearance, you can go ahead and start working on our files.

Thanks

Shyrose Virani

security clearance.rtf

From: Virani, Shyrose (TBS) []
To: mario.chasse@ca.pwc.com [mario.chasse@ca.pwc.com]; sean.cable@pwc.com [sean.cable@pwc.com]; lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]; michael.walke@pwc.com [michael.walke@pwc.com]; martin.boucher@ca.pwc.com [martin.boucher@ca.pwc.com]
CC: robert.urbanoski@ca.pwc.com [robert.urbanoski@ca.pwc.com]
Subject: security clearance
Date: Sunday, October 23, 2016 14:38:17

Hi

Hi

I just need to find out if you have been screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

security screenings.rtf

From: Virani, Shyrose (TBS) []
To: tgary@deloitte.ca [tgary@deloitte.ca]; Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]; kdanyluk@deloitte.ca [kdanyluk@deloitte.ca]; cgrindley@deloitte.ca [cgrindley@deloitte.ca]; maraymond@deloitte.ca [maraymond@deloitte.ca]
CC: cawarburton@deloitte.ca [cawarburton@deloitte.ca]
Subject: security screenings
Date: Sunday, October 23, 2016 14:23:52

Hi

I just need to find out if you have screened for the security check, if so, can I please have your Security C number, if not, Triton will be in touch with you.

Thanks

Shyrose Virani

Ernst & Young LLP
Toronto, ON

Invoice

Treasury Board Secretariat
Mark Donaldson
Director
Office of the Provincial Controller Div.
Office of the Treasury Board
Frost Bldg S, 7 Queen's Park Cres E
Toronto, ON M7A 1Y7
Canada

Invoice No.: CA01C100153487
Please include this number with payment

Invoice Date:	26 June 2018
Due Date:	Upon receipt
Client No.:	0011426981
Engagement No.:	E-65170600

Remit To:
P.O. Box 57104, Postal Station A
Toronto, Ontario M5W 5M5
A/R Queries:
EYCanadaInvoiceInquiry@ca.ey.com

Fees for professional services rendered in connection with: Review of Public Accounts Assumption Rationale; preparation of letters documenting the calculation of future economic benefit and accrued benefit asset recognition for OTPP and OPSEUPP; assistance with reconciliation of actual vs budget expense for PSSP.

		Net	Tax	Rate	Tax Amount	CAD Total
Fee		7,957.00	HST	13 %	1,034.41	8,991.41
		7,957.00			**1,034.41**	**8,991.41**
Invoice summary		**7,957.00**				
Tax :	13% HST				1,034.41	
Total:		**7,957.00**			**1,034.41**	**8,991.41**

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GST/HST: R130866262 **QST:** 1006241791

Electronic payment instructions:
Send direct and pay to: Bank of Montreal, International Banking, H.O. Montreal, SWIFT BIC Address BOFMCAM2, Ernst & Young LLP, 6 King Street West, Toronto, Ontario, Canada, M5H 1C3.

Wire transfer instructions: Transit #2411 Account #24111000237. Reference the name and address of remitter, invoice number and engagement number.

Electronic fund transfer instructions: Bank ID: 0001 Transit# 24112 Account# 1000237. To ensure accurate allocation of funds, please email gss.canadaaccountsreceivable@xe02.ey.com and include amount paid, invoice number and company name.

TBS - Security Clearance.rtf

From: Gregory Winston [gregory.winston@ca.ey.com]
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
Subject: TBS - Security Clearance
Date: Friday, August 25, 2017 15:56:43
Attachment 1: image001.gif

Good afternoon Mark,

As you know, I will be stepping in to support Christina and Uros on the upcoming actuarial services work as a result from Shayan Jafrani's departure from EY. I believe our paths have crossed once before; we chatted briefly in May 2016 to discuss the provincial cost-of-borrowing rate that hospitals can use under PS 3255. It's great to reconnect.

I've been ask to contact you to obtain clearance to support the team in this work. If it is useful, I currently hold a Federal Reliability level security clearance with a file number of 95758337 and an expiry date of 2022/01/26.

Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

EY Tower

100 Adelaide Street West, PO Box 1

Toronto, ON M5H 0B3

Office: +1 416 943 4494 | Mobile: +1 416 885 1554 | gregory.winston@ca.ey.com

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image001.pdf

TBS - Security Clearance.rtf

From: Gregory Winston [gregory.winston@ca.ey.com]
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]; Christina Chan [Christina.Chan@ca.ey.com]; Uros Karadzic [uros.karadzic@ca.ey.com]
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Please let me know whether there is anything else I can provide to you that will help.

Thanks,

Greg

--

Gregory Winston, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP

EY Tower

100 Adelaide Street West, PO Box 1

Toronto, ON M5H 0B3

Office: +1 416 943 4494 | Mobile: +1 416 885 1554 | gregory.winston@ca.ey.com

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image001.pdf

Timing for next meeting.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Timing for next meeting
Date: Friday, November 04, 2016 12:11:02

Hi Shyrose,

We have agreed to schedule another meeting (in person or call - please check with Nadine her preference) on the week of November 14.

We are available on any of the following times that week:

Tuesday 15 - 9-1pm
Thursday 17 - 9-1pm
Friday 18 - 9-1pm.

I also have in my calendar a meeting invitation for November 10 for a regular update call. I think it makes sense that this call is cancelled and replaced by the one above.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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Touch base.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: 'lucy.durocher@pwc.com' [lucy.durocher@pwc.com]
Subject: Touch base
Date: Wednesday, September 28, 2016 10:08:32

Hi Lucy.
Sorry about my CRAZY schedule. I have good news (I think). Let's plan to talk tomorrow. Nadine

Touch base.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: 'lucy.durocher@pwc.com' [lucy.durocher@pwc.com]
Subject: Touch base
Date: Wednesday, September 28, 2016 08:58:51

Hi Lucy.
Sorry about my CRAZY schedule. I have good news (I think). Let's plan to talk tomorrow. Nadine

Touching base tomorrow.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Touching base tomorrow
Date: Wednesday, September 21, 2016 19:35:28

This message has been archived. View the original item
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=201610257365101~201609212335330000~Z~202401D52BF4C58229C99DAACB08D7E1View the original item

Hi Nadine,

I have a conflict at 12pm through to 3pm. I can talk anytime before 12 or anytime after 3. Please advise the best time to connect.
Thank you.

Lucy

Sent from my iPad

_____

Touching base tomorrow.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Touching base tomorrow
Date: Wednesday, September 21, 2016 19:35:28

Hi Nadine,

I have a conflict at 12pm through to 3pm. I can talk anytime before 12 or anytime after 3. Please advise the best time to connect.
Thank you.

Lucy

Sent from my iPad

_____
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Treasury Board Secretariat - Confidentiality Agreement .rtf

From: Weakley, Donna (CA - Toronto) [dweakley@deloitte.ca]
To: Gary, Trevor (CA - Toronto) [tgary@deloitte.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Grindley, Clair (CA - Toronto) [clgrindley@deloitte.ca]; Bazile, Max (CA - Toronto) [mbazile@deloitte.ca]; Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: Treasury Board Secretariat - Confidentiality Agreement
Date: Wednesday, October 19, 2016 11:51:26
Attachment 1: confidentiality agreement.doc

I received this request from Shyrose at the Treasury Board. She does not have your email addresses, so if you would see her request below and return directly to her it would be appreciated.

Thanks,

Donna

From: Virani, Shyrose (TBS) [mailto:Shyrose.Virani@ontario.ca]
Sent: Wednesday, October 19, 2016 11:27 AM
To: Weakley, Donna (CA - Toronto) <dweakley@deloitte.ca>
Subject: Confidentiality Agreement

Hi Donna

As per our telephone conversation, attached, please find a confidentiality agreement. Please give to:

1. Trevor Gary
2. Matt Colley
3. Clair Grindley
4. Max Bazile
5. Kerry Danyluk

Project date was July 21, 2016 so if they can please back date it according to that date, that would be wonderful. Kindly return it back to me at your earliest.

Thanks

Shyrose

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confidentiality agreement.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

During and following the term of the Agreement between **Deloitte Inc.** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and Listed Entities, and "**OPS**" has the same meaning.

The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: _____ Signature: _____

Date: _____

Witness: _____ Signature: _____

Date: _____

Treasury Board Secretariat of Ontario Invoice, April 7, 2017.rtf

From: nicole.smellie@ca.pwc.com [nicole.smellie@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Treasury Board Secretariat of Ontario Invoice, April 7, 2017
Date: Friday, April 07, 2017 11:09:08
Attachment 1: ATT00001.gif
Attachment 2: TBSO April 20170407_Tax Invoice_Number_TR137128383.pdf

---

Good Morning Shyrose,

Please find attached a PDF copy of our **April** invoice. Unless specified by you, we will not be forwarding a hard copy by mail.

For your convenience we accept the following payment methods:

Wire Transfer **Cheque**

Please Remit Payment Referencing Invoice Number To: **Please remit Payment and Invoice Copy To:**
CIBC, 199 Bay St., CCW, Concourse Level, Toronto, Ontario Canada M5L 1G9
Account Name: PricewaterhouseCoopers LLP **Transit No:** 010:00002 Swift Code: CIBCCATT PwC Central Accounting Centre, PwC Centre, 354 Davis Rd.,
Suite 600
Oakville, ON
L6J 0C5
CAD Account: 63-55412
USD Account: 04-77419
*Email payment details, including invoice number and amount paid to:
accounts.receivable@ca.pwc.com

Please note that an invoice number **must be included** for all payments. **For credit card transactions Foreign Currency exchange rate charges, and foreign transaction fees may apply for invoices issued in currency other than Canadian dollars.**

If you have any questions regarding this invoice please do not hesitate to contact myself or **Lucy Durocher**.

Kind Regards,

Nicole Smellie
PwC | Billing Administrator, Assurance
T: +1 416 941 8383 ext. 14070
Email: nicole.smellie@ca.pwc.com
PwC Management Services LP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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ATT00001.pdf

TBSO April 20170407_Tax Invoice_Number_TR137128383.pdf

Invoice

Ms. Nadine Patsche
Director, Accounting Policy & Financial Reporting
Treasury Board Secretariat of Ontario
Frost Bulding North - 1st Floor
95 Grosvenor Street
Toronto On Canada M7A 1Y7

PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, ON, Canada M5J 0B2
Telephone: +1 416 863 1133
Facsimile: +1 416 365 8215

Contact: Michael Hawtin
Telephone: +1 416 815 5003
Email: michael.hawtin@ca.pwc.com

Invoice number:	TR137128383	Account number:	60144520
Purchase order:	228100		
Invoice date:	April 7, 2017	Payment requested by:	April 22, 2017

Fees for Professional Services: Assistance to Pension Asset Expert Advisory Panel for 4.5 days @ $1,600 per diem, for the period ending March 31, 2017.

	CAD
Fees	**7,200.00**
Disbursements	**26.79**
Total fees and disbursements	**7,226.79**
HST	**939.48**
Total due	**8,166.27**

Remittance information

Electronic wire or EFT (not e-Transfer): CIBC, 199 Bay Street, CCW Concourse Level, Toronto, Ontario, M5L 1G9
Account name: PricewaterhouseCoopers LLP
Transit no.: 010:00002 Swift code: CIBCCATT CAD account: 63-55412 USD account: 04-77419
Email payment details, including invoice number and amount paid, to: accounts.receivable@ca.pwc.com.

Cheques payable to: PricewaterhouseCoopers LLP *Enclose remittance copy of invoice with payment.*
Send to: PwC CAC, PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5

HST registration # 87057 6089 RT0001

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Invoice *Remittance copy*

Ms. Nadine Patsche
Director, Accounting Policy & Financial Reporting
Treasury Board Secretariat of Ontario
Frost Bulding North - 1st Floor
95 Grosvenor Street
Toronto On Canada M7A 1Y7

PricewaterhouseCoopers LLP
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18 York Street, Suite 2600
Toronto, ON, Canada M5J 0B2
Telephone: +1 416 863 1133
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Contact: Michael Hawtin
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Email: michael.hawtin@ca.pwc.com

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HST registration # 87057 6089 RT0001

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Treasury Board Secretariat of Ontario Invoice, January 31, 2017.rtf

From: nicole.smellie@ca.pwc.com [nicole.smellie@ca.pwc.com]
To: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
CC: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: Treasury Board Secretariat of Ontario Invoice, January 31, 2017
Date: Wednesday, February 01, 2017 12:41:39
Attachment 1: ATT00001.gif
Attachment 2: ATT00002.gif
Attachment 3: Treasury Board Jan 20170201_Tax Invoice_Number_TR137106714.pdf

---

Good Morning Shyrose,

Please find attached a PDF copy of our **January** invoice. Unless specified by you, we will not be forwarding a hard copy by mail.

For your convenience we accept the following payment methods:

Wire Transfer **Cheque** **Credit Card**

Please Remit Payment Referencing Invoice Number To: **Please remit Payment and Invoice Copy To:**
Please contact Nicole Smellie:
CIBC, 199 Bay St., CCW, Concourse Level, Toronto, Ontario Canada M5L 1G9
Account Name: PricewaterhouseCoopers LLP **Transit No:** 010:00002 Swift Code: CIBCCATT PwC Central Accounting Centre, PwC Centre, 354 Davis Rd., Suite 600
Oakville, ON
L6J 0C5 nicole.smellie@ca.pwc.com to receive secure link or by phone 416-941-8383 ext. 14070
CAD Account: 63-55412
USD Account: 04-77419 Amex, MasterCard, and Visa Accepted
*Email payment details, including invoice number and amount paid to:
accounts.receivable@ca.pwc.com

Please note that an invoice number **must be included** for all payments. **For credit card transactions Foreign Currency exchange rate charges, and foreign transaction fees may apply for invoices issued in currency other than Canadian dollars.**

If you have any questions regarding this invoice please do not hesitate to contact myself or Lucy Duroccher .

Kind Regards,

Nicole Smellie
PwC | Billing Administrator, Assurance
T: +1 416 941 8383 ext. 14070
Email: nicole.smellie@ca.pwc.com
PwC Management Services LP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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ATT00001.pdf

ATT00002.pdf

Treasury Board Jan 20170201_Tax Invoice_Number_TR137106714.pdf

Invoice

Ms. Nadine Patsche
Director, Accounting Policy & Financial Reporting
Treasury Board Secretariat of Ontario
Frost Bulding North - 1st Floor
95 Grosvenor Street
Toronto On Canada M7A 1Y7

PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, ON, Canada M5J 0B2
Telephone: +1 416 863 1133
Facsimile: +1 416 365 8215

Contact: Michael Hawtin
Telephone: +1 416 815 5003
Email: michael.hawtin@ca.pwc.com

Invoice number:	TR137106714	Account number:	60144520
Invoice date:	January 31, 2017	Payment requested by:	February 15, 2017

CAD

Fees for Professional Service:

Assistance to Pension Asset Expert Advisory panel - OTPP and OPSEUPP for 12 days @ $1,600 per diem.

Fees	**19,200.00**
HST	**2,496.00**
Total due	**21,696.00**

Remittance information

Electronic wire or EFT (not e-Transfer): CIBC, 199 Bay Street, CCW Concourse Level, Toronto, Ontario, M5L 1G9
Account name: PricewaterhouseCoopers LLP
Transit no.: 010:00002 Swift code: CIBCCATT CAD account: 63-55412 USD account: 04-77419
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Cheques payable to: PricewaterhouseCoopers LLP *Enclose remittance copy of invoice with payment.*
Send to: PwC CAC, PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5

HST registration # 87057 6089 RT0001

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Invoice *Remittance copy*

Ms. Nadine Patsche
Director, Accounting Policy & Financial Reporting
Treasury Board Secretariat of Ontario
Frost Bulding North - 1st Floor
95 Grosvenor Street
Toronto On Canada M7A 1Y7

PricewaterhouseCoopers LLP
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Contact: Michael Hawtin
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HST registration # 87057 6089 RT0001

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Triton.rtf

From: Virani, Shyrose (TBS) []
To: shayan.jafrani@ca.ey.com [shayan.jafrani@ca.ey.com]; uros.karadzic@ca.ey.com [uros.karadzic@ca.ey.com]; christina.chan@ca.ey.com [christina.chan@ca.ey.com]
Subject: Triton
Date: Monday, February 06, 2017 14:42:50

Hi

Triton Company will be getting in touch with you regarding security clearance. Kindly provide them with all the necessary information.

Thanks

Shyrose Virani

Two follow-up items.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Gregory Winston [gregory.winston@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: Two follow-up items
Date: Friday, August 25, 2017 17:29:40
Attachment 1: image001.gif

Hi Cindy,

It was very nice to see you again today. Thank you for a good discussion.

While there were a few follow-up items, I wanted to get back to you today on two of the most urgent:

· References to EY report: I connected with Greg and Blake, and all three of us were in agreement that you can refer to our work as you pull together the supporting documents on which you based your accounting decision. We would like to ask, however, if you could share with us the wording you're planning to use (and continue sharing it as it may evolve through the Public Accounts communications materials sign-off process), just so we are aware of what is being communicated.

· Security clearance: Greg has connected with Mark on this today. Apparently they know each other as they have already worked together on some prior projects.

I hope you have a great weekend, and I will get back to you next week on the other items.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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image001.pdf

URGENT -- please connect with PwC (Lucy Durocher).rtf

From: Petsche, Nadine (TBS) []
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca) [maraymond@deloitte.ca]
CC: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: URGENT -- please connect with PwC (Lucy Durocher)
Date: Monday, September 19, 2016 14:08:07

Hi Martin.

PwC has been engaged to provide accounting advisory services on the pension file. Lucy Durocher has a few questions (see below). Can you please connect with her at your earliest convenience. Lucy's contact info is below.

Thanks.

Nadine

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

· In the binder, section 4, there was a document called "Deloitte responses to OAG follow up questions, which included a calculation supporting the OTTP expected future benefit calculations. It looks like it was originally prepared in Excel. For clarity this is the calculation that shows the adjusted benefit asset as $10.1, the perpetuity of employer service cost - accounting as $44.6 and the minimum employer funding requirement as $15.3

· For the minimum employer funding requirements, the table shows that it is 10 years of the estimated contributions under the plan that are discounted to support the $15.3M as minimum funding contributions. Why is 10 years used?

· The reference indicates that the amounts of estimated contributions are based on the funding valuation of "scheduled contributions" (Pages 15 and 16), My read of the agreement is that these scheduled contributions are based on the estimate of pensionable earnings x the appropriate rate (11.5%/13.1%) which is consistent with Schedule 1 of the plan, and are not based on minimum funding contributions that are required by the pension regulator to fund a deficit. Can this be confirmed.

· The contribution levels under Schedule 1 cannot exceed those that would be

permitted under the Income Tax Act, which limited deductions for contributions that are made when a plan has a certain level of funding surplus. Have the Income tax limits been considered in projecting forward the estimated minimum funding contributions that are required under Schedule 1?

In essence I am assessing whether the minimum contributions make sense - there could be an argument that, under schedule 1, the employer contributions at the base level of 10.4%/12% would continue in perpetuity until schedule 1 is changed by the partners. This would obviously change the outcome of the expected future benefit calculation, and, in a worse case, could eliminate all the expected future benefit.

Unknown.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject:
Date: Tuesday, September 20, 2016 12:38:36

The Mercer valuation report included in the binder you gave me was for 2015, which also appears to the one used by Deloitte's actuaries in the calculations of the expected future benefit to support the recognition of the asset.
The preliminary 2016 report is discussed in the attached 2016 filing confirmation. Is a final report by Mercer for 2016 been prepared yet that is available? I don't think it is of great importance if it is not available, but if it was available it could be relevant as I would expect it would include revised estimated contributions.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

Unknown.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject:
Date: Tuesday, September 20, 2016 12:38:36

This message has been archived. View the original item
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20161020698696 4~20160920163840000 0~Z~C019EDE7445604F37707C123F6A7EA61View the original item

The Mercer valuation report included in the binder you gave me was for 2015, which also appears to the one used by Deloitte's actuaries in the calculations of the expected future benefit to support th

Unknown.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject:
Date: Friday, September 23, 2016 11:39:28
Attachment 1: Opinion dated September 20 2016.pdf

Lucy,

I sent you this previously, but just wanted to draw your attention to the lawyer's observations w.r.t. substance of the parties' framework and expectations w.r.t. potential changes in contribution rates. In the meantime, I have also reached out to see if we can get the statement from OTF that we had discussed. N

Opinion dated September 20 2016.pdf

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8
416.362.2111 MAIN
416.862.6666 FACSIMILE

OSLER

Toronto
Montréal
Calgary
Ottawa
New York

September 20, 2016

Jana Steele
Direct Dial: 416.862.6625
jsteele@osler.com

Douglas Rienzo
Direct Dial: 416.862.5683
drienzo@osler.com

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PRIVILEGED AND CONFIDENTIAL

Len Hatzis
Deputy Director, Treasury Board Secretariat Legal Services
Ferguson Block
77 Wellesley Street West
9th Floor
Toronto, ON M7A 1N3

Paul Kaufman
Counsel, Treasury Board Secretariat Legal Services
Ferguson Block
77 Wellesley Street West
9th Floor
Toronto, ON M7A 1N3

Dear Sirs:

Accounting Treatment of Surplus in the Ontario Teachers' Pension Plan

I. BACKGROUND

We understand the pertinent background facts to be the following:

1. The Ontario Teachers' Pension Plan (the **"OTPP"**) is a jointly-sponsored defined benefit pension plan established under the *Teachers' Pension Act* (Ontario) and is, subject to certain exceptions, required to comply with the *Pension Benefits Act* (Ontario) as well as the *Income Tax Act* (Canada).

2. The sponsors of the OTPP are the Province of Ontario (the **"Province"**) and the Ontario Teachers' Federation (the **"OTF"**) (collectively, the **"Sponsors"**).

3. We understand that as at March 31, 2016 the Province's Statement of Financial Position (the **"Public Accounts"**) includes a pension asset totalling $10.6 billion (the **"Pension Asset"**) related in part to an accounting surplus under the OTPP.[1]

4. The Office of the Auditor General has indicated that because the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and in the absence of that right, because the Province does not have an agreement in place with the OTF as of March 31, 2016 with respect to how the surplus would be utilized such that it would provide a benefit to the Province, the Pension Asset as presented in the Public Accounts should be removed.[2]

You asked us to consider the processes pursuant to which the Province may utilize surplus assets in the OTPP in accordance with the Plan Documentation (as defined below), and to identify any considerations that might inform the expectations of the Province as a Sponsor regarding the basis upon which decisions will be made relating to surplus utilization. We are not providing an opinion on the proper application of the accounting standards to the present situation, as that is an issue for the accountants to address.

II. SCOPE OF OPINION

For the purposes of our opinion, we considered the following documentation (collectively, the **"Plan Documentation"**):

1. The Ontario Teachers' Pension Plan (the **"OTPP"** or **"plan"**);

2. The Agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive (the **"Partners' Agreement"**);

3. The Funding Management Policy (the **"FMP"**), which forms Appendix "A" to the Partners' Agreement; and

4. The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the **"2013 Term Sheet"**) describing the implications of the Freeze Period (as defined below) on the FMP.

---

1 See letter from Bonnie Lysyk (Auditor General) to Greg Orencsak (Deputy Minister, Treasury Board) and Scott Thompson (Deputy Minister, Ministry of Finance), dated September 13, 2016. Part of the surplus relates to another pension plan; we understand that $10.1 billion relates to the OTPP.

2 *Ibid.*

We have also considered the following legislation/regulations:

1. The *Teachers' Pension Act* (Ontario) (the **"Teachers' Act"**); and

2. The *Pension Benefits Act* (Ontario) (the **"PBA"**) and the regulations thereunder (the **"PBR"**).

As per your instructions, we have not evaluated the ability of the Province to benefit from the *withdrawal* of surplus assets from the OTPP (although certain provisions of the FMP cited herein relate to both the withdrawal and other utilization of surplus). Rather, this opinion identifies the processes pursuant to which the Province may receive a financial benefit through the *utilization* of OTPP surplus (e.g., as a result of either a temporary reduction in the Province's contribution obligations (a contribution holiday) or through changes to the contribution formula that reduce the Province's contribution obligations).

We note that the concept of an *accounting* surplus is distinct from surplus identified in a funding valuation prepared in respect of the OTPP (a **"Funding Valuation"**). Where surplus has been identified in a Funding Valuation, the Plan Documentation provides the Sponsors with certain avenues pursuant to which the Funding Valuation surplus can be utilized. Any reference to "surplus" in this opinion, unless expressly stated otherwise, relates to the surplus identified by the actuary for the OTPP in a Funding Valuation and not to the accounting surplus identified in the Public Accounts. We understand that pursuant to the applicable accounting standards, the recognition of part or all of the accounting surplus on the Public Accounts depends on the ability of the Province to benefit from any surplus in the pension fund over the life of plan.

This opinion does not purport to draw any conclusions, express or implied, about the application of the accounting standards to the present circumstances; rather, it is solely intended to provide the Province with information concerning the legal framework governing the utilization of surplus under the OTPP so as to allow the Province's accountants to determine whether a related Pension Asset should appear on the Public Accounts.

III. SUMMARY OF OUR CONCLUSIONS

A brief summary of our material conclusions is set forth below (all capitalized terms are defined herein):

1. Paragraph 10(1)3 of the Teachers' Act provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a

fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized. We note that the Sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the Sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

    a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.

    b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

    c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

    Notwithstanding the foregoing, under the FMP the Sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the Sponsors to agree upon the manner in which surplus is to be utilized, neither Sponsor has a legally enforceable right to unilaterally utilize surplus in the OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of surplus that may arise under the plan, at least in the context of an actuarial valuation that discloses surplus and that is to be filed with the regulators.

4. Notwithstanding the foregoing, the Plan Documentation and applicable legislation give rise to the following considerations which may shape the Sponsors' expectation as to the basis upon which surplus will be utilized (and potentially lead to an expectation of equal sharing of the benefit of any surplus, at least over time):

    a. The Teachers' Act prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund).[3] In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.[4]

    b. The history of surplus utilization after the OTPP became a jointly-sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time. Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the Sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

    c. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right), and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

    d. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement may include the obligation to take into account the

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3 Teachers' Act, subsections 5(1.1), (3) and (7).

4 We note that for the period from January 1, 2008 to December 31, 2008, the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the Year's Maximum Pensionable Earnings (**"YMPE"**) (9.6%/11.2% versus 10.4%/12%, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference. See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf

"sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan.

We note that it is our understanding that it is certainly the Province's expectation that the benefit of any surplus under the plan will in fact be shared equally between the Province and the members, over time.

5. In the event that the Sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, the matter can be submitted to an arbitration board of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

   As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

IV. FRAMEWORK IN THE PLAN DOCUMENTATION FOR SURPLUS UTILIZATION BY THE SPONSORS

1. Joint Sponsorship Plan Design and Cost Sharing

The OTPP qualifies as a "jointly sponsored pension plan" (**"JSPP"**) under the PBA, which has three material implications relevant to the present analysis:

1. Plan Governance – Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan.[5]

2. Funding – The OTPP (and certain other prescribed JSPPs) are exempt from solvency funding requirements under the PBR.[6]

3. Cost Sharing – In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency.[7]

With respect to the cost-sharing principle referred to in #3 above, the Teachers' Act contains limitations on the contributions that the Province (and other participating employers) may make under the OTPP:

> 5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.

Despite this general principle, under the Teachers' Act the Province is required to make additional contributions to the OTPP fund in the event that there are insufficient assets to make required payments out of the fund in any particular year.[8] The Province is also permitted to make additional contributions in respect of a solvency deficiency[9] (although, as noted above, solvency funding is not required under the OTPP). Notwithstanding that subsection 5(1.1) of the OTPP provides a *cap* on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, we understand that in practice there has been 50/50 cost sharing of the normal contribution cost under the OTPP since the OTPP became jointly sponsored (and for the majority of periods of time since the

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5 PBR, subsection 3.1(1).

6 PBR, subsection 1.3.1(3).

7 See PBA, subsection 1(2) and subsection 55(4).

8 Teachers' Act, subsection 5(3).

9 Teachers' Act, subsection 5(7).

inception of the plan in 1917).[10] The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Currently, the Sponsors are also required to mutually agree upon how any plan deficits are to be addressed.[11] While not binding upon the Sponsors, the FMP indicates that deficits may be addressed through increases to the contribution rates, lowering the amount of indexation and/or other decreases in benefits.

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under the JSPP plan design, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors. In this regard, the FMP requires the Sponsors to negotiate and agree upon decisions relating to surplus utilization. Accordingly, the Sponsors can be said to have equal *opportunity* to benefit from surplus utilization through the negotiation process.

2. Provisions in the Legislation and Plan Documentation Relating to the Utilization of Surplus

(a) *Pension Benefits Act*

While they do address surplus withdrawals (which are not addressed in this opinion), the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Act, and to the Partners' Agreement and FMP in order to determine how ongoing surplus is dealt with under the OTPP.

(b) *Teachers' Pension Act* (Ontario)

Paragraph 10(1)3 of the Teachers' Act provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a

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[10] See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf As noted above, for the period from January 1, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.2% versus 10.4%/12%, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.

[11] See, for example, Section 3.09 and 3.11 of the FMP.

fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the Sponsors regarding how any surpluses are to be utilized.

(c) Partners' Agreement and FMP

While the Partners' Agreement itself does not address the utilization of surplus, the notion that the Sponsors have "agreed to establish a partnership" for the purposes of designing and administering the OTPP and managing the OTPP fund[12] is reinforced throughout the Partners' Agreement. For example, Section 4 of the Partners' Agreement provides that "[t]he partnership established by this agreement is intended to govern all aspects of the plan and the fund..." Similarly, Section 8 of the Partners' Agreement notes that the partners are jointly responsible for "designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the Board, and defining the role of the Board". The expectations of the Sponsors regarding how surpluses are to be utilized are presumably informed by the commitment noted above for the partnership established "to govern all aspects of the plan and the fund".

The procedures pursuant to which surplus may be withdrawn or utilized from the OTPP are identified in the FMP (which forms Appendix "A" to the Partners' Agreement).

We understand that the FMP was first established in March 2003, as a supplement to the Partners' Agreement, to provide a guidance framework to the Sponsors for decision-making when the OTPP has a funding surplus or shortfall. Prior to the creation of the FMP, the OTPP was considered fully funded (and surplus could be utilized, including through permanent benefit improvements) where assets equalled at least 100% of liabilities. The FMP is intentionally conservative through prioritizing the preservation of assets until a sufficient surplus "cushion" has been built to justify the utilization of surplus for contribution reductions or benefit improvements.

The FMP contemplates five "funding zones", each defined by a range. These funding zones provide the Sponsors with guidance as to when, based upon the funding level of the plan, it may be appropriate to (amongst other things) increase or decrease benefits, raise or lower contribution rates or conserve assets. The Sponsors always have the discretion, however, to agree to pursue a course of action that is not expressly provided for in the

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[12] Partners' Agreement, section 1.

FMP. As will be discussed below, the ultimate discretion of the Sponsors is reflected throughout various provisions of the FMP.[13]

In the context of plan surpluses, three funding zones are of relevance, each of which is discussed below in greater detail.

(i) Restoration Zone

Article III of the FMP (Funding Zone – Restoration) (the **"Restoration Zone"**) is the "fully funded" zone where assets equal at least the liabilities, determined on the basis set out in the FMP. It is our understanding that the OTPP is currently in the Restoration Zone.

In the Restoration Zone, benefits cannot be improved and contributions cannot be reduced until certain actions are taken to restore past benefit reductions or past contribution increases. In this regard, Section 3.06 of the FMP provides the following:

> Section 3.06 *Application of Restoration Basis Excess*: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:
>
> (a) *Bring Escalated Adjustments to 50% for Post-2013 Service*: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;
>
> (b) *Bring Escalated Adjustments to 100%*: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;
>
> (c) *Restore Escalated Adjustments for Post-2013 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;
>
> (d) *Restore Escalated Adjustments for Post-2009 Years*: to provide escalated adjustments to increase, to the extent possible, the current

[13] See, for example, the opening words of Section 3.06 of the FMP, which section provides for various uses of surplus: "... provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors". See also Section 4.05 and 5.05.

> accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;
>
> (e) *Provide Benefit Increases or Contribution Rate Reductions*: to provide the following:
>
> (i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,
> (ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or
> (iii) a combination of (i) and (ii).

In summary, the Restoration Zone allows for surplus to be utilized to "restore" foregone indexation (Sections 3.06(a)-(d))[14] and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions to the basic target rate (or a combination of these two options) (Section 3.06(e)). While the FMP contemplates that the actions will typically be taken sequentially (i.e., starting with Section 3.06(a) and ending with the actions in Section 3.06(e)), the Sponsors are required to first agree to the actions taken under Section 3.06 and have the discretion to apply the actions in a different order or to take different action (or to take no action to utilize the surplus).[15]

As noted, under Section 3.06(e), surplus can be utilized to reduce contribution rates "where the present value of current contributions exceed the present value of basic contributions" (the **"Restoration Contribution Reduction"**). We understand that in 2001 the Sponsors agreed to a 1.1% increase to both member/employer contributions (phased in over a three year period) to address a funding deficit in the OTPP and that the Restoration Contribution Reduction under Section 3.06(e) would permit these additional contributions to be eliminated, thus restoring contributions to the "basic" level.

The 2013 Term Sheet sets out an agreement between the Sponsors that is in effect from December 31, 2012 to December 30, 2017 (the **"Freeze Period"**), the terms of which are reflected in the FMP. Under Section 3.08 of the FMP, there are certain limits (relating to

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[14] This is achieved by first increasing go-forward indexing to 50% for the post-2013 service period, then to 100% on all post-2009 service periods and next, by restoring current pension amounts to a certain prescribed level starting with the years where indexing was less than 50% until all years of partial indexation are restored to the same level and then by restoring indexation to 100% for all service periods.

[15] As noted above, pursuant to Section 3.06 of the FMP, "the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors…"

the funded status of the OTPP) on the ability to make escalated adjustments or to improve benefits pursuant to Section 3.06 during the Freeze Period.

As noted below, no action can be taken under the Temporary Improvement Zone (as defined below) or the Permanent Improvement Zone (as defined below) until all restorative actions under Section 3.06 of the FMP have been provided for (subject to the general discretion of the Sponsors to deviate from the guidelines set out in the FMP).

(ii) Temporary Improvement Zone

Article IV of the FMP (Funding Zone – Temporary Improvements) (the **"Temporary Improvement Zone"**) was added to the FMP in March 2015 and allows for: (i) temporary contribution decreases (a contribution holiday), (ii) surplus distribution, and/or (iii) benefit improvements, provided in each case that the plan's funding level reaches thresholds set out in the FMP.

We understand that in this zone the plan is considered well-funded and able to afford temporary changes, so long as they do not increase the long-term cost of the OTPP. Surplus cannot be utilized under the Temporary Improvement Zone until the Sponsors have provided for all of the changes specified in Section 3.06 of the Restoration Zone (again, subject to the general discretion of the Sponsors to deviate from the guidelines set out in the FMP).[16]

In all cases the Sponsors' prior agreement is required in order for there to be a temporary contribution decrease, a surplus distribution or a benefit improvement.[17] Where the Sponsors agree to a change that would result in surplus being distributed or utilized for a temporary benefit improvement, the Sponsors are required to enter into a written agreement "governing the manner in which the contributions by the Minister and employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities."[18] We understand that this provision is a recognition of the partnership of the Province and the OTF, and requires the Sponsors to enter into an agreement addressing the possible value to be obtained by the Province where there is a decision to provide value to the members (but the provision is not a guarantee that such value will in fact be provided to the Province).

We note that, as a temporary measure, the OTF has "first call" rights on 100% of the surplus disclosed in valuation report with a valuation date after December 30, 2017, up to

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16 FMP, section 4.03

17 FMP, section 4.05.

18 FMP, section 4.06

certain amounts as set out in the FMP (the **"OTF Call Right"**).[19] The 2013 Term Sheet indicates that "[t]his is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period." In other words, this one-time opportunity to benefit from surplus utilization is directly linked to the asymmetrical assumption of risk by OTPP plan participants during the Freeze Period. In light of the Freeze Period and the OTF Call Right, it is our understanding that no actions under the Temporary Improvement Zone will be permitted until the Freeze Period has ended and the OTF Call Right in Article VI of the FMP has been satisfied.[20]

To summarize, the OTF has a contractual right to the future utilization of surplus, up to the value of the OTF Call Right. OTF cannot utilize any surplus available in the OTPP under this negotiated right until the Freeze Period has ended (on December 30, 2017) and a valuation after such date identifies the existence of surplus available for utilization. In light of this negotiated right, surplus cannot be utilized under the Temporary Improvement Zone or the Permanent Improvement Zone (e.g., to cause a temporary or permanent reduction to contributions) until the OTF Call Right has first been satisfied. Once the OTF Call Right has been satisfied, the *status quo* under the FMP will be restored (i.e., the agreement of the parties will be required for any utilization of surplus). In other words, the OTF Call Right reflects a "one-time" agreement and is expressly "without prejudice or precedent for any future situation".[21] It is our understanding that the quantum of the OTF Call Right is not presently expected to be material.

(iii) Permanent Improvement Zone

Where the surplus reaches certain levels as set out in the FMP, Article V of the FMP (Funding Zone – Permanent Improvements) (the **"Permanent Improvement Zone"**) will apply. We understand that in the Permanent Improvement Zone adequate funding security is considered to exist to support permanent changes (either an improvement in benefits or a reduction in contributions).

Under the FMP framework, these changes can be introduced only once the Sponsors have already provided for the changes specified in Section 3.06 (i.e., no further action to restore benefits remains to be taken under the Restoration Zone), subject to the general discretion of the Sponsors to deviate from the guidelines set out in the FMP.[22]

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19 FMP, section 6.03.

20 See FMP, subsection 1.05(f) and sections 4.05 and 4.09.

21 2013 Term Sheet, paragraph 11(d).

22 FMP, section 5.03.

The Sponsors are required to mutually agree to any change made in the Permanent Improvement Zone. As in the Temporary Improvement Zone, where the Sponsors have agreed to a change which would result in an improvement to member benefits, the Sponsors would be required to enter into a written agreement "governing the manner in which the contributions by the Minister and employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities."[23]

In light of the Freeze Period and the OTF Call Right, it is our understanding that no actions under the Permanent Improvement Zone will be permitted until the Freeze Period has ended and the OTF Call Right in Article VI of the FMP has been satisfied.[24]

3. History of Surplus Utilization

The history of OTPP surplus utilization from the time the OTPP became a jointly-sponsored pension plan[25] to the date that the FMP was established (in March 2003) demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0

[23] FMP, section 5.05(b).

[24] See FMP, sections 5.05 and 5.08.

[25] The Partners' Agreement is dated July 15, 1991.

1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		**$9.3 Billion**	**$9.3 Billion**	

* Source: Ontario Teachers' Pension Plan Board "Report on Funding" (April 2002)

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1990 to 2002 the aggregate value obtained by each of the Sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).[26]

As noted above, the FMP was introduced in March 2003 to provide a guidance framework to the Sponsors when the OTPP has a funding surplus or shortfall. It is our understanding that there have been at least 2 material amendments to the FMP framework since its introduction. Below is a summary of the key funding decisions since the introduction of the FMP:

Year	**Valuation Status and Key Decisions**
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by

[26] See Ontario Teachers' Pension Plan, "Key Funding Decisions Since 1990", available at: https://www.otpp.com/documents/10179/765840/-/d4e2fea5-624d-420f-af15-e2daf9bc2711/Key+Funding+Decisions.pdf

	2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	Some of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

* Source: Ontario Teachers' Pension Plan, "Key Funding Decisions Since 1990"

In September 2016, the Sponsors announced that a portion of the $13.2 billion in funding surplus would be utilized to restore inflation increases, with the remaining surplus funds

to be reserved "to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs".[27]

In summary, surplus has been utilized three times since the FMP was introduced – in each of 2014, 2015 and 2016 escalated adjustments were provided to increase the pensions of members who had retired after 2009. As noted above, the OTPP is currently in the Restoration Zone which, pursuant to Section 3.06, prioritizes the utilization of surplus to "restore" foregone indexation before any other actions are taken with respect to surplus. In other words, since the FMP was established the OTPP has not reached a level of surplus under the FMP which would allow for the Sponsors to enter into an agreement regarding its utilization under the Temporary Improvement Zone or the Permanent Improvement Zone.

It is also notable that, consistent with the 50/50 cost sharing principle under the plan, there is recent precedent for the Sponsors agreeing to equally share in the cost of funding a plan deficit (as with the case of surplus utilization, the Sponsors are required to mutually agree upon how to address any funding deficit in the OTPP). Specifically, the preliminary $17.2 billion shortfall identified in 2011 was resolved through a 1.1% increase to the contribution rate for both the participating employers and plan members (phased in over a three-year period).

Given the historical use of surplus under joint sponsorship of the OTPP prior to the adoption of the FMP, and the fact that over that time the Sponsors shared equally in surpluses, it may be that the Sponsors will expect to also share future surpluses on an equal basis, at least over time (we understand that it is certainly the Province's expectation that this will happen). In any event, based on the Plan Documentation, both parties will have an equal opportunity to benefit from surplus utilization through the negotiation process.

V. LEGAL RIGHT OF THE PROVINCE TO UNILATERALLY UTILIZE SURPLUS

As discussed in Part IV of this opinion, the Plan Documentation allows for the Sponsors to agree to utilize surplus in a variety of circumstances, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may potentially receive a financial benefit through the utilization of surplus:

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27 Ontario Teachers' Pension Plan, "Funding News", available at: https://www.otpp.com/corporate/plan-funding/funding-updates. We assume that a written agreement was reached by the Sponsors in this regard; however, we have not been provided with a copy of such agreement.

1. In the Restoration Zone, a Restoration Contribution Reduction may be agreed upon, once certain other requisite conditions have been met.

2. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).

3. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, as noted above, the Sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner agreed upon. (For example, Section 5.05 which relates to the Permanent Improvement Zone provides that "the partners may apply all or part of the [surplus] to change current benefits, current contributions, or both", subject to certain conditions.)

Any enforceable legal right of the Province to utilize surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract, the Partners' Agreement and the appended FMP being a contract between the Sponsors. A contract is an agreement "...which gives rise to an obligation that may be enforced in the courts."[28] It is our view that the relevant provisions in the Partners' Agreement[29] that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus do not, by themselves, give rise to a legally enforceable right to unilaterally dictate the use of surplus. Such a legally enforceable right would only arise by agreement between the Sponsors, either through negotiations or mediation, or if an order were issued by a board of arbitration as contemplated by the dispute resolution mechanisms found in the Partners' Agreement (see Section VI of this Opinion for further discussion of the impact of binding arbitration on the Sponsors' legal rights).

In this regard, the FMP can be thought of as being similar to an "agreement to agree," which does not create an enforceable legal interest in relation to the utilization of surplus.[30] What the Province does have, however, is a right to negotiate with the OTF the

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28 CED – Contracts – I Basis of Contract – 1 – Contract Defined.

29 Article III, Section 3.06; Article IV, Section 4.05; and Article V, Section 5.05.

30 For a statement of the principle that an "agreement to "agree" is not an enforceable legal interest, see, for example: *Simpson v. Canada (Attorney General)*, 2011 ONSC 5637 at para. 60 citing *Ward v. Ward*, 2011 ONCA 178 and *Bawitko Investments Ltd. v. Kernels Popcorn Ltd.*, 1991 CanLII 2734 (Ont CA). See also G. H. L. Fridman, *The Law of Contract in Canada*, 6th ed (Toronto: Carswell

use of surplus that may arise under the plan, at least in the context of an actuarial valuation that discloses surplus and that is to be filed with the regulators.

In addition, when a valuation is prepared to be filed and the Sponsors have to discuss the treatment of a surplus disclosed in the valuation, section 74 of the Partners' Agreement requires the Sponsors "to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan". One might therefore argue that that obligation of good faith may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan.

As will be discussed below, where the Sponsors are unable to agree upon the utilization of surplus pursuant to the negotiation/mediation processes set forth in the Partners' Agreement, there is an ability for the Sponsors to submit the matter to arbitration. The issuance of an order by an appointed board of arbitration regarding the use of surplus funds under the OTPP would create a legally enforceable right, as the submission to the board of arbitration would constitute a proceeding under the *Arbitrations Act* – as specified in paragraph 87 of the Partners' Agreement – that is enforceable by a court.[31]

VI. IMPACT OF BINDING ARBITRATION ON THE SPONSORS' LEGAL RIGHTS

Section 8.01 of the FMP provides the following:

> Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

We first note that the mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the Sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the Sponsors do not agree to file the valuation, then the Sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

The processes in paragraphs 74 to 100 of the Partners' Agreement that are referred to in Section 8.01 of the FMP provide, amongst other things, for the following:

Publishing, 2011) at 23 where the author states "There cannot be a contract to enter into a contract. Nor can there be a contract to negotiate, i.e., an agreement to agree."

[31] Section 50(1) of the *Arbitration Act, 1991*, SO 1991, c 17 states "A person who is entitled to enforcement of an award made in Ontario or elsewhere in Canada may make an application to the court to that effect."

- The Sponsors are required to meet to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan (section 74);

- The parties may at any point appoint a mediator by agreement of the parties or by a method to which they agree at that time (section 77);

- If the parties agree, the mediator may be appointed as a mediator/arbitrator in which case the appointee will decide on the process and time frame for conducting mediation/arbitration (section 80);

- Within 30 days of appointment, the mediator will prepare a confidential report setting out his or her views on the positions of the two partners and containing a recommendation (section 82);

- If the partners do not accept the report within 14 days of its being delivered to them it will be destroyed and an arbitration board will be appointed (section 84);

- This agreement together with a referral to a board of arbitration constitutes a submission under the *Arbitration Act, 1991*[32] (section 87);

- The board of arbitration in making an award will consider prevailing economic conditions and the overall state of the provincial economy (section 91);

- The award made by the board of arbitration, must comply with certain prescribed requirements, including to "provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members" (section 92(c));

- The Board will prepare a final valuation of the plan which implements all of the changes to the plan which have been awarded or agreed to by the partners (section 94);

- The Sponsors may agree to change the procedure described in this agreement, either for one round of negotiations or for all future negotiations; and

- Pursuant to Section 8.02 of the FMP, certain limitations on amendments set out in the FMP also apply to an award made by a board of arbitration (generally, these limitations are intended to ensure that the plan is adequately funded after providing for the utilization of surplus).

---

32 SO 1991, c. 17 (the "***Arbitration Act***").

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners' Agreement provides for the possibility of voluntary arbitration. We are not aware of any instance where the arbitration provisions have been invoked by the parties since the FMP was established. It is not immediately clear whether disputes relating to the utilization of surplus under Article IV of the FMP (i.e., the Temporary Improvement Zone) and under Article V of the FMP (i.e., the Permanent Improvement Zone) would be subject to arbitration.[33] It is our understanding from discussions with OTPP's internal legal counsel, however, that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction.[34] The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the *Arbitration Act*). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners'

---

[33] On the one hand, Section 8.01 of the FMP provides for the procedures in the Partners' Agreement relating to arbitration to apply "when determining the plan changes arising from Section 3.07". This may suggest that only disputes relating to the utilization of surplus under Article III (i.e., the Restoration Zone) can be arbitrated. On the other hand, Section 8.03 of the FMP provides that "Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraph 72 to 100", which may suggest that any agreement relating to the utilization of surplus, including under Article IV or Article V of the FMP, may be subject to arbitration (when a valuation is to be filed the parties have to agree on how any surplus – including surplus in the Temporary Improvement Zone and Permanent Improvement Zone, if any – will be used).

[34] See for example: *Desputeaux v. Éditions Chouette* (1987) Inc., [2003] 1 SCR 178, para. 22.

Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Yours truly,

Osler, Hoskin & Harcourt LLP

Osler, Hoskin & Harcourt LLP
JS/DR/JM:jm

Update_ Year-end adjustment summary of impact draft v3.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Update: Year-end adjustment summary of impact draft v3
Date: Friday, June 02, 2017 10:45:31
Attachment 1: image003.jpg
Attachment 2: Summary of impact based on proposed adjustments - by year_v3 (EY 2 June 2017).pdf
Attachment 3: Summary of impact based on proposed adjustments_v3 (EY 2 June 2017).pdf

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Hi everyone,

As requested, please find attached the updated summary the following changes:

1. Adjusted the year-end balance sheet position for OTPP by the portion of contributions allocated in excess of ON; the amount is treated as an year-end adjustment and to be amortized

2. Adjusted the presentation for PSPP and OPSEUPP; specifically, pension expense is not reduced by the contributions made by other consolidated agencies; an additional line is added to the reconciliation to reflect those contributions.

Let us know if you require any additional information.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
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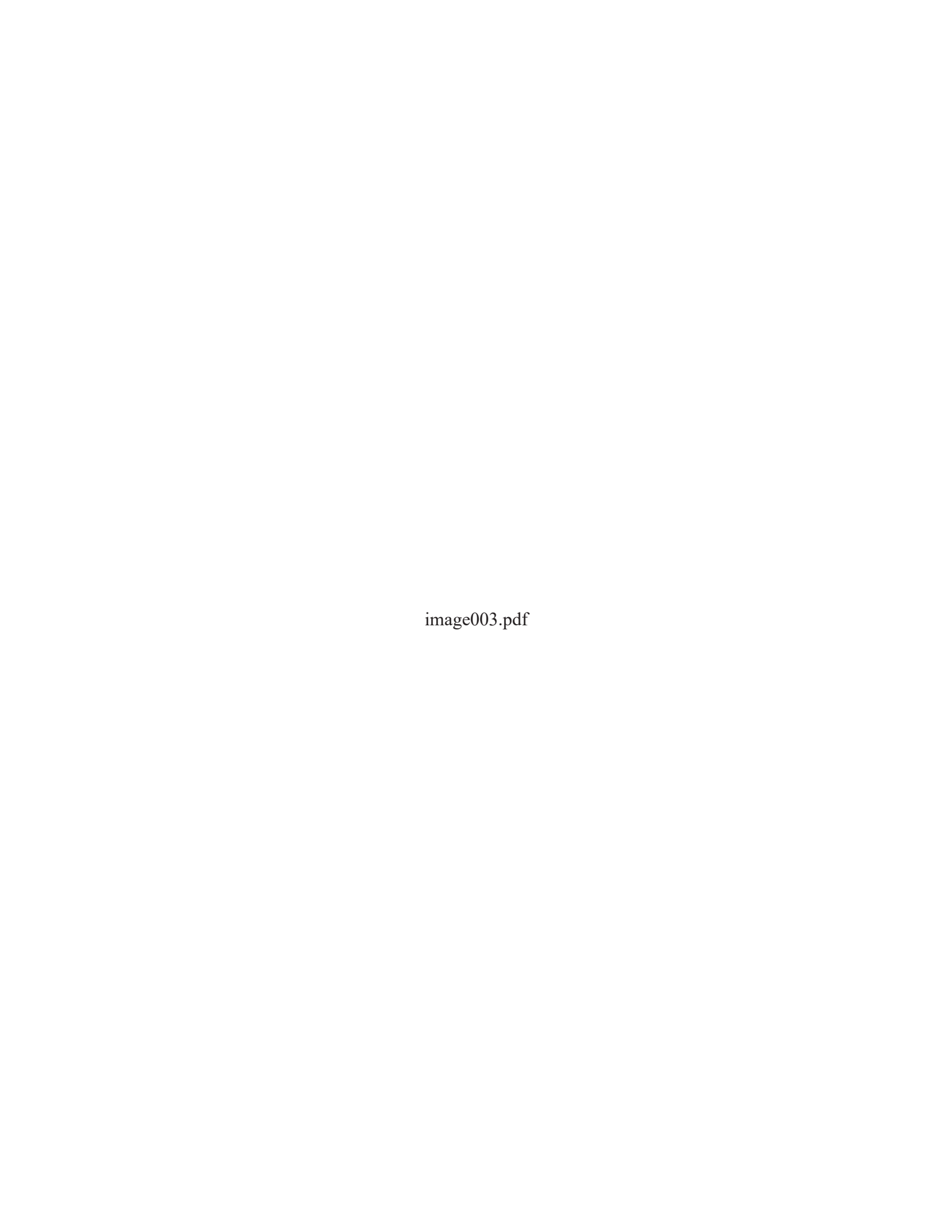
image003.pdf

Summary of impact based on proposed adjustments - by year_v3 (EY 2 June 2017).pdf

Summary of impact based on proposed adjustments as at 31 March 2016 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(837)	(7,699)
Pension expenditure	118	538	180	761	194.3	(69)	1,722
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(10,147)	1,385	(521)	872	16.7	(906)	(9,300)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.7%	50.0%		
Opening pension liability	(8,667)	1,208	(487)	1,056	28.5	(837)	(7,699)
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	837	462
Pension expenditure	232	595	182	754	194.3	-	1,957
Less: contributions made by other consolidated agencies		(35)	(27)				
Less: portion of contributions allocated in excess of ON	-		-	(4)	-	-	(4)
Less: contributions made during Fiscal year by ON	(1,598)	(361)	(214)	(945)	(206.1)	-	(3,324)
Ending fiscal pension liability, at 31 March 2016	(9,382)	741	(823)	778	16.5	-	(8,608)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	-	-	-	-	-	-	-
Opening balance adjustment (in aggregate)	651	(666)	(277)	(83)	(0.2)	837	462
Pension expenditure	114	57	2	(7)	-	69	235
Less: contributions made by other consolidated agencies	-	(35)	(27)	-	-		(62)
Less: portion of contributions allocated in excess of ON	-	-	-	(4)	-		(4)
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2016	765	(645)	(302)	(94)	(0.2)	906	630

Summary of impact based on proposed adjustments as at 31 March 2017 - DRAFT

For illustration purposes only

Current	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	50.0%	100.0%	50.0%	47.3%	50.0%		
Opening pension liability	(10,147)	1,385	(521)	872	16.7	(906)	(9,300)
Pension expenditure	(508)	518	132	621	198.7	*(69)*	893
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(12,290)	1,535	(608)	502	(0)	(975)	(11,836)

Proposed	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Pension Liability - Continuity	49.0%	100.0%	47.7%	47.3%	50.0%		
Opening pension liability	(9,382)	741	(823)	778	16.5	-	(8,670)
Pension expenditure	(380)	500	137	615	198.7	-	1,071
Less: contributions made by other consolidated agencies		(36)	(24)				(60)
Less: portion of contributions allocated in excess of ON	-	-	-	(5)	0.5	-	(5)
Less: contributions made during Fiscal year by ON	(1,635)	(368)	(219)	(991)	(215.5)	-	(3,428)
Ending fiscal pension liability, at 31 March 2017	(11,397)	837	(929)	397	0	-	(11,092)

Differences	OTPP	PSPP	OPSEUPP	HOOPP	CATTPP	Other agencies	Total
Opening pension liability	765	(645)	(302)	(94)	(0.2)	906	630
Pension expenditure	128	(18)	5	(6)	-	69	178
Less: contributions made by other consolidated agencies	-	(36)	(24)	-	-	-	(60)
Less: portion of contributions allocated in excess of ON	-	-	-	(5.0)	0.5	-	(5)
Less: contributions made during Fiscal year by ON	-	-	-	-	-	-	-
Ending fiscal pension liability, at 31 March 2017	893	(698)	(321)	(105)	0.3	975	744

Summary of impact based on proposed adjustments_v3 (EY 2 June 2017).pdf

Summary of impact based on proposed adjustments - DRAFT

For illustration purposes only

Current	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016	F2015	F2016
Pension Liability - Continuity	50.0%	50.0%	100.0%	100.0%	50.0%	50.0%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(10,147)	1,208	1,385	(487)	(521)	1,056	872	28.5	16.7	(837)	(906)	(7,699)	(9,300)
Pension expenditure	118	(508)	538	518	180	132	761	621	194.3	198.7	(69)	(69)	1,722	893
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(10,147)	(12,290)	1,385	1,535	(521)	(608)	872	502	16.7	(0.1)	(906)	(975)	(9,300)	(11,836)

Proposed	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Pension Liability - Continuity	49.0%	49.0%	100.0%	100.0%	47.7%	47.7%	47.7%	47.3%	50.0%	50.0%				
Opening pension liability	(8,667)	(9,382)	1,208	741	(487)	(823)	1,056	778	28.5	16.5	(837)	-	(7,699)	(8,670)
Opening balance adjustment (in aggregate)	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	837	-	462	-
Pension expenditure	232	(380)	595	500	182	137	754	615	194.3	198.7	-	-	1,957	1,071
Less: contributions made by other consolidated agencies	-	-	(35)	(36)	(27)	(24)	-	-	-	-	-	-	(62)	(60)
Less: portion of contributions allocated in excess of ON	-	-		-	-	-	(4)	(5)	-	0.5	-	-	(4)	(5)
Less: contributions made by ON	(1,598)	(1,635)	(361)	(368)	(214)	(219)	(945)	(991)	(206.1)	(215.5)	-	-	(3,324)	(3,428)
Ending fiscal pension liability	(9,382)	(11,397)	740	837	(823)	(929)	778	397	16.5	0.2	-	-	(8,670)	(11,092)

Differences	OTPP		PSPP		OPSEUPP		HOOPP		CATTPP		Other agencies		Total	
Opening pension liability	-	765	-	(645)	-	(302)	-	(94)	-	(0.2)	-	906	-	630
Opening balance adjustments at 1 April 2015	651	-	(666)	-	(277)	-	(83)	-	(0.2)	-	837	-	**462**	-
Pension expenditure	114	128	57	(18)	2	5	(7)	(6)	-	-	69	69	235	178
Less: contributions made by other consolidated agencies	-	-	(35)	(36)	(27)	(24)	-	-	-	-	-	-	(62)	(60)
Less: portion of contributions allocated in excess of ON	-	-	-	-	-	-	(4)	(5)	-	0.5			(4)	(5)
Less: contributions made by ON	-	-	(0)	-	-	-	-	-	-	-	-	-	(0)	-
Ending fiscal pension liability, at 31 March 2017	765	893	(645)	(698)	(302)	(321)	(94)	(105)	(0.2)	0.3	906	975	630	744
F2016 differences, excluding opening balance adjustment		128		(54)		(19)		(11)		0.5		69		**114**

Commentary

1. Reflect all proposed adjustments (contribution receivable, unamortized contribution differences, cumulative transfer, reflect other participating employers)
2. Need to consider the treatment of recognizing difference between the portion of contributions included in assets and actual ON contributions
   For HOOPP, expense is subsequently determined based on the calculated opening and ending pension liability and actual contributions by other source. As such, it's implicitly included in pension expense (outside of calculation tool)
3. Pension expenditure for HOOPP reflects immediate gain/loss recognition arising from change in % allocation
   This is consistent with OPCD's current practice performed outside of the calculation spreadsheet
4. Increase of approximately $100M on OTPP's annual pension expense relates to removal of expected return on contribution receivable
5. F2016 Pension expense (income) for other agencies is estimated based on F2015 for illustration purposes
6. For other agencies, pension expense/(income) of $(69M) under current approach above includes $(47M) for Government Enterprises and $(22M) for Government Organizations
7. Above figures do not reflect asset ceiling test and the adjustment for the differential use of the Rate Stabilization Fund ("RSF") for OPSEUPP

Update.rtf

From: Danyluk, Kerry (CA - Toronto) [kdanyluk@deloitte.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Colley, Matthew (CA - Toronto) [mcolley@deloitte.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Update
Date: Saturday, October 01, 2016 13:03:05

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Just letting you all know that I have not heard anything yet.

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

Update Summary.rtf

From: Fong, Pauline (TBS) []
To: christina.chan@ca.ey.com [christina.chan@ca.ey.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: Update Summary
Date: Monday, May 29, 2017 16:58:00
Attachment 1: image001.jpg

Hi Christina,

Could you please update the summary for what we discussed today? The moving with Cindy has been moved from Friday to tomorrow morning and it would be nice if we have the full fiscal picture.

Pauline

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

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

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

Phone: (416) 212-4007

Pauline.fong@ontario.ca

image001.pdf

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Update call .rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Update call
Date: Tuesday, September 20, 2016 17:58:13

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https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=20161020700230 2~201609202158170000~Z~E149E9A28D1C47E78840FEDB195B5411View the original item

Hi Nadine,

I was just going to e-mail you to suggest that we connect in the morning on direction, as we have read all the materials and put a lot of thought into the issue and we have a preliminar

Update call .rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Update call
Date: Tuesday, September 20, 2016 17:58:13

Hi Nadine,

I was just going to e-mail you to suggest that we connect in the morning on direction, as we have read all the materials and put a lot of thought into the issue and we have a preliminary view to discuss with you.

I have a conflict at 10am, but I can give you a call at 10:30am if you are available then.

Lucy

Lucy Durocher
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Updated memo - version 6!.rtf

From: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: michael.hawtin@ca.pwc.com [michael.hawtin@ca.pwc.com]; Hewitt, Myra (MOECC) [Myra.Hewitt@ontario.ca]
Subject: Updated memo - version 6!
Date: Friday, November 25, 2016 14:57:06

Hi Ian/Nadine,

Based on some of the legal comments raised in the meeting regarding the updates to the holding limit regulations, use of the word "contract", and certain references, and in addition to clarify the insubstantiveness of the "financial settlement date", I have updated the memo.

Please note that the tracked changes version for your reference is to Version 5 which is privileged and confidential. Therefore I have copied Myra on this e-mail as well to maintain privilege.

I hope this should address the comments and concerns that were raised in the meeting.

Please let me know if you need further assistance in preparing/reviewing materials for discussions with the AG.

Regards,
Lucy

Lucy Durocher
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Weekly Status Update.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: Weekly Status Update
Date: Friday, April 21, 2017 18:38:00
Attachment 1: image001.png

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Provided a summary of our research on other public pension plans

2. Provided a specific request list (criteria checklist and list of plans) for OPCD to consider for further research

3. Provided a draft procedure checklist to assist with documentation of processes for financial reporting - EY

In progress – next week

1. Review of draft ELHTs memo – OPCD

2. Finalize asset ceiling test documents, subsequent to OPCD's review – OPCD & EY

3. Research on other public plans as identified by EY– OPCD

4. Continue to assist with the balance sheet adjustment, as needed – EY & OPCD

Next week and after

1. Excel tools update and provide OPCD with associated “audit checklist”
2. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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image001.pdf

Weekly Update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Weekly Update
Date: Friday, July 14, 2017 17:21:02
Attachment 1: image003.jpg
Attachment 2: RE: Next Steps for HOOPP/CAATPP Review

Hi Nadine,

We thought to send a weekly summary again given the anticipated work. Below is consistent with the “next step” call summary email provided (attached).

Please let us know if we’ve missed something.

Completed this week

1. Updated asset ceiling test documents reflected the current proposed year-end adjustment approach.

-

Ongoing - OPCD (July):

1. Confirm the ability on receiving the breakdown in contributions from source. Based on such, will determine a practical and appropriate % allocation approach to apply for HOOPP and CAATPP going forward

2. Connect internally and provide EY with direction and guidance on training focus and topic(s)

Ongoing –EY (July-early August):

1. Assist with any feedback/questions AG may have. Continue with spreadsheet refinement and improvement (all plans)

2. Assist with determining the % allocation approach once OPCD confirm the information available

3. Assist with ROM merger accounting treatment

Upcoming – training (early August, else early September)

1. Training to be scheduled once topics are confirmed by OPCD. EY will likely require 1-2 weeks to prepare the training material upon receiving OPCD's direction

Low priority

1. SERP/SRAs (non-registered supplemental plans reporting)

We also consider the following items as closed:

1. ELHTs

2. Research on other public plans

Have a great weekend!

Regards,

Christina

-

Christina Chan, ASA | People Advisory Services | Manager

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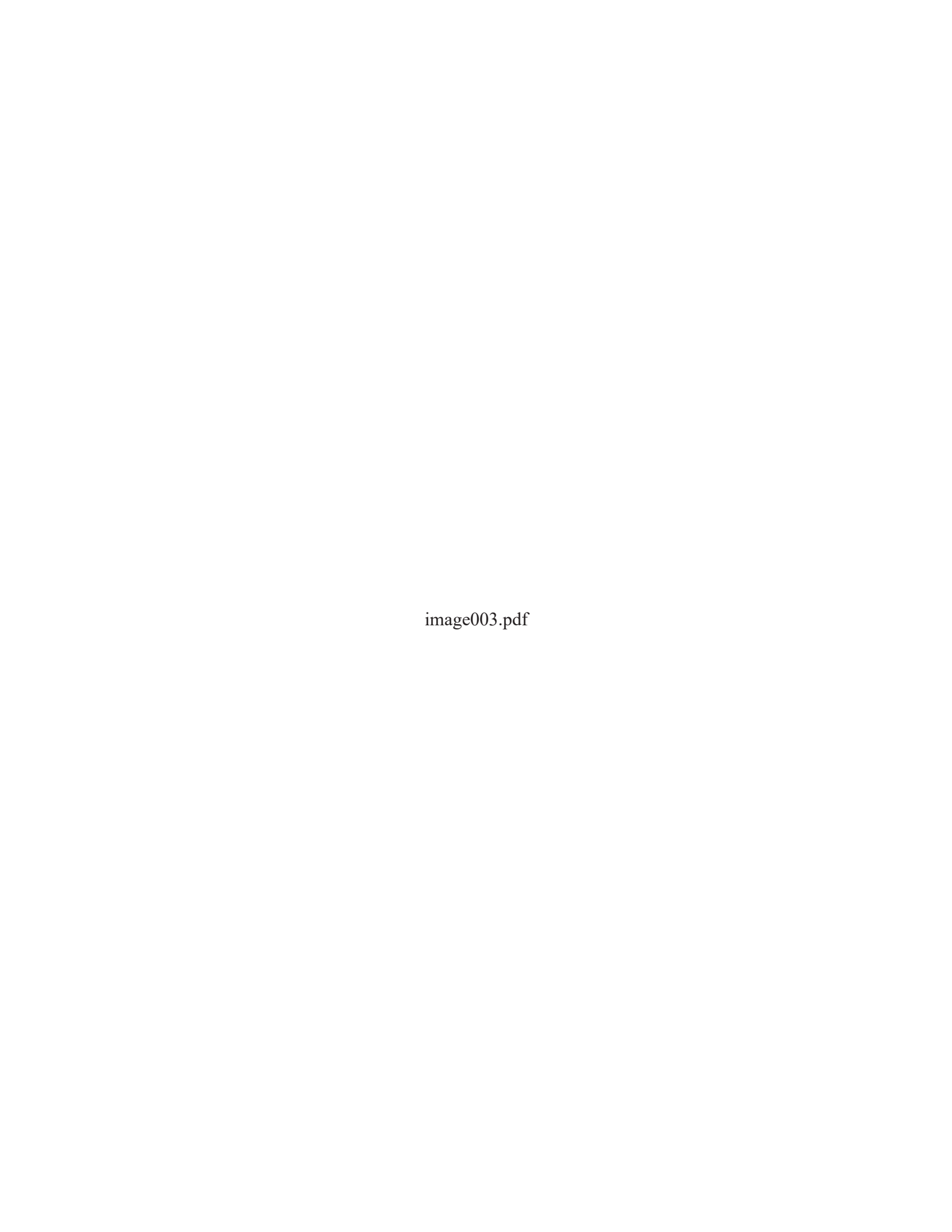
image003.pdf

RE_ Next Steps for HOOPP_CAATPP Review.pdf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
CC: Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Next Steps for HOOPP/CAATPP Review
Date: Monday, July 10, 2017 11:47:30
Attachment 1: image001.jpg

Hi Alicia, Patricia,

It was nice connected with your team again. Below is a summary of our call and tentative next steps:

- Shayan will get in touch with Nadine related on budget and approval as we are now over our initial budget.

Model: July

- OTB will confirm the ability in receiving information in format/details which may not have been provided in the past for HOOPP and CAATPP (e.g. contribution breakdown and identifying consolidated/non-consolidated participating employers)

- EY will work on finalizing the model for PSPP, HOOPP, OPPSEUPP, reflecting any potential feedbacks from AG, as well as further enhancing the projection capability

- Discussion related to the ROM merger and treatment

Model: late-July to early-August

- Based on the information which can be received, OTB will decide on the approach in determining the % allocation for the Province (EY can assist as needed)

- EY will work on improvement on the model for both HOOPP and CAATPP (e.g. consistent with changes we have made for the other plans) and reflect year-end adjustment changes as at 1 March 2017

- EY will require approximately a week to finalize the model upon receiving OTB's decision on the % allocation approach

Training:

- OTB will discuss internally and provide EY with guidelines on training focus and topics (e.g. PSAB, pension accounting, use of model etc.)

- please allow for one-two weeks for EY to prepare training material preparation

- target for July/early August, otherwise, early September

Let us know if our understanding is different form yours for any of the above. We will stay in touch and don't hesitate to contact us.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 04, 2017 12:57 PM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Christina Chan <Christina.Chan@ca.ey.com>
Cc: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Subject: Next Steps for HOOPP/CAATPP Review

Hi Shayan/Christina,

As you know that due to timing and resource considerations, we didn't revise the HOOPP and CAATPP models for the Public Accounts purpose. As we're wrapping up the consolidated results, I would like to discuss the next steps for HOOPP and CAATPP

review.

Here is a summary of high-level points that we want to address:

1. Revising models to be consistent with other pension plans in principle

2. How to determine the provincial portion of the plan assets/liabilities (% based on member count vs. contributions)

3. Considering to include consolidated health agencies in the HOOPP model (currently being accounted as DC outside of the model)

4. How to treat the employer vs. employee contribution differences

5. Impact of ROM pension merger

6. General re-vamp of the current worksheets to improve usability

I understand that you are currently working on the asset ceiling test for teacher's plan and OPSEU plan. I would like to know when would be a good time to start the review process.

Also I have new staff on my team and I would like them to get involved in the pension work in the upcoming budget process. I would like to know whether and when you can provide some training to staff, including myself. I have a lot to catch up.

Thanks,

Alicia

Alicia Sun, MBA, CPA, CGA

Manager, Broader Public Sector Reporting

Office of the Provincial Controller Division |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor

Toronto, ON, M7A 1Z5

Email: Alicia.sun@ontario.ca

Tele: (416) 325-8155

Weekly update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Weekly update
Date: Friday, June 09, 2017 17:46:33
Attachment 1: image003.jpg

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Walkthrough of updated excel tool for PSPP with OPCD:

a. Simplification of current tool and more user friendly

b. Reflecting the proposed year-end adjustment (effective 1 March 2016)

2. Provided a draft remodelled excel tool for PSPP, reflecting discussions per the walkthrough meeting

In progress – next week

1. Provide draft remodelled excel tools for OTPP, OPSEUPP, reflecting the proposed year-end adjustments (effective 1 March 2016); similar to the remodelled tool for PSPP

2. Review of "HOOPP letter" related to indexation assumption changes

3. Call to be scheduled related to ELHT with EDU and the school board auditors

4. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions (awaiting feedback from OAG) on proposed year-end adjustments

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Research on other public plans as identified by EY– OPCD *(OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)*

Next week and after

1. Provide draft remodel excel tools for HOOPP, CAATPP, reflecting the proposed year-end adjustment (effective 1 March 2016); similar to the remodel for PSPP

2. SERP/SRAs (non-registered supplemental plans) reporting

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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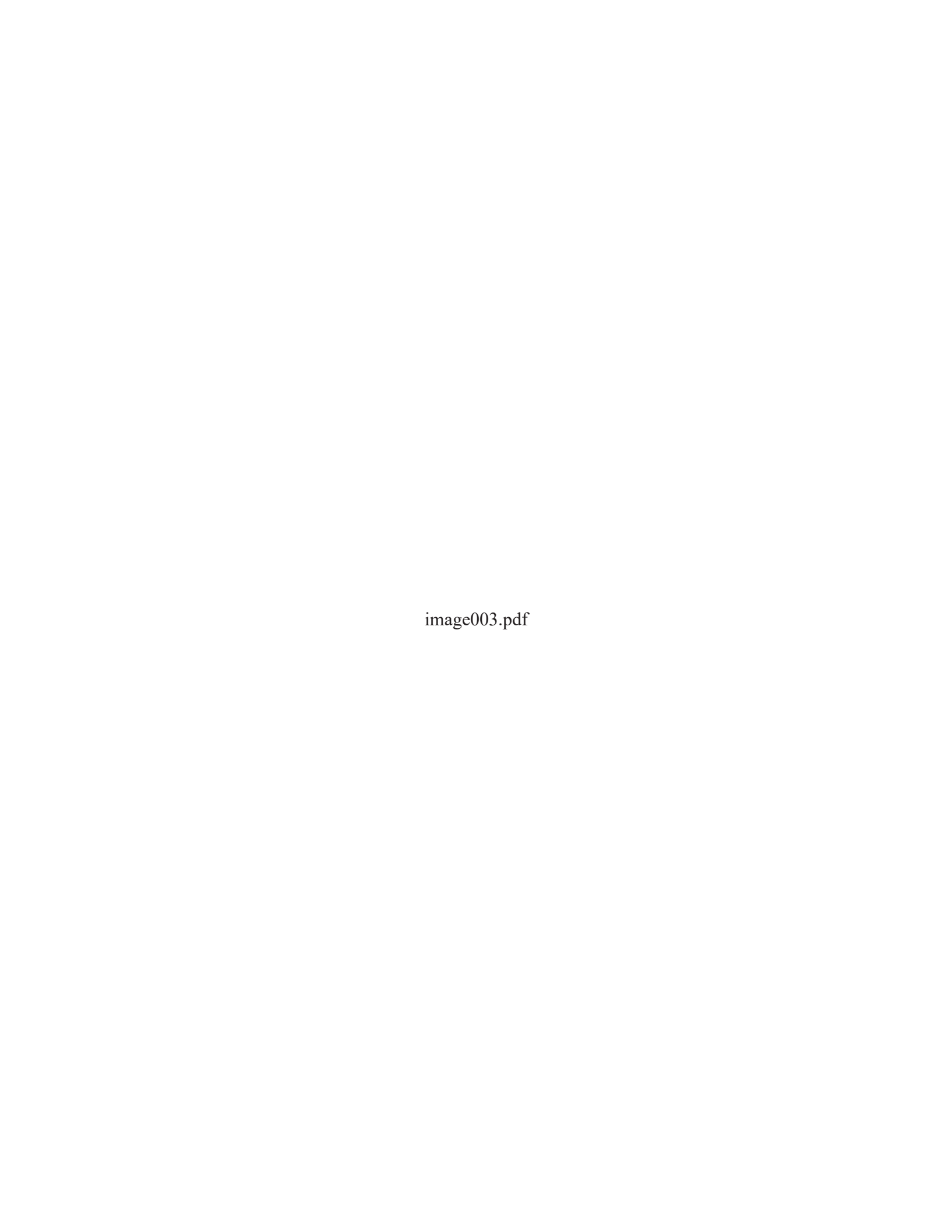
image003.pdf

Weekly update.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Weekly update
Date: Friday, June 02, 2017 17:40:23
Attachment 1: image003.jpg

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

We consider the ELHT item closed and removed from the list below.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

<u>In progress – next week</u>

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions (awaiting feedback from OAG) on proposed year-end adjustments

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Research on other public plans as identified by EY– OPCD *(OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)*

<u>Next week and after</u>

1. Support related to excel tools update and provide OPCD with associated "audit checklist" *(OPCD APFR team completing template developed based on EY checklist to document current year's activities)*

2. SERP/SRAs (non-registered supplemental plans) reporting

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
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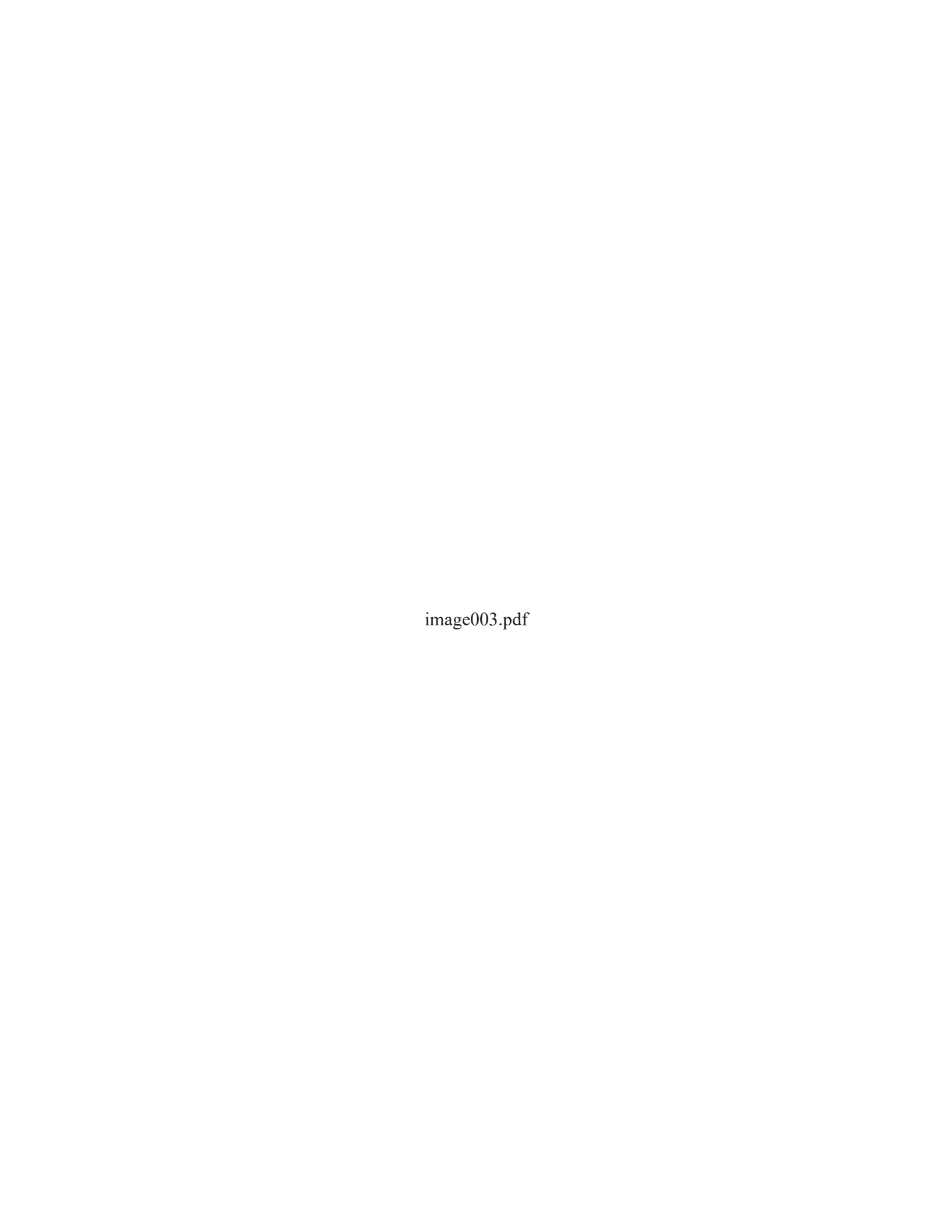
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To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Weekly update
Date: Friday, June 02, 2017 17:40:23
Attachment 1: @

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https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=201707049200255~201706022140270000~Z~D0EA71DBF46021E94A6962196FE9AFE1View the original item

Hi Nadine,

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We consider the ELHT item closed and removed from the list below.

P

Attachments:

image003.jpg (2 KB)
https://ctsbigdcapmvs11.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=1DF5C15A266170E45894733349661D6AD1110000ctsbigdcapmvs01&SavesetId=201707049200255~201706022140270000~Z~D0EA71DBF46021E94A6962196FE9AFE1&AttachmentId=1image003.jpg

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From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
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Date: Friday, June 09, 2017 17:46:33
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Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Walkthrough of updated excel tool for PSPP with OPCD:

a. Simplification of current tool and more user friendly

b. Reflecting the proposed year-end adjustment (effective 1 March 2016)

2. Provided a draft remodelled excel tool for PSPP, reflecting discussions per the walkthrough meeting

In progress – next week

1. Provide draft remodelled excel tools for OTPP, OPSEUPP, reflecting the proposed year-end adjustments (effective 1 March 2016); similar to the remodelled tool for PSPP

2. Review of "HOOPP letter" related to indexation assumption changes

3. Call to be scheduled related to ELHT with EDU and the school board auditors

4. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions (awaiting feedback from OAG) on proposed year-end adjustments

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Research on other public plans as identified by EY– OPCD *(OPCD initiated a discussion with Pension Policy Division. Will await further info on PPD's next steps. No further action planned at this time.)*

Next week and after

1. Provide draft remodel excel tools for HOOPP, CAATPP, reflecting the proposed year-end adjustment (effective 1 March 2016); similar to the remodel for PSPP

2. SERP/SRAs (non-registered supplemental plans) reporting

Have a great weekend.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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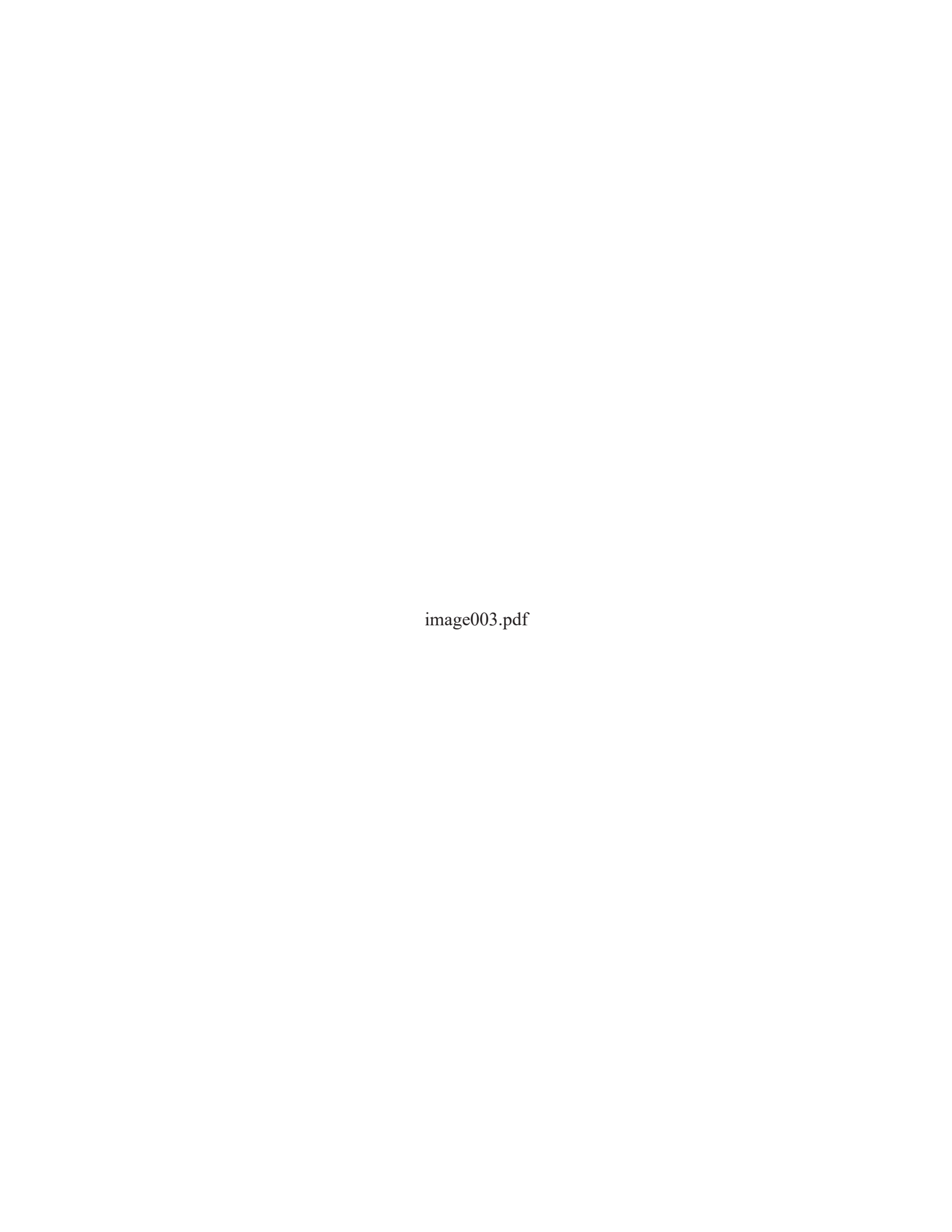
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Weekly update.rtf

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Christina Chan [Christina.Chan@ca.ey.com]
Subject: Weekly update
Date: Friday, May 26, 2017 19:32:56
Attachment 1: image001.png

Hi Nadine,

Below is the updated weekly summary of our work and priorities based on our discussions to-date.

Please let us know if we've missed something or if you would prefer to prioritize any of the items below differently:

Completed this week

1. Meeting to discuss proposed year-end adjustments and comparative figures

2. Summary of impact related to proposed year-end adjustments exhibits

In progress – next week

1. Ongoing discussions - proposed year-end adjustments discussions

a. draft report to be prepared pending OPCD's decisions on proposed year-end adjustments

2. Finalize asset ceiling test documents, subsequent to finalization of year-end adjustments – OPCD & EY

3. Review of draft ELHTs memo – can this be closed now or is anything further required?

4. Research on other public plans as identified by EY– OPCD

Next week and after

1. Support related to excel tools update and provide OPCD with associated “audit checklist” *(OPCD APFR team completing template developed based on EY checklist to document current year’s activities)*

2. SERP/SRAs reporting

Have a great weekend.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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image001.pdf

Year-end adjustment_ proposed project plan and skeleton outline.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: Year-end adjustment: proposed project plan and skeleton outline
Date: Thursday, May 04, 2017 16:06:36
Attachment 1: image003.jpg
Attachment 2: Skeleton outline (4 May 2017).pdf
Attachment 3: Year-end adjustment projection plan (4 May 2017).pdf

---

Hi Nadine,

As promised, please find attached our proposed project plan as well as the skeleton outline of the final memo. We prepared the project plan targeting to have a draft of the memo for your review by May 24th.

Let us know if the attached are in line with your expectation.

Happy to discuss.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
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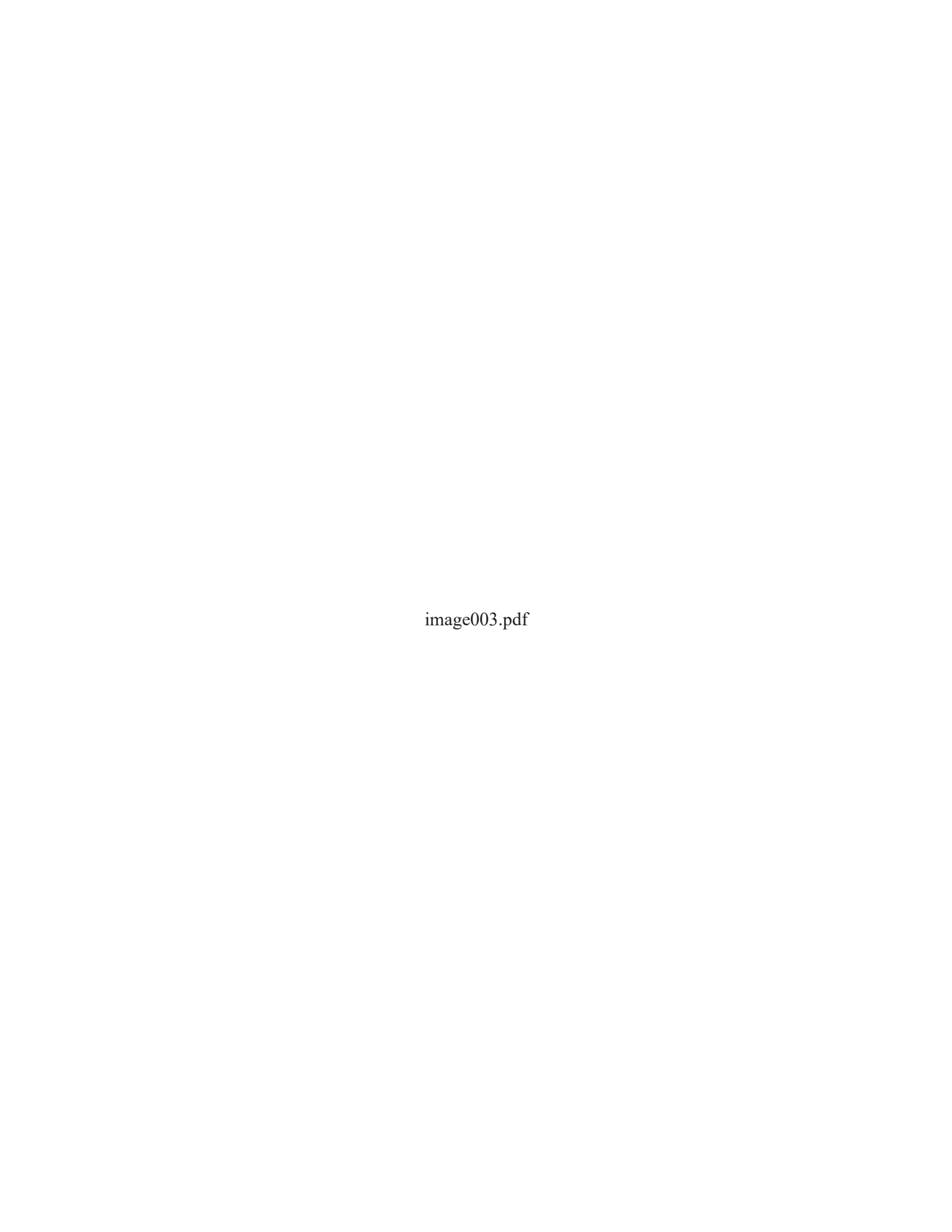
image003.pdf

Skeleton outline (4 May 2017).pdf

Proposed skeleton outline (draft)

Introduction/background

Executive summary

Discussions/considerations (for each Plan, as applicable)

1. Adjustment for contribution receivable (OTPP only)
2. Reversal of unamortized contribution differences
3. Reversal of unamortized gains/losses due to historical cumulative transfers
4. Adjustment to reflect the Province's share, accounting for other employers/agencies
    a. Consistency in methods among plans and rationale
    b. Summary on the accounting treatment related to non-controlled/non-consolidated agencies

Recommendations/next steps

Comparative figures, by layers of the 4 adjustments (as applicable) by Plan (April 1, 2015 to March 31, 2017)

1. OTPP
2. PSPP
3. OPSEUPP
4. HOOPP
5. CAATPP

Appendix B – Information provided (support/contributions breakdown/etc.)

Year-end adjustment projection plan (4 May 2017).pdf

Project Plan (DRAFT)

OTB – Year-end adjustment analysis and narrative

Task	Target deadline
Project plan	Thursday, May 4, 2017
Skeleton outline	Thursday, May 4, 2017
Accounting treatment related to non-controlled and/or non-consolidated agencies • Summary and comparison among plans, and current accounting treatment applied by OPCD • Proposed adjustments • High level impact on proposed adjustments (without reflecting other adjustments)	Wednesday, May 10, 2017
Discuss and confirm decisions on adjustments related to other agencies	Friday, May 12, 2017
Comparative figures (1 April 2015 to 31 March 2017); by layers of adjustments and by plan	Wednesday, May 17, 2017
Narrative related to proposed adjustments	Friday, May 19, 2017
Draft memo for review and discussion	Wednesday, May 24, 2017
Final memo	Wednesday, May 31, 2017

Layers of adjustments include (OTPP, PSPP, OPSEUPP, HOOPP, CAATPP; as applicable):

1. Contribution receivable
2. Unamortized contribution differences
3. Unamortized cumulative transfers in historical years
4. Recognition related to non-controlled and/or non-consolidated agencies/other employers

The memo will not include adjustments to reflect:

1. Consistent approach related to market-related value of assets calculation
2. Adjustment for rate stabilization fund (OPSEUPP)

tax declaration form.docx and confidentiality agreement.rtf

From: Virani, Shyrose (TBS) []
To: 'Raymond, Martin (CA - Montreal)' [maraymond@deloitte.ca]
Subject: tax declaration form.docx and confidentiality agreement
Date: Wednesday, October 19, 2016 09:34:24
Attachment 1: tax declaration form.docx
Attachment 2: confidentiality agreement.doc

Hi Raymond

Can you please sign the above forms as soon as possible and return it to me. Kindly back date it to the date that you had started the job with us. Also, at the same time, I would really appreciate if you could send me the billing as of to-date, just a reminder that bills are supposed to be sent quarterly.

Thanks

Shyrose

tax declaration form.pdf

Appendix D – Tax Compliance Declaration Form

The Ontario Government expects all suppliers to meet their Ontario tax obligations on a timely basis. In this regard, proponents are advised that their Ontario tax obligations, if any, must be in good standing in order to be considered for a contract award (see Section 3.2.3 of the RFP). In order to be considered for a contract award, the proponent must submit the following tax compliance status statement and the following consent to disclosure:

Declaration

I/WE hereby certify that **Deloitte Inc**. (the "Proponent") at the time of submitting its proposal, is in full compliance with all applicable Ontario tax statutes, whether administered by the Treasury Board Secretariat or by the Canada Revenue Agency, and that, in particular, all returns required to be filed have been filed and all taxes due and payable under those statutes have been paid or satisfactory arrangements for their payment have been made and maintained; or the Proponent will take all necessary steps prior to being considered for contract award in order to be in full compliance with all applicable Ontario tax statutes.

(Please check applicable box)

The Proponent ❑ is / ❑ is not a corporation subject to Ontario corporate tax under the *Taxation Act, 2007* (Ontario).

(Please insert Proponent's Business Number) _____

Consent to Disclosure

The Proponent consents to the Ministry of Finance releasing the taxpayer information to the Ministry of Finance as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

The Proponent consents to the Ministry of Finance releasing taxpayer information to the Requesting Ministry as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

Dated at _____ this _____ day of _____ 20 _____

_____

(Authorized signing officer)

_____

(Print Name) **(Title)**

I have authority to bind the Proponent.

confidentiality agreement.pdf

CONFIDENTIALITY AGREEMENT

Confidentiality Agreement

During and following the term of the Agreement between **Deloitte Inc.** (the "Vendor") and Her Majesty the Queen in right of Ontario as represented by the **Treasury Board Secretariat** and during and following the term of each Statement of Work entered into by the Vendor and pursuant to the Agreement (collectively, the "Agreements"), the undersigned agrees with the Vendor to keep confidential and secure all Confidential Information to which the undersigned may have access to in the course of the performance of services pursuant to any of the Agreements (including requests for services) or otherwise in connection with any of the Agreements (including requests for services). "Confidential Information" means all information of the Ontario Public Service and of the Client's subcontractors at any tier of subcontracting that is confidential by its nature or in the circumstances in which it is received, including all confidential information in the custody or control of the Ontario Public Service, regardless of whether it is identified as confidential or not, and whether recorded or not, and however fixed, stored, expressed or embodied, which comes into the knowledge, possession or control of the Vendor in connection with any of the Agreements. "Ontario Public Service" means the ministries and other administrative units of Her Majesty the Queen in right of Ontario ("Ontario") over which ministers of Ontario preside, and for the purposes of this Confidentiality Agreement, includes Ontario and Ontario's agencies, boards, commissions and Crown corporations, offices of an officer of the Legislative Assembly or of the Ontario Legislature and Listed Entities, and "**OPS**" has the same meaning.

The undersigned acknowledges that the Client is bound to maintain custody of or control over information, material and records, however recorded, within the meaning of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). The undersigned agrees to comply with the privacy provisions of the Agreements in the course of providing services pursuant to the Agreements.

The undersigned shall not directly or indirectly disclose, destroy, exploit or use any Confidential Information except for the purpose of performing services pursuant to the Agreements. The undersigned shall not copy any Confidential Information, in whole or in part, unless copying is essential for the performance of services pursuant to the Agreements. On each copy, the undersigned must reproduce all notices that appear on the original.

The undersigned acknowledges that the Vendor is obliged to implement and maintain measures to ensure the security and integrity of Confidential Information and to protect it against loss, alteration and destruction and against access by unauthorized persons, and to select, implement, use and maintain the most appropriate products, tools, measures and procedures to do so. The undersigned covenants and agrees to adhere to all of the measures instituted by the Vendor.

The undersigned agrees to return all Confidential Information, including all copies and portions thereof, to the Vendor or to the Client with no copy kept by the undersigned as soon as the need to possess them ends, at the request of the Client, and in any event, prior to concluding the performance of services pursuant to the applicable Agreements.

Name: _____ Signature: _____

Date: _____

Witness: _____ Signature: _____

Date: _____

tax declaration form.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: tax declaration form
Date: Sunday, October 23, 2016 15:23:02
Attachment 1: tax declaration form.docx

Hi Lucy

Can you please sign the above form for Pension file and return it to me.

Thanks

Shyrose

p.s. also, can you please provide me with an email address for Sean Cable.

tax declaration form.pdf

Appendix D – Tax Compliance Declaration Form

The Ontario Government expects all suppliers to meet their Ontario tax obligations on a timely basis. In this regard, proponents are advised that their Ontario tax obligations, if any, must be in good standing in order to be considered for a contract award (see Section 3.2.3 of the RFP). In order to be considered for a contract award, the proponent must submit the following tax compliance status statement and the following consent to disclosure:

Declaration

I/WE hereby certify that **Pricewaterhouse Coopers LLP** (the "Proponent") at the time of submitting its proposal, is in full compliance with all applicable Ontario tax statutes, whether administered by the Treasury Board Secretariat or by the Canada Revenue Agency, and that, in particular, all returns required to be filed have been filed and all taxes due and payable under those statutes have been paid or satisfactory arrangements for their payment have been made and maintained; or the Proponent will take all necessary steps prior to being considered for contract award in order to be in full compliance with all applicable Ontario tax statutes.

(Please check applicable box)
The Proponent ❑ is / ❑ is not a corporation subject to Ontario corporate tax under the *Taxation Act, 2007* (Ontario).
(Please insert Proponent's Business Number) _____

Consent to Disclosure

The Proponent consents to the Ministry of Finance releasing the taxpayer information to the Ministry of Finance as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

The Proponent consents to the Treasury Board Secretariat releasing taxpayer information to the Requesting Ministry as necessary for the purpose of verifying the Proponent's compliance with Ontario tax statutes.

Dated at _____ this _____ day of _____ 20 _____

_____

(Authorized signing officer)

_____

(Print Name) **(Title)**
I have authority to bind the Proponent.

teleconference this morning.rtf

From: Virani, Shyrose (TBS) []
To: maraymond@deloitte.ca [maraymond@deloitte.ca]
CC: Danek, Mary (TBS) [Mary.Danek@ontario.ca]
Subject: teleconference this morning
Date: Thursday, September 08, 2016 08:32:56

Hi Raymond

Cindy will be calling you around 10ish since she is at the off-site meeting, can I please have your phone number.

Thanks

Shyrose

teleconference.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: teleconference
Date: Monday, September 26, 2016 13:46:52

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teleconference.pdf

From:	Virani, Shyrose (TBS)
To:	lucy.durocher@ca.pwc.com; Petsche, Nadine (TBS)
Cc:	"lucy.durocher@pwc.com"
Subject:	teleconference
Start:	September 26, 2016 4:00:00 PM
End:	September 26, 2016 4:30:00 PM
Location:	Lucy to call Nadine at 416-325-8027

thanks.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: thanks
Date: Thursday, September 07, 2017 14:37:14
Attachment 1: image001.gif

Hi Cindy,

Thanks for including me today. I think the content seemed clear and the media event went smoothly.

I hope you can now return to your vacation!

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

EY Tower, 100 Adelaide Street West, PO Box 1, Toronto, ON M5H 0B3, Canada

Office: +1 416 943 2087 | Fax: +1 416 943 2201 | uros.karadzic@ca.ey.com

Mobile: +1 416 970 2087 | EY/Comm: 1685272

Website: http://www.ey.com/ca

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001.pdf

thanks.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: thanks
Date: Thursday, September 07, 2017 14:37:14
Attachment 1: @

This message has been archived. View the original item
https://ctsbigdcapmvs05.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=184971630C5FAB646A01170AFB6CF78EC1110000ctsbigdcapmvs01&SavesetId=201710107654836~20170907183720000~Z~B071ADC5064B5ACB60DDA7227BBC3251
View the original item

Hi Cindy,

Thanks for including me today. I think the content seemed clear and the media event went smoothly.

I hope you can now return to your vacation!

Uros

Uros

Attachments:
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thanks.rtf

From: Uros Karadzic [uros.karadzic@ca.ey.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: thanks
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Attachment 1: @

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https://ctsbigdcapmvs10.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=125F1BA62D744314BA6D0E0BA043C1F471110000ctsbigdcapmvs01&SavesetId=201710117684073~20170907183720000~Z~010B6082514968F212B3F4F689439991View the original item

Hi Cindy,

Thanks for including me today. I think the content seemed clear and the media event went smoothly.

I hope you can now return to your vacation!

Uros

Uros

Attachments:
image001.gif (8 KB)
https://ctsbigdcapmvs10.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=125F1BA62D744314BA6D0E0BA043C1F471110000ctsbigdcapmvs01&SavesetId=201710117684073~20170907183720000~Z~010B6082514968F212B3F4F689439991&AttachmentId=1image001.gif

update.rtf

From: Virani, Shyrose (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: update
Date: Friday, September 16, 2016 19:14:12

Hi Lucy.

I'm having problems with my computer, so sending this update from Shyrose's desk.

I received your SOW and have forwarded onto our legal team. I will be speaking with them later tonight and hope to be able to finalize the paperwork ASAP. The engagement is a 'go' so please proceed with work as discussed.

As additional background, the AG has previously commented on certain areas that she would find valuable to cover in an external report:

- That reported accrued benefit assets are in accordance with PS 3250 (not expecting a recalculation, but that the requirements of PS 3250 for recognition of an asset appear to be met

- Whether a valuation allowance appears appropriate under PSAS 3250

So her focus is on the asset 'existence' and 'valuation' elements w.r.t. pension asset reporting.

Please feel free to give me a call at any time over the weekend if you need to chat. My cell is **416 562 8509.**

Also, please let me know if you need anything in addition to the information provided.

Thanks.

Nadine

update.rtf

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
Subject: update
Date: Thursday, October 20, 2016 08:28:19

Hi Lucy.

Just wanted to let you know that Cindy is hoping for a copy of the draft position paper for review over the weekend. I hadn't anticipated such a pressing timeline, I hear that an announcement of the Expert Panel is pending, and there may be a need to share a copy of the position paper with them sooner than later. I think that is what is driving the urgency.

I know it's been a challenging week for you because of the situation with your computer and travel plans, but still hoping we might be in a position to give her something to review by end of day Friday.

Our staff have been working on the 'background' and other select sections of the outline which I will be reviewing a revised draft with them later today. Hoping that by end of day today we'll have a draft worthy of sharing.

Keeping my fingers crossed that your computer is back up and running, and that we'll be able to meet Cindy's expectations.

Talk to you soon.

Nadine

visitor - June 11th at 1_00 p.m. .rtf

From: Virani, Shyrose (TBS) []
To: frostcomplex.opps.visitors (MOF) [frostcomplex.opps.visitors@ontario.ca]
CC: Jivraj, Alfin (TBS) [Alfin.Jivraj@ontario.ca]; Gregory Winston [gregory.winston@ca.ey.com]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
Subject: visitor - June 11th at 1:00 p.m.
Date: Friday, June 08, 2018 11:17:11

Hi

If you could please register visitor from E & Y

Greg Winston

Thanks

Shyrose

Please contact Shyrose Virani at 416 325 1448 or Alfin Jivraj at 416 326 5850

Thank you,

year-end adjustments_ comparative figures and narrative.rtf

From: Christina Chan [Christina.Chan@ca.ey.com]
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Ma, Patricia (TBS) [Patricia.Ma2@ontario.ca]
CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: year-end adjustments: comparative figures and narrative
Date: Friday, May 19, 2017 18:04:42
Attachment 1: image003.jpg
Attachment 2: CATTPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 3: Comaparative figures - Narrative and commentary (draft EY 19 May 2017).pdf
Attachment 4: HOOPP - comparative figures (draft EY 19 May 2017).pdf
Attachment 5: OPSEUPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 6: OTPP - comparative figures (draft EY 19 May 2017).pdf
Attachment 7: PSPP - comparative figures (draft EY 18 May 2017).pdf

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Hi Nadine,

Please find attached the comparative figures for all Plans (including the ones sent yesterday). Also included is a narrative document on each of the proposed adjustments.

Once you and your team have a chance to review the attached, we welcome a meeting to discuss. Kindly let us know your availability.

Have a great long weekend!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 3121 | Cell Phone: +1 647 834 6683
EY/Comm: 1622451 | Christina.Chan@ca.ey.com
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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

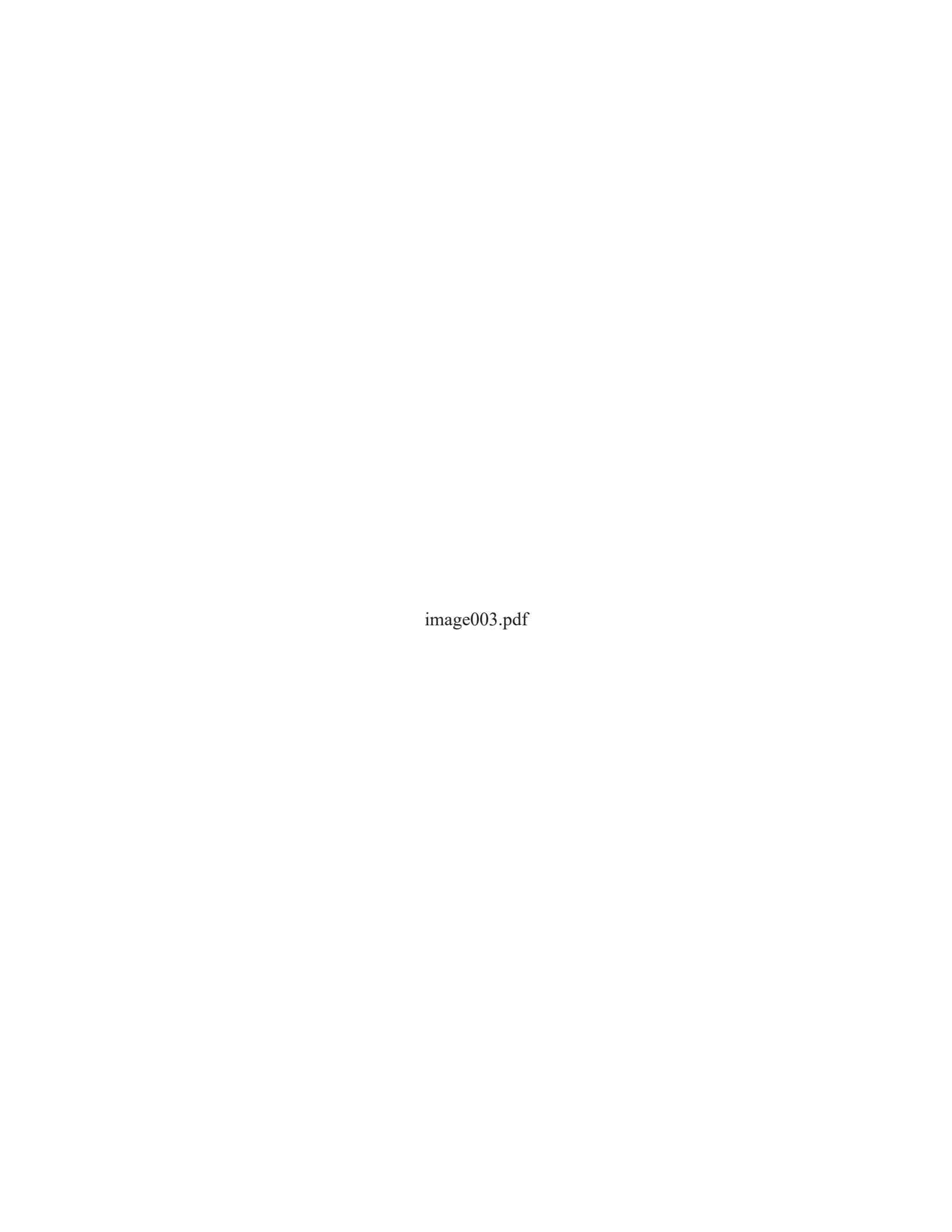
image003.pdf

CATTPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	7,877,201	8,226,900	3,938,600	4,113,450	3,938,600	4,113,450
Interest accrued on benefits	488,149	492,684	244,074	246,342	244,074	246,342
Total current period benefit cost (including past service)	252,800	272,800	126,400	136,400	126,400	136,400
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Cost of plan amendments (ROM transfers)	-	14,331	-	7,166	-	7,166
Less: Benefits paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Experience loss/(gain)	-	3,800	-	1,900	-	1,900
Change in assumptions (basis)	(4,815)	363,516	(2,408)	181,758	(2,408)	181,758
EOY DBO (actuary)	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Reconciliation of Assets - MVA (based on actuary's letter)						
BOY, Market value of assets	7,934,500	8,563,100	3,967,250	4,281,550	3,967,250	4,281,550
Contributions - employees	206,066	214,491	103,033	107,246	103,033	107,246
Contributions - employer	206,066	215,495	103,033	107,748	103,033	107,748
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Assets return	602,903	665,144	301,451	332,572	301,451	332,572
End of year, Market value of assets	8,563,100	9,340,100	4,281,550	4,670,050	4,281,550	4,670,050
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY, MRVA	7,379,800	8,027,600	3,689,900	4,013,800	3,689,900	4,013,800
Contributions and transfers	412,132	429,987	206,066	214,993	206,066	214,993
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit payment	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Expected return on assets (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Actuarial asset gain/(loss), in excess of EROA	1,084,143	1,247,156	542,072	623,578	542,072	623,578
EOY, MVRA	8,027,600	8,901,600	4,013,800	4,450,800	4,013,800	4,450,800
Pension Expense						
Current service cost (gross), including past service	252,800	272,800	126,400	136,400	126,400	136,400
Less employee contributions (in respect of current service cost)	(206,066)	(214,491)			-	-
Interest - obligation	488,149	492,684	244,074	246,342	244,074	246,342
Expected rate of return (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Amortization - (gains)/loss	109,872	88,579	54,936	44,290	54,936	44,290
Amortization of contribution differences	-	-	(119)	(39)	-	-
Change in valuation allowance	-	-	-	14,255	-	13,753
Expense/(Income)	182,714	154,560	194,271	198,742	194,390	198,279

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	7,877,201		3,938,600		3,938,600	
Less: pension fund assets, opening balance	(7,379,800)		(3,689,900)		(3,689,900)	
Pension liability (surplus) - BOY	497,401		248,700		248,700	
Unamortized experience losses (gains)	(440,620)		(220,310)		(220,310)	
Pension liability (asset) at BOY	56,781		28,390		28,390	
Unamortized difference in contributions (EE vs ON)	-		158		-	
Pension liability (asset) at BOY	56,781		28,548		28,390	
Opening balance adjustment (by layer)					**(158)**	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Less: pension fund assets, closing balance	(8,027,600)	(8,901,600)	(4,013,800)	(4,450,800)	(4,013,800)	(4,450,800)
Pension deficit/(surplus) - EOY	199,300	154,300	99,650	77,150	99,650	77,150
Unamortized experience losses (gains)	(165,871)	(181,806)	(82,935)	(90,903)	(82,935)	(90,903)
Pension liability (asset) at EOY	33,429	(27,506)	16,715	(13,753)	16,715	(13,753)
Unamortized difference in contributions	-	-	39	(502)	-	-
Pension liability (asset) at Fiscal EOY	33,429	(27,506)	16,754	(14,255)	16,715	(13,753)
Valuation allowance			-	14,255	-	13,753
Pension liability (asset) at Fiscal EOY, after valuation allowance			16,754	-	16,715	-
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	56,781	33,429	28,548	16,754	28,548	16,715
opening balance adjustment (write-offs)	-	-	-	-	(158)	-
Adjusted opening balance liability	56,781	33,429	28,548	16,754	28,390	16,715
Pension expenditure	182,714	154,560	194,271	198,742	194,390	198,279
Less: x% of contribution (in excess of ON contributions)					-	502
Less: ON contributions	(206,066)	(215,495)	(206,066)	(215,495)	(206,066)	(215,495)
Ending Fiscal pension liability	33,429	(27,506)	16,754	(0)	16,715	(0)
Balance test	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - contributions are exactly 50/50 ever since 2006. Current adjustment are for under contribution (under 50%) prior to 2006, which could be a result of contribution policy (e.g. contribution holiday) but should not be an accounting impact
3. No adjustment for cumulative transfer

Comaparative figures - Narrative and commentary (draft EY 19 May 2017).pdf

Accounting approach: Ontario Pension Plans
Year-end adjustments

Narrative/commentary for comparative figures (DRAFT)

1. Adjustment for contribution receivable (OTPP)

- "Market value of assets" provided in the financial information letter from OTPP includes contribution receivable to be made by the Province (i.e. accrual basis)
- The market value of assets (and market-related value of assets) should not include receivable under PSAB

Current state and related adjustment	Proposed accounting treatment
- 50% of assets and obligations are allocated to the Province (which includes 50% of the contribution receivable) - Balance sheet position (Province's portion) is reduced by 50% of contribution receivable (embedded with other prior year adjustments)	- As the contribution receivable relates entirely to a lag in the Province's contribution, the Province's portion of the balance sheet position is reduced by 100% of the contribution receivable. - In addition, the expected return on asset related to the Province is reduced (i.e. expense is increased) to exclude return on receivable assets.

2. Reversal of unamortized contribution differences (OTPP, OPSEUPP, HOOPP, CAATTPP)

- For all Plans other than PSPP, a comparison is made based on the assumed required employer contributions against the employee contributions (as per funding policy and Plan requirement). Any differences (i.e. over/under contribution by the Province) are amortized over EARSL. In other words, the differences are being treated as experience gain/loss.
- The current comparisons implicitly included differences due to timing between employers and employees (e.g. 2 months lag for OPESUPP), contributions by other participating employer (non-consolidated and/or consolidated agencies), as well as service buybacks contributions by employees which may not require contribution matching by the employer. These adjustments relating to contribution differences, which have been growing over time, do not appear to be warranted.

Current state and related adjustment	Proposed accounting treatment
- Comparison (vary by Plan) is made to determined contribution differences each year - Contribution differences are amortized over EARSL, similar to experience gain/loss - Balance sheet reconciliation reflect contributions made by Province only, and adjusted by the unamortized contribution differences	- Eliminate comparison and year-end adjustment - Reflect the appropriate proportion of total contributions that are accounted for in the Province's portion of the assets

- OTPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($254M) is to be amortized over EARSL (approximately $30M per year).
  - Each year, the amount to be amortized is determined as the difference the (i) Province contributions and (ii) the sum of total employee contributions and other employer contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employer appropriately and the potential timing differences (12 months lag). Excluding timing differences, the appropriate comparison would be (i) province contributions and (ii) employee contributions minus other employer contributions. As such, the current comparison result in "under contributions" by the Province and growing overtime.
  - We recommend the year-end adjustment be eliminated and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers.

- OPSEUPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($52M) is to be amortized over EARSL (approximately $5M to $10M per year).
  - Each year, the amount to be amortized is determined as the difference between the employee contributions and the Province contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employers and potential timing differences. As such, the current comparison inaccurately presents "under contributions" by the Province, which is growing overtime.
  - We recommend the year-end adjustment be eliminated, and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers (consolidated/non-consolidated).

- HOOPP
  - The unamortized contribution differences (56% x 85.2%) at April 1, 2015 ($83M) is to be amortized over EARSL (approximately $10M per year). Each year, the amount to be amortized is determined as the difference between the employee contributions and the employer contributions.
  - The current employer contribution rate is 126% of the employee contributions (in respect of required contributions for member related to current service, or contributions with no earnings for services under Section 5.2 (1), (2), and (3) and Section 5.5 of the Plan text).
  - The comparison does not recognize that the employers may not be required to make corresponding contributions towards all employee contributions (e.g. for past service purchase as per Section 12 of the Plan text; referred to as "other employee contributions" under the letter from HOOPP).
  - Consequently, the unamortized contribution differences appears to correspond to additional contributions made by employees to which an employer match may not be required. Upon confirmation, we recommend the year-end adjustment be eliminated and irregular employee contributions which do not require an employer match be excluded from P&L).

- CATTPP
  - The unamortized contribution differences at April 1, 2015 (158k) is in respect to year 2005 and 2006; contributions since have been split equally (i.e. no difference to be amortized). The amount is to be fully amortized by end of F2016 ($119k income for F2015 and $39k income for F2016).
  - Given the funding policy and arrangement for the Plan, the differences in respect of year 2005 and 2006 are likely result of special circumstances (i.e. not an experience g/l due to over/under contributions per requirement). We would recommend the outstanding unamortized amount to be reversed, consistent with the treatment of the differences arise during F2016 as outlined below. However, we note that the amount would be amortized by end of F2016 regardless and will not have further year-end adjustments onwards.
  - During F2016, the contributions between employers and employees are not exactly 50/50 due to a special arrangement related to the ROM transfers. The differences of $1M does not constitute an over contribution by the employer. As such, we do not recommend the differences to be amortized as an experience gain/loss. Rather, 50% of the excess (500k) should be reflected as contributions made during the year for Ontario's portion (as it has been accounted for in the assets). This will also translate to a lower change in valuation allowance for F2016, resulting in a lower expense.

3. Reversal of unamortized gains/losses due to historical cumulative transfers (OTPP, PSPP, OPSEUPP)

- During some historical years, transfer from other plans were reflected as an expense through P&L; however, this was later determined to be inconsistent with the requirement under PSAB. Per historical agreement with the AG, the total cumulative transfer reported is to be corrected by amortizing over EARSL and reporting an income through P&L until the full amount is reversed.

Current state and related adjustment	Proposed accounting treatment
- Historical cumulative transfers reported as expense are amortized as income; balance sheet is adjusted by the outstanding unamortized amount	- Immediately recognized the outstanding amount and eliminate year-end adjustment for expense and balance sheet going forward
- OTPP: At March 31, 2015, $51M (100%) is outstanding (income of $10M to be recognized per year for the next 5 years)	- OTPP: the Province's expense portion (50%) will increase by $5M for the next five years; with $25 asset year-end adjustment removed at April 1, 2015
- PSPP: At March 31, 2015, $74M is outstanding (income of $74M to be fully recognized for F2015 expense)	- PSPP: no impact if the year-end adjustment is to be reversed through expense (only 1 year of amortization is outstanding at April 2, 2015)
- OPSEUPP: At March 31, 2015, $35M (100%) is outstanding (income of $12M to be recognized for F2015, F2016 and $1M to be recognized for F2017 expense)	- OPSEUPP: the Province's expense portion (50%) will increase by $6M for the next two years; with $17 asset year-end adjustment removed at April 1, 2015

4. Adjustment to reflect the Province's share, year-end adjustment for accumulated contributions by other employers/agencies (non-consolidated/consolidated)

- Refer to "accounting approach – Ontario Pension Plans" provided by EY on 10 May 2017.
- For OTPP and OPSEUPP, less than 50% of the surplus would be reported by the Province under the proposed changes to reflect the portion related to other participating employers.
- Other considerations:
  - If the proportion related to other employers is to be updated annually and the treatment of the changes due to the annual proportion update (e.g. balance sheet adjustment vs reflect as experience gain/loss to be amortized through P&L).
  - The offsetting adjustment to "other consolidated agencies" and the overall impact (which should be minimal for PSPP and OPSEUPP, in aggregate); the true difference from the current approach to the proposed changes should correspond to reflecting portions associated with non-consolidated employers.

HOOPP - comparative figures (draft EY 19 May 2017).pdf

Comparative figures: HOOPP Ending Fiscal 2016	Current						Proposed	
			(all employers)		(Ontario) (of 56%)		(Ontario) (of 56%)	
							1. Unamortized contribution differences	
(employer contributes 126% of employee contributions)								
% of assets, obligations	**100%**	**100%**	**56%**	**56%**	**85.2%**	**84.5%**	**85.2%**	**84.5%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions								
BOY discount rate	6.00%	5.75%	6.00%	5.75%	6.00%	5.75%	6.00%	5.75%
Reconciliation - Obligation								
BOY	49,720	52,825	27,843	29,582	23,722	24,997	23,722	24,997
Interest accrued on benefits	2,997	3,049	1,678	1,707	1,430	1,443	1,430	1,443
Total current period benefit cost	2,306	2,478	1,291	1,388	1,100	1,173	1,085	1,154
other employee contributions							15	18
Transfers	79	52	44	29	38	25	38	25
Cost of plan amendments	115	108	64	60	55	51	55	51
Less: Benefits paid	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Experience loss/(gain)	(543)	80	(304)	45	(259)	38	(259)	38
Change in assumptions (basis)	75	(571)	42	(320)	36	(270)	36	(270)
EOY DBO	52,825	55,894	29,582	31,301	25,204	26,449	25,204	26,449
Reconciliation of Assets - MVA (based on actuary's letter)								
BOY, Market value of assets	60,848	63,922	34,075	35,796	29,032	30,248	29,032	30,248
Contributions - current service (employees)	800	903	448	506	382	427	382	427
Contributions - current service (employers)	1,009	1,138	565	637	481	539	481	539
Contributions - past service (employees)	79	28	44	16	38	13	38	13
Contributions - past service (employers)	100	35	56	20	48	17	48	17
Contributions - Other (employees)	32	39	18	22	15	18	15	18
Transfers	79	52	44	29	38	25	38	25
Benefit paid	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Assets return	2,899	6,369	1,623	3,567	1,383	3,014	1,383	3,014
EOY, market value of assets	63,922	70,359	35,796	39,401	30,498	33,294	30,498	33,294
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)								
BOY, MRVA	53,873	60,001	30,169	33,601	25,704	28,393	25,704	28,393
Contributions and transfers	2,099	2,195	1,175	1,229	1,001	1,039	1,001	1,039
Benefit payment	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Expected return on assets (MRVA)	(3,238)	(3,452)	(1,813)	(1,933)	(1,545)	(1,634)	(1,545)	(1,634)
Asset gain/(loss)	9,191	9,805	5,147	5,491	4,385	4,640	4,385	4,640
EOY, MVRA	60,001	66,422	33,601	37,196	28,628	31,431	28,628	31,431
Pension Expense								
Current service cost (Gross)	2,306	2,478	1,291	1,388	1,100	1,173	1,085	1,154
Less employee contributions (in respect of current service cost)	(800)	(903)						
Less employee contributions (in respect of past service cost)	(79)	(28)						
Less employee contributions (in respect of other)	(32)	(39)						
Interest - obligation	3,000	3,049	1,680	1,707	1,432	1,443	1,432	1,443
Expected rate of return (MRVA)	(3,238)	(3,452)	(1,813)	(1,933)	(1,545)	(1,634)	(1,545)	(1,634)
Amortization - (gains)/loss	(475)	(724)	(266)	(405)	(226)	(342)	(226)	(342)
Amortization of contribution differences	-	-	(11)	(13)	(9)	(11)	-	-
Expense/(Income)	683	381	882	744	751	628	745	621

Comparative figures: HOOPP Ending Fiscal 2016	Current						Proposed	
			(all employers)		(Ontario) (of 56%)		(Ontario) (of 56%)	
							1. Unamortized contribution differences	
(employer contributes 126% of employee contributions)								
% of assets, obligations	**100%**	**100%**	**56%**	**56%**	**85.2%**	**84.5%**	**85.2%**	**84.5%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)					84.40%		84.40%	
Accrued benefit obligation, opening balance	49,720		27,843		23,500		23,500	
Less: pension fund assets, opening balance	(53,873)		(30,169)		(25,463)		(25,463)	
Pension liability (surplus) - BOY	(4,153)		(2,326)		(1,963)		(1,963)	
Unamortized experience losses (gains)	6,211		3,478		2,936		2,936	
Pension liability (asset) at BOY	2,058		1,152		973		973	
Adjustment for contribution differences	-		98		83		-	
Pension liability (asset) at BOY (PY %)	2,058		1,251		1,056		973	
Adjustment for change in annual allocation percentage								
Adjusted Pension liability (asset) at BOY (CY %)								
Opening balance adjustment (by layer)							(83)	
Pension Liability - Ending								
Accrued benefit obligation, closing balance	52,825	55,894	29,582	31,301	25,204	26,449	25,204	26,449
Less: pension fund assets, closing balance	(60,001)	(66,422)	(33,601)	(37,196)	(28,628)	(31,431)	(28,628)	(31,431)
Pension deficit/(surplus) - EOY	(7,176)	(10,528)	(4,019)	(5,896)	(3,424)	(4,982)	(3,424)	(4,982)
Unamortized experience losses (gains)	8,809	11,369	4,933	6,367	4,203	5,380	4,203	5,380
Pension liability (asset) at EOY	1,632	841	914	471	779	398	779	398
Adjustment for "contributions differences"	-	-	109	124	93	104	-	-
Pension liability (asset) at Fiscal EOY	1,632	841	1,023	594	872	502	779	398
Pension Liability - Continuity (fiscal year)								
Opening Fiscal pension liability	2,058	1,632	1,251	1,023	1,056	872	1,056	779
a. Adjusted due to change in annual % allocation					10	(7)	9	(6)
b. adjustment for unamortized contribution differences	-	-	-	-	-	-	(83)	-
Adjusted opening balance liability	2,058	1,632	1,251	1,023	1,066	865	982	772
Pension expenditure	683	381	882	744	751	628	745	621
Less: employer contributions (to % of 56% of total cont.)	(1,109)	(1,173)	(1,109)	(1,173)	(945)	(991)	(949)	(996)
Ending Fiscal pension liability	1,632	841	1,023	594	872	502	779	398
balance test	(0)	0	(0)	(0)	(0)	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a result of "other employee contributions" (buyback)
3. No adjustment for cumulative transfer
4. No adjustment to current adjustment for non-controlled/non-consolidated agencies

OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions														
BOY discount rate	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%
Reconciliation - Obligation														
BOY DBO	15,133	15,557	7,567	7,779	7,567	7,779	7,567	7,779	7,567	7,779	7,211	7,413	7,211	7,413
Interest accrued on benefits	969	958	484	479	484	479	484	479	484	479	462	456	462	456
Total current period benefit cost (including past service)	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Less: benefits paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Experience loss/(gain)	(202)	(65)	(101)	(33)	(101)	(33)	(101)	(33)	(101)	(33)	(96)	(31)	(96)	(31)
Change in assumptions (basis)	124	610	62	305	62	305	62	305	62	305	59	291	59	291
EOY DBO (actuary)	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Reconciliation of Assets - MVA (based on actuary's letter)														
BOY, Market value of assets	17,481	18,399	8,741	9,200	8,741	9,200	8,741	9,200	8,741	9,200	8,330	8,767	8,330	8,767
Contributions - employees	241	259	121	130	121	130	121	130	121	130	115	123	115	123
Contributions - Ontario	214	219	107	109	107	109	107	109	107	109	102	104	102	104
Contributions - other participating employers	51	31	26	16	26	16	26	16	26	16	24	15	24	15
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Assets return	1,293	876	647	438	647	438	647	438	647	438	616	417	616	417
End of year, Market value of assets	18,399	18,904	9,200	9,452	9,200	9,452	9,200	9,452	9,200	9,452	8,767	9,008	8,767	9,008
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)														
BOY, MRVA	16,370	17,380	8,185	8,690	8,185	8,690	8,185	8,690	8,185	8,690	7,800	8,282	7,800	8,282
Contributions and transfers	506	509	253	255	253	255	253	255	253	255	241	243	241	243
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit payment	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Expected return on assets (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Actuarial asset gain/(loss), in excess of EROA	2,437	2,481	1,218	1,240	1,218	1,240	1,218	1,240	1,218	1,240	1,161	1,182	1,161	1,182
EOY, MVRA	17,380	18,415	8,690	9,208	8,690	9,208	8,690	9,208	8,690	9,208	8,282	8,775	8,282	8,775
Pension Expense														
Current service cost (gross), including past service	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Less employer contribution (consolidated agencies)													(27)	(24)
Less employee contributions (in respect of current service cost)	(241)	(259)			-	-	-	-	-	-				
Interest - obligation	969	958	484	479	484	479	484	479	484	479	461	456	461	456
Expected rate of return (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Amortization - (gains)/losses	51	(11)	26	(6)	26	(6)	26	(6)	26	(6)	24	(5)	24	(5)
Amortization of cumulative transfers	(11)	(11)	(6)	(6)	(6)	(6)	-	-	-	-	-	-	-	-
Amortization of contribution differences	-	-	(5)	(7)	-	-	-	-	-	-	-	-	-	-
Expense/(Income)	129	18	180	132	185	139	191	144	191	144	182	137	155	113

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)														
Accrued benefit obligation, opening balance	15,133		7,567		7,567		7,567		7,567		7,211		7,211	
Less: pension fund assets, opening balance	(16,370)		(8,185)		(8,185)		(8,185)		(8,185)		(7,800)		(7,800)	
Pension liability (surplus) - BOY	(1,237)		(619)		(619)		(619)		(619)		(589)		(589)	
Unamortized experience losses (gains)	(366)		(183)		(183)		(183)		(183)		(174)		(174)	
Pension liability (asset) at BOY	(1,603)		(802)		(802)		(802)		(802)		(764)		(764)	
Unamortized losses (gains) for cumulative transfers	35		17		17		-		-					
Adjustment for contributions (other employer)	508		254		254		254		-		-		-	
Unamortized difference in contributions (EE vs ON)	-		43		-		-		-		-		-	
Pension liability (asset) at BOY	(1,060)		(487)		(530)		(547)		(802)		(764)		(764)	
							-		-					
Opening balance adjustment (by layer)					**(43)**		**(17)**		**(254)**		**38**		**-**	
Pension Liability - Ending														
Accrued benefit obligation, closing balance	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Less: pension fund assets, closing balance	(17,380)	(18,415)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,282)	(8,775)	(8,282)	(8,775)
Pension deficit/(surplus) - EOY	(1,823)	(1,819)	(912)	(910)	(912)	(910)	(912)	(910)	(912)	(910)	(869)	(867)	(869)	(867)
Unamortized experience losses (gains)	96	(129)	48	(65)	48	(65)	48	(65)	48	(65)	46	(62)	46	(62)
Pension liability (asset) at EOY	(1,727)	(1,948)	(864)	(974)	(864)	(974)	(864)	(974)	(864)	(974)	(823)	(928)	(823)	(928)
Unamortized losses (gains) for cumulative transfers	24	12	12	6	12	6	-	-	-	-				
Adjustment for other employer contributions	559	591	280	295	280	295	280	295	-	-	-	-	-	-
Unamortized difference in contributions	-	-	52	65	-	-	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY	(1,145)	(1,345)	(521)	(607)	(573)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
			(520)	(607)										
Pension Liability - Continuity (fiscal year)														
Opening Fiscal pension liability	(1,060)	(1,145)	(487)	(520)	(487)	(572)	(487)	(584)	(487)	(864)	(487)	(823)	(487)	(823)
opening balance adjustment (write-offs)	-	-	-	-	(43)	-	(61)	-	(315)	-	(277)	-	(277)	-
Adjusted opening balance liability	(1,060)	(1,145)	(487)	(520)	(530)	(572)	(547)	(584)	(802)	(864)	(764)	(823)	(764)	(823)
Pension expenditure	129	18	180	132	185	139	191	144	191	144	182	137	155	113
Less: x% of contribution (in excess of ON contributions)					(14)	(20)	(14)	(20)	(39)	(36)	(27)	(24)	-	-
Less: ON contributions	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)
Ending Fiscal pension liability	(1,145)	(1,345)	(520)	(607)	(572)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
balance test	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a comparison between ON contributions and total employee contributions (which includes portion in respect of other employers)
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 47.7% to reflect participation of non-consolidated employers (consistent with HOOPP)
5. Reduce expense (similar to PSPP) by contributions made by consolidated employer (estimated)

OTPP - comparative figures (draft EY 19 May 2017).pdf

Comparative figures: OTPP (DRAFT)
Ending 2016

		Current				Proposed									
						1. Contribution Receivable (without adjusting MRVA)		2. contribution differences		3. Cumulative transfers		4. Other agencies		5. EROA/MRVA adjustment for contribution receivable	
Province's % of assets, obligations		100%	100%	50%	50%	50%	50%	50%	50%	50%	50%	49%	49%	49%	49%
($ in millions)	2014	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Reconciliation - Obligation															
BOY DBO		113,801	116,367	56,901	58,184	56,901	58,184	56,901	58,184	56,901	58,184	55,762	57,020	55,762	57,020
Interest accrued on benefits		7,310	7,277	3,655	3,639	3,655	3,639	3,655	3,639	3,655	3,639	3,582	3,566	3,582	3,566
Total current period benefit cost (service accrual)		2,902	2,933	1,451	1,467	1,451	1,467	1,451	1,467	1,451	1,467	1,422	1,437	1,422	1,437
Transfers, including buy-backs (ER and EE)		14	13	7	7	7	7	7	7	7	7	7	6	7	6
Less: Benefits paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Experience loss/(gain)		(2,741)	(731)	(1,371)	(366)	(1,371)	(366)	(1,371)	(366)	(1,371)	(366)	(1,343)	(358)	(1,343)	(358)
Change in assumptions (basis)		617	3,638	309	1,819	309	1,819	309	1,819	309	1,819	302	1,783	302	1,783
EOY DBO		116,367	123,772	58,184	61,886	58,184	61,886	58,184	61,886	58,184	61,886	57,020	60,648	57,020	60,648
Reconciliation of Assets - MVA (based on actuary's letter)															
BOY MVA		154,476	171,440	77,238	85,720	77,238	85,721	77,238	85,721	77,238	85,721	75,693	84,006	75,693	84,006
Contributions - EE (in respect of CY accrual)		1,615	1,653	808	827	808	827	808	827	808	827	791	810	791	810
Contributions (ON) - est. receivable from PY (in respect of PY accrual)	(1,504)	(1,571)	(1,610)	(786)	(805)	(786)	(805)	(786)	(805)	(786)	(805)	(770)	(789)	(770)	(789)
Contributions (ON) - actual cash during fiscal year (in respect of PY accrual)	1,525	1,597	1,634	799	817	799	817	799	817	799	817	783	801	783	801
Contributions (ON) - est. receivable in next fiscal year (in respect of CY accrual)	*1,571*	*1,610*	*1,638*	805	819	805	819	805	819	805	819	789	803	789	803
Contributions (ON) - (special payments for foregone CPI)	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Contributions (other ER) - CSC		33	34	17	17	17	17	17	17	17	17	16	17	16	17
Transfers		14	13	7	7	7	7	7	7	7	7	7	6	7	6
Benefit paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Expected return on assets		9,929	10,603	4,965	5,302	4,965	5,302	4,965	5,302	4,965	5,302	4,865	5,195	4,833	5,165
Actuarial asset gain/(loss) for MRVA smoothing		9,272	(4,120)	4,636	(2,060)	4,636	(2,060)	4,636	(2,060)	4,636	(2,060)	4,543	(2,019)	4,575	(1,988)
End of year, Market value of assets		171,440	175,561	85,721	87,781	85,721	87,782	85,721	87,782	85,721	87,782	84,006	86,025	84,006	86,025
Reconciliation of Assets - MRVA															
BOY, MRVA		143,076	156,998	71,538	78,499	71,538	78,499	71,538	78,499	71,538	78,499	70,107	76,929	70,107	76,929
adjustment for interest on cont. receivable		(37)	(38)	(18)	(19)	(18)	(19)	(18)	(19)	(18)	(19)	(18)	(19)	-	-
Contributions and transfers		3,299	3,363	1,650	1,681	1,650	1,681	1,650	1,681	1,650	1,681	1,617	1,648	1,617	1,648
Expected return on assets (MRVA)		9,227	9,739	4,614	4,869	4,614	4,869	4,614	4,869	4,614	4,869	4,521	4,772	4,521	4,772
Reversed expected return on assets (MRVA) on receivable														(103)	(101)
Benefit paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Actuarial asset gain/(loss) - to be amortized		6,968	5,459	3,484	2,730	3,484	2,730	3,484	2,730	3,484	2,730	3,415	2,675	3,474	2,713
EOY MVRA		156,998	169,796	78,499	84,898	78,499	84,898	78,499	84,898	78,499	84,898	76,929	83,200	76,904	83,155
						-	-	-	-	-	-				
Pension Expense															
Current service cost		2,902	2,933	1,451	1,467	1,451	1,467	1,451	1,467	1,451	1,467	1,422	1,437	1,422	1,437
Interest - obligation		7,312	7,186	3,656	3,593	3,656	3,593	3,656	3,593	3,656	3,593	3,583	3,521	3,583	3,521
Expected rate of return (MRVA)		(9,227)	(9,739)	(4,614)	(4,869)	(4,614)	(4,869)	(4,614)	(4,869)	(4,614)	(4,869)	(4,521)	(4,772)	(4,418)	(4,671)
Interest - ON contribution receivable		38	37	19	19	19	19	19	19	19	19	19	18	-	-
Amortization - (gains)/loss		(723)	(1,364)	(362)	(682)	(362)	(682)	(362)	(682)	(362)	(682)	(354)	(668)	*(354)*	*(668)*
Amortization - cumulative transfer		(11)	(10)	(6)	(5)	(6)	(5)	(6)	(5)	-	-	-	-	-	-
Amortization - over/under contribution		-	-	(27)	(30)	(27)	(30)	-	-	-	-	-	-	-	-
Expense/(Income)		302	(946)	118	(508)	118	(508)	145	(478)	151	(473)	148	(464)	232	(381)

Comparative figures: OTPP (DRAFT)
Ending 2016

		Current				Proposed									
						1. Contribution Receivable (without adjusting MRVA)		2. contribution differences		3. Cumulative transfers		4. Other agencies		5. EROA/MRVA adjustment for contribution receivable	
Province's % of assets, obligations		100%	100%	50%	50%	50%	50%	50%	50%	50%	50%	49%	49%	49%	49%
($ in millions)	2014	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Pension Liability - Opening (1 April 2015)															
Accrued benefit obligation, opening balance		113,801		56,901		56,901		56,901		56,901		55,762		55,762	
Less: pension fund assets, opening balance		(143,076)		(71,538)		(71,538)		(71,538)		(71,538)		(70,107)		(70,107)	
Pension liability (surplus) - BOY		(29,275)		(14,638)		(14,638)		(14,638)		(14,638)		(14,345)		(14,345)	
Unamortized experience losses (gains)		9,631		4,816		4,816		4,816		4,816		4,719		4,719	
Pension liability (asset) at December BOY		(19,644)		(9,822)		(9,822)		(9,822)		(9,822)		(9,625)		(9,625)	
Adjustment															
Adjustment for interest on OTPP receivable from Province		37		18		18		18		18		18		-	
Adjustment for special payments - foregone CPI		(2)		(1)		(1)		(1)		(1)		(1)		(1)	
Adjustment for different year ends		1,712		856		-		-		-		-		-	
Reversal of ON contribution receivable included in assets						1,610		1,610		1,610		1,610		1,610	
Adjustment for cumulative transfer		51		25		25		25		-		-		-	
Unamortized difference in contributions		-		256		256		-		-		-		-	
Pension liability (asset) at BOY		(17,897)		(8,667)		(7,913)		(8,169)		(8,195)		(7,998)		(8,016)	
Opening balance adjustment						754		(256)		(25)		196		(18)	
Pension Liability - Ending															
Accrued benefit obligation, closing balance		116,367	123,772	58,184	61,886	58,184	61,886	58,184	61,886	58,184	61,886	57,020	60,648	57,020	60,648
Less: pension fund assets, closing balance		(156,998)	(169,796)	(78,499)	(84,898)	(78,499)	(84,898)	(78,499)	(84,898)	(78,499)	(84,898)	(76,929)	(83,200)	(76,904)	(83,155)
Pension deficit/(surplus) - EOY		(40,631)	(46,024)	(20,316)	(23,012)	(20,316)	(23,012)	(20,316)	(23,012)	(20,316)	(23,012)	(19,909)	(22,552)	(19,884)	(22,507)
Unamortized experience losses (gains)		18,003	19,100	9,001	9,550	9,001	9,550	9,001	9,550	9,001	9,550	8,821	9,359	8,880	9,500
Pension liability (asset) at December 31EOY		(22,628)	(26,924)	(11,314)	(13,462)	(11,314)	(13,462)	(11,314)	(13,462)	(11,314)	(13,462)	(11,088)	(13,193)	(11,004)	(13,007)
Adjustment															
Adjustment for interest on OTPP receivable from Province		38	37	19	19	19	19	19	19	19	19	19	18	-	-
Adjustment for special payments - foregone CPI		(3)	(4)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(2)	(1)	(2)
Adjustment for different year ends		1,751	1,779	876	890	-	-	-	-	-	-	-	-	-	-
Reversal of ON contribution receivable included in assets						1,610	1,638	1,610	1,638	1,610	1,638	1,610	1,638	1,610	1,638
Adjustment for cumulative transfer		40	30	20	15	20	15	20	15	-	-	-	-	-	-
Unamortized difference in contributions		-	-	254	251	254	251	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY		(20,803)	(25,082)	(10,147)	(12,290)	(9,413)	(11,542)	(9,667)	(11,793)	(9,687)	(11,807)	(9,461)	(11,539)	(9,395)	(11,371)
Pension Liability - Continuity															
Opening fiscal pension liability -				(8,667)	(10,147)	(8,667)	(9,412)	(8,667)	(9,667)	(8,667)	(9,687)	(8,667)	(9,461)	(8,667)	(9,396)
Opening balance adjustment				-	-	754	-	496	-	473	-	669	-	869	-
Adjusted opening balance liability				(8,667)	(10,147)	(7,913)	(9,412)	(8,169)	(9,667)	(8,195)	(9,687)	(7,998)	(9,461)	(8,016)	(9,396)
Pension expenditure				118	(508)	118	(508)	145	(478)	151	(473)	148	(464)	232	(381)
Less: % of contribution in excess of ON contribution (cash) *						(19)	13	(45)	(13)	(45)	(13)	(12)	21	(13)	40
Less: ON contributions				(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)
Ending fiscal pension liability				(10,147)	(12,290)	(9,412)	(11,542)	(9,667)	(11,793)	(9,687)	(11,808)	(9,461)	(11,539)	(9,396)	(11,371)
balance test						0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:
1. Adjusted to reflect ON's contribution receivable included in market value of assets
2. Adjustment related to unamortized contribution differences
   - current contribution differences do not reflect contributions by other employers appropriately
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 49% to reflect participating of other employers (consistent with HOOPP)
5. Estimated adjustment to reflect the expected return on contribution receivable included in P&L, corresponding impact to MRVA and gain/loss calculations

* To balance, the contributions should correspond to the contributions included for determining the market related value of assets; the differences also include differences between actual contributions and contribution receivable assumed.

PSPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	22,215	23,147	22,215	23,147	22,215	23,147
Interest accrued on benefits	1,375	1,373	1,375	1,373	1,375	1,373
Current service cost (in respect of current period's accrual)	586	615	586	615	586	615
Past service cost - employee	29	38	29	38	29	38
Past service cost - employer	5	5	5	5	5	5
Transfers	111	85	111	85	111	85
Less: benefits paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Experience loss/(gain)	62	915	62	915	62	915
Change in assumptions (basis)	(59)	-	(59)	-	(59)	-
EOY DBO	23,147	24,934	23,147	24,934	23,147	24,934
Reconciliation of Assets - MVA						
BOY, Market value of assets	22,223	23,075	22,223	23,075	22,223	23,075
Contributions - employees (in respect of current service accrual)	290	302	290	302	290	302
Contributions - Ontario (total, except past service)	361	368	361	368	361	368
Contributions - other employers	48	53	48	53	48	53
Contributions - past service (employees and employers)	33	42	33	42	33	42
Transfers	111	85	111	85	111	85
Benefit paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Assets return	1,184	1,385	1,184	1,385	1,184	1,385
EOY, Market value of assets	23,075	24,066	23,075	24,066	23,075	24,066
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY	20,435	21,886	20,435	21,886	20,435	21,886
Contributions and transfers	843	851	843	851	843	851
Benefit payment	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Expected return on assets (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Actuarial asset gain/(loss)	3,051	2,670	3,051	2,670	3,051	2,670
EOY MVRA	21,886	22,861	21,886	22,861	21,886	22,861
Pension Expense						
Current service cost (Gross)	586	615	586	615	586	615
Less employee contributions (in respect of current service cost)	(290)	(302)	(290)	(302)	(290)	(302)
Less other employer contributions	-	-	-	-	(48)	(53)
Past service cost (employer, not contributed by ON)	5	5	5	5	-	-
Interest - obligation	1,375	1,373	1,375	1,373	1,375	1,373
Expected rate of return (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Amortization - (gains)/loss	203	132	203	132	203	132
Amortization of unwinding cumulative transfer reported as CSC in historical year	(74)	-	-	-	-	-
Expense/(Income)	538	522	612	522	560	464
check against current workbook	538	522				

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	22,215		22,215		22,215	
Less: pension fund assets, opening balance	(20,435)		(20,435)		(20,435)	
Pension liability (asset) at BOY	1,780		1,780		1,780	
Unamortized experience losses (gains)	(1,238)		(1,238)		(1,238)	
Pension liability (asset) at BOY	542		542		542	
Adjustment for cumulative transfer	74		-		-	
Adjustment for different year ends	592		592		-	
Pension liability (asset) at BOY	1,208		1,134		542	
Opening balance adjustment (by layer)			(74)		(592)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	23,147	24,934	23,147	24,934	23,147	24,934
Less: pension fund assets, closing balance	(21,886)	(22,861)	(21,886)	(22,861)	(21,886)	(22,861)
Pension liability (asset) at Fiscal EOY	1,261	2,073	1,261	2,073	1,261	2,073
Unamortized experience losses (gains)	(521)	(1,237)	(521)	(1,237)	(521)	(1,237)
Pension liability (asset) at Fiscal EOY	740	837	740	837	740	837
Adjustment for "different year ends"	644	702	644	702	-	-
Pension liability (asset) at Fiscal EOY	1,385	1,539	1,385	1,539	740	837
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	1,208	1,385	1,208	1,385	1,208	740
Opening adjustment (accumulative)	-	-	(74)	-	(666)	-
Adjusted opening balance liability	1,208	1,385	1,134	1,385	542	740
Periodic pension expenditure	538	522	612	522	560	464
Less: Ontario contributions	(361)	(368)	(361)	(368)	(361)	(368)
Ending Fiscal pension liability	1,385	1,539	1,385	1,539	740	837
balance test	0	0	0	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. no adjustment related to unamortized contribution differences
3. Cumulative transfer is fully amortized by end of Fiscal 2015
4. Adjustment to non-controlled/non-consolidated agencies represents:
   - Offset to expense to reflect participation of other employers
   - Removal of year-end adjustment is offset (almost fully) by the same removal of year-end adjustment to the consolidated other agencies

year-end adjustments_ comparative figures and narrative.rtf

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CC: Uros Karadzic [uros.karadzic@ca.ey.com]; Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
Subject: year-end adjustments: comparative figures and narrative
Date: Friday, May 19, 2017 18:04:42
Attachment 1: image003.jpg
Attachment 2: CATTPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 3: Comaparative figures - Narrative and commentary (draft EY 19 May 2017).pdf
Attachment 4: HOOPP - comparative figures (draft EY 19 May 2017).pdf
Attachment 5: OPSEUPP - comparative figures (draft EY 18 May 2017).pdf
Attachment 6: OTPP - comparative figures (draft EY 19 May 2017).pdf
Attachment 7: PSPP - comparative figures (draft EY 18 May 2017).pdf

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Hi Nadine,

Please find attached the comparative figures for all Plans (including the ones sent yesterday). Also included is a narrative document on each of the proposed adjustments.

Once you and your team have a chance to review the attached, we welcome a meeting to discuss. Kindly let us know your availability.

Have a great long weekend!

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

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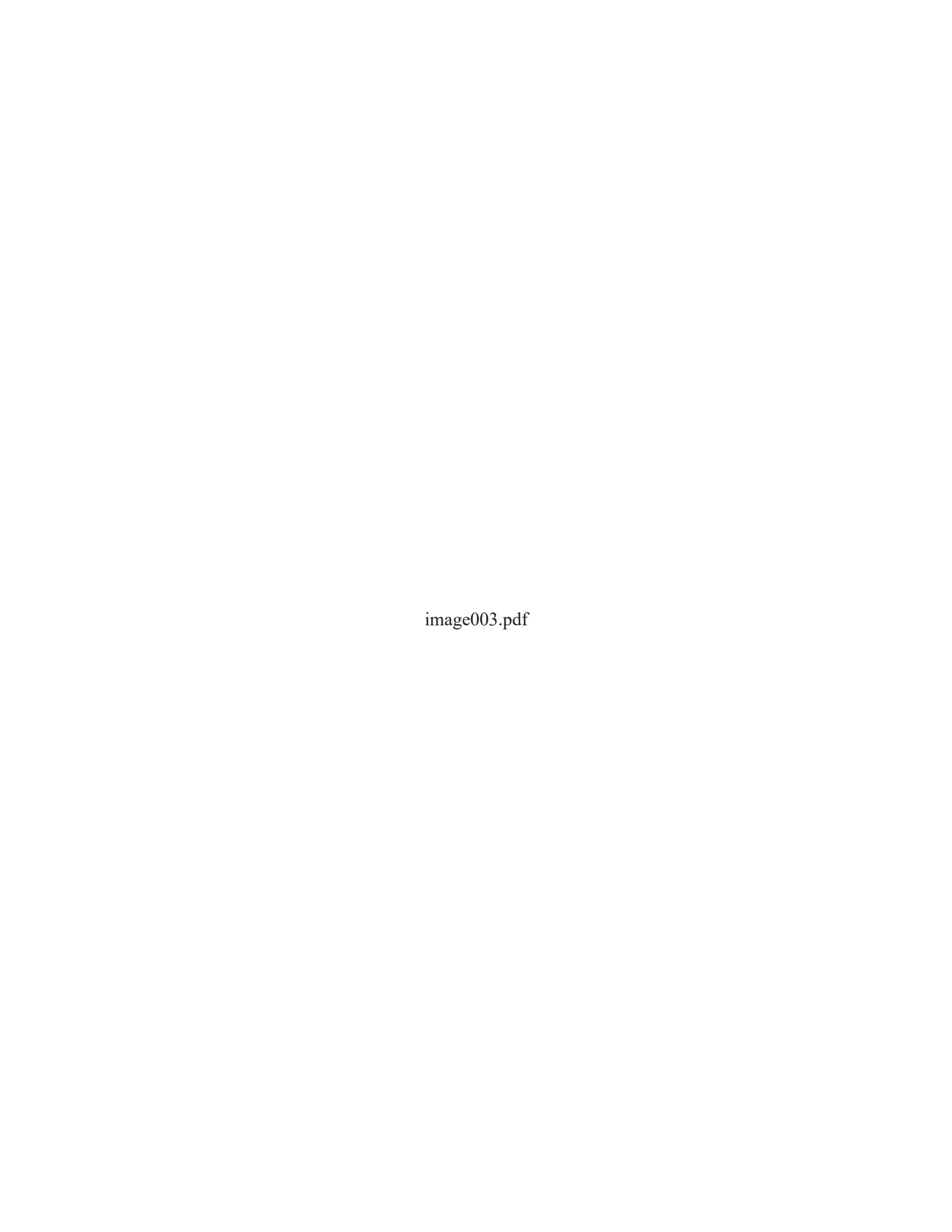
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CATTPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	7,877,201	8,226,900	3,938,600	4,113,450	3,938,600	4,113,450
Interest accrued on benefits	488,149	492,684	244,074	246,342	244,074	246,342
Total current period benefit cost (including past service)	252,800	272,800	126,400	136,400	126,400	136,400
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Cost of plan amendments (ROM transfers)	-	14,331	-	7,166	-	7,166
Less: Benefits paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Experience loss/(gain)	-	3,800	-	1,900	-	1,900
Change in assumptions (basis)	(4,815)	363,516	(2,408)	181,758	(2,408)	181,758
EOY DBO (actuary)	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Reconciliation of Assets - MVA (based on actuary's letter)						
BOY, Market value of assets	7,934,500	8,563,100	3,967,250	4,281,550	3,967,250	4,281,550
Contributions - employees	206,066	214,491	103,033	107,246	103,033	107,246
Contributions - employer	206,066	215,495	103,033	107,748	103,033	107,748
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit paid	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Assets return	602,903	665,144	301,451	332,572	301,451	332,572
End of year, Market value of assets	8,563,100	9,340,100	4,281,550	4,670,050	4,281,550	4,670,050
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY, MRVA	7,379,800	8,027,600	3,689,900	4,013,800	3,689,900	4,013,800
Contributions and transfers	412,132	429,987	206,066	214,993	206,066	214,993
Transfers	19,966	118,269	9,983	59,134	9,983	59,134
Benefit payment	(406,400)	(436,400)	(203,200)	(218,200)	(203,200)	(218,200)
Expected return on assets (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Actuarial asset gain/(loss), in excess of EROA	1,084,143	1,247,156	542,072	623,578	542,072	623,578
EOY, MVRA	8,027,600	8,901,600	4,013,800	4,450,800	4,013,800	4,450,800
Pension Expense						
Current service cost (gross), including past service	252,800	272,800	126,400	136,400	126,400	136,400
Less employee contributions (in respect of current service cost)	(206,066)	(214,491)			-	-
Interest - obligation	488,149	492,684	244,074	246,342	244,074	246,342
Expected rate of return (MRVA)	(462,041)	(485,012)	(231,020)	(242,506)	(231,020)	(242,506)
Amortization - (gains)/loss	109,872	88,579	54,936	44,290	54,936	44,290
Amortization of contribution differences	-	-	(119)	(39)	-	-
Change in valuation allowance	-	-	-	14,255	-	13,753
Expense/(Income)	182,714	154,560	194,271	198,742	194,390	198,279

Comparative figures: CATTP **Ending Fiscal 2016**	**Current**				**Proposed**	
(employer contributes 126% of employee contributions)					**Contribution differences**	
% of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**
(in thousands)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	7,877,201		3,938,600		3,938,600	
Less: pension fund assets, opening balance	(7,379,800)		(3,689,900)		(3,689,900)	
Pension liability (surplus) - BOY	497,401		248,700		248,700	
Unamortized experience losses (gains)	(440,620)		(220,310)		(220,310)	
Pension liability (asset) at BOY	56,781		28,390		28,390	
Unamortized difference in contributions (EE vs ON)	-		158		-	
Pension liability (asset) at BOY	56,781		28,548		28,390	
Opening balance adjustment (by layer)					**(158)**	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	8,226,900	9,055,900	4,113,450	4,527,950	4,113,450	4,527,950
Less: pension fund assets, closing balance	(8,027,600)	(8,901,600)	(4,013,800)	(4,450,800)	(4,013,800)	(4,450,800)
Pension deficit/(surplus) - EOY	199,300	154,300	99,650	77,150	99,650	77,150
Unamortized experience losses (gains)	(165,871)	(181,806)	(82,935)	(90,903)	(82,935)	(90,903)
Pension liability (asset) at EOY	33,429	(27,506)	16,715	(13,753)	16,715	(13,753)
Unamortized difference in contributions	-	-	39	(502)	-	-
Pension liability (asset) at Fiscal EOY	33,429	(27,506)	16,754	(14,255)	16,715	(13,753)
Valuation allowance			-	14,255	-	13,753
Pension liability (asset) at Fiscal EOY, after valuation allowance			16,754	-	16,715	-
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	56,781	33,429	28,548	16,754	28,548	16,715
opening balance adjustment (write-offs)	-	-	-	-	(158)	-
Adjusted opening balance liability	56,781	33,429	28,548	16,754	28,390	16,715
Pension expenditure	182,714	154,560	194,271	198,742	194,390	198,279
Less: x% of contribution (in excess of ON contributions)					-	502
Less: ON contributions	(206,066)	(215,495)	(206,066)	(215,495)	(206,066)	(215,495)
Ending Fiscal pension liability	33,429	(27,506)	16,754	(0)	16,715	(0)
Balance test	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - contributions are exactly 50/50 ever since 2006. Current adjustment are for under contribution (under 50%) prior to 2006, which could be a result of contribution policy (e.g. contribution holiday) but should not be an accounting impact
3. No adjustment for cumulative transfer

Comaparative figures - Narrative and commentary (draft EY 19 May 2017).pdf

Accounting approach: Ontario Pension Plans
Year-end adjustments

Narrative/commentary for comparative figures (DRAFT)

1. Adjustment for contribution receivable (OTPP)

- "Market value of assets" provided in the financial information letter from OTPP includes contribution receivable to be made by the Province (i.e. accrual basis)
- The market value of assets (and market-related value of assets) should not include receivable under PSAB

Current state and related adjustment	Proposed accounting treatment
- 50% of assets and obligations are allocated to the Province (which includes 50% of the contribution receivable) - Balance sheet position (Province's portion) is reduced by 50% of contribution receivable (embedded with other prior year adjustments)	- As the contribution receivable relates entirely to a lag in the Province's contribution, the Province's portion of the balance sheet position is reduced by 100% of the contribution receivable. - In addition, the expected return on asset related to the Province is reduced (i.e. expense is increased) to exclude return on receivable assets.

2. Reversal of unamortized contribution differences (OTPP, OPSEUPP, HOOPP, CAATTPP)

- For all Plans other than PSPP, a comparison is made based on the assumed required employer contributions against the employee contributions (as per funding policy and Plan requirement). Any differences (i.e. over/under contribution by the Province) are amortized over EARSL. In other words, the differences are being treated as experience gain/loss.
- The current comparisons implicitly included differences due to timing between employers and employees (e.g. 2 months lag for OPESUPP), contributions by other participating employer (non-consolidated and/or consolidated agencies), as well as service buybacks contributions by employees which may not require contribution matching by the employer. These adjustments relating to contribution differences, which have been growing over time, do not appear to be warranted.

Current state and related adjustment	Proposed accounting treatment
- Comparison (vary by Plan) is made to determined contribution differences each year - Contribution differences are amortized over EARSL, similar to experience gain/loss - Balance sheet reconciliation reflect contributions made by Province only, and adjusted by the unamortized contribution differences	- Eliminate comparison and year-end adjustment - Reflect the appropriate proportion of total contributions that are accounted for in the Province's portion of the assets

- OTPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($254M) is to be amortized over EARSL (approximately $30M per year).
  - Each year, the amount to be amortized is determined as the difference the (i) Province contributions and (ii) the sum of total employee contributions and other employer contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employer appropriately and the potential timing differences (12 months lag). Excluding timing differences, the appropriate comparison would be (i) province contributions and (ii) employee contributions minus other employer contributions. As such, the current comparison result in "under contributions" by the Province and growing overtime.
  - We recommend the year-end adjustment be eliminated and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers.

- OPSEUPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($52M) is to be amortized over EARSL (approximately $5M to $10M per year).
  - Each year, the amount to be amortized is determined as the difference between the employee contributions and the Province contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employers and potential timing differences. As such, the current comparison inaccurately presents "under contributions" by the Province, which is growing overtime.
  - We recommend the year-end adjustment be eliminated, and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers (consolidated/non-consolidated).

- HOOPP
  - The unamortized contribution differences (56% x 85.2%) at April 1, 2015 ($83M) is to be amortized over EARSL (approximately $10M per year). Each year, the amount to be amortized is determined as the difference between the employee contributions and the employer contributions.
  - The current employer contribution rate is 126% of the employee contributions (in respect of required contributions for member related to current service, or contributions with no earnings for services under Section 5.2 (1), (2), and (3) and Section 5.5 of the Plan text).
  - The comparison does not recognize that the employers may not be required to make corresponding contributions towards all employee contributions (e.g. for past service purchase as per Section 12 of the Plan text; referred to as "other employee contributions" under the letter from HOOPP).
  - Consequently, the unamortized contribution differences appears to correspond to additional contributions made by employees to which an employer match may not be required. Upon confirmation, we recommend the year-end adjustment be eliminated and irregular employee contributions which do not require an employer match be excluded from P&L).

- CATTPP
  - The unamortized contribution differences at April 1, 2015 (158k) is in respect to year 2005 and 2006; contributions since have been split equally (i.e. no difference to be amortized). The amount is to be fully amortized by end of F2016 ($119k income for F2015 and $39k income for F2016).
  - Given the funding policy and arrangement for the Plan, the differences in respect of year 2005 and 2006 are likely result of special circumstances (i.e. not an experience g/l due to over/under contributions per requirement). We would recommend the outstanding unamortized amount to be reversed, consistent with the treatment of the differences arise during F2016 as outlined below. However, we note that the amount would be amortized by end of F2016 regardless and will not have further year-end adjustments onwards.
  - During F2016, the contributions between employers and employees are not exactly 50/50 due to a special arrangement related to the ROM transfers. The differences of $1M does not constitute an over contribution by the employer. As such, we do not recommend the differences to be amortized as an experience gain/loss. Rather, 50% of the excess (500k) should be reflected as contributions made during the year for Ontario's portion (as it has been accounted for in the assets). This will also translate to a lower change in valuation allowance for F2016, resulting in a lower expense.

3. Reversal of unamortized gains/losses due to historical cumulative transfers (OTPP, PSPP, OPSEUPP)

- During some historical years, transfer from other plans were reflected as an expense through P&L; however, this was later determined to be inconsistent with the requirement under PSAB. Per historical agreement with the AG, the total cumulative transfer reported is to be corrected by amortizing over EARSL and reporting an income through P&L until the full amount is reversed.

Current state and related adjustment	Proposed accounting treatment
- Historical cumulative transfers reported as expense are amortized as income; balance sheet is adjusted by the outstanding unamortized amount	- Immediately recognized the outstanding amount and eliminate year-end adjustment for expense and balance sheet going forward
- OTPP: At March 31, 2015, $51M (100%) is outstanding (income of $10M to be recognized per year for the next 5 years)	- OTPP: the Province's expense portion (50%) will increase by $5M for the next five years; with $25 asset year-end adjustment removed at April 1, 2015
- PSPP: At March 31, 2015, $74M is outstanding (income of $74M to be fully recognized for F2015 expense)	- PSPP: no impact if the year-end adjustment is to be reversed through expense (only 1 year of amortization is outstanding at April 2, 2015)
- OPSEUPP: At March 31, 2015, $35M (100%) is outstanding (income of $12M to be recognized for F2015, F2016 and $1M to be recognized for F2017 expense)	- OPSEUPP: the Province's expense portion (50%) will increase by $6M for the next two years; with $17 asset year-end adjustment removed at April 1, 2015

4. Adjustment to reflect the Province's share, year-end adjustment for accumulated contributions by other employers/agencies (non-consolidated/consolidated)

- Refer to "accounting approach – Ontario Pension Plans" provided by EY on 10 May 2017.
- For OTPP and OPSEUPP, less than 50% of the surplus would be reported by the Province under the proposed changes to reflect the portion related to other participating employers.
- Other considerations:
  - If the proportion related to other employers is to be updated annually and the treatment of the changes due to the annual proportion update (e.g. balance sheet adjustment vs reflect as experience gain/loss to be amortized through P&L).
  - The offsetting adjustment to "other consolidated agencies" and the overall impact (which should be minimal for PSPP and OPSEUPP, in aggregate); the true difference from the current approach to the proposed changes should correspond to reflecting portions associated with non-consolidated employers.

HOOPP - comparative figures (draft EY 19 May 2017).pdf

Comparative figures: HOOPP Ending Fiscal 2016	Current						Proposed	
			(all employers)		(Ontario) (of 56%)		(Ontario) (of 56%)	
							1. Unamortized contribution differences	
(employer contributes 126% of employee contributions)								
% of assets, obligations	**100%**	**100%**	**56%**	**56%**	**85.2%**	**84.5%**	**85.2%**	**84.5%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions								
BOY discount rate	6.00%	5.75%	6.00%	5.75%	6.00%	5.75%	6.00%	5.75%
Reconciliation - Obligation								
BOY	49,720	52,825	27,843	29,582	23,722	24,997	23,722	24,997
Interest accrued on benefits	2,997	3,049	1,678	1,707	1,430	1,443	1,430	1,443
Total current period benefit cost	2,306	2,478	1,291	1,388	1,100	1,173	1,085	1,154
other employee contributions							15	18
Transfers	79	52	44	29	38	25	38	25
Cost of plan amendments	115	108	64	60	55	51	55	51
Less: Benefits paid	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Experience loss/(gain)	(543)	80	(304)	45	(259)	38	(259)	38
Change in assumptions (basis)	75	(571)	42	(320)	36	(270)	36	(270)
EOY DBO	52,825	55,894	29,582	31,301	25,204	26,449	25,204	26,449
Reconciliation of Assets - MVA (based on actuary's letter)								
BOY, Market value of assets	60,848	63,922	34,075	35,796	29,032	30,248	29,032	30,248
Contributions - current service (employees)	800	903	448	506	382	427	382	427
Contributions - current service (employers)	1,009	1,138	565	637	481	539	481	539
Contributions - past service (employees)	79	28	44	16	38	13	38	13
Contributions - past service (employers)	100	35	56	20	48	17	48	17
Contributions - Other (employees)	32	39	18	22	15	18	15	18
Transfers	79	52	44	29	38	25	38	25
Benefit paid	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Assets return	2,899	6,369	1,623	3,567	1,383	3,014	1,383	3,014
EOY, market value of assets	63,922	70,359	35,796	39,401	30,498	33,294	30,498	33,294
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)								
BOY, MRVA	53,873	60,001	30,169	33,601	25,704	28,393	25,704	28,393
Contributions and transfers	2,099	2,195	1,175	1,229	1,001	1,039	1,001	1,039
Benefit payment	(1,924)	(2,127)	(1,077)	(1,191)	(918)	(1,006)	(918)	(1,006)
Expected return on assets (MRVA)	(3,238)	(3,452)	(1,813)	(1,933)	(1,545)	(1,634)	(1,545)	(1,634)
Asset gain/(loss)	9,191	9,805	5,147	5,491	4,385	4,640	4,385	4,640
EOY, MVRA	60,001	66,422	33,601	37,196	28,628	31,431	28,628	31,431
Pension Expense								
Current service cost (Gross)	2,306	2,478	1,291	1,388	1,100	1,173	1,085	1,154
Less employee contributions (in respect of current service cost)	(800)	(903)						
Less employee contributions (in respect of past service cost)	(79)	(28)						
Less employee contributions (in respect of other)	(32)	(39)						
Interest - obligation	3,000	3,049	1,680	1,707	1,432	1,443	1,432	1,443
Expected rate of return (MRVA)	(3,238)	(3,452)	(1,813)	(1,933)	(1,545)	(1,634)	(1,545)	(1,634)
Amortization - (gains)/loss	(475)	(724)	(266)	(405)	(226)	(342)	(226)	(342)
Amortization of contribution differences	-	-	(11)	(13)	(9)	(11)	-	-
Expense/(Income)	683	381	882	744	751	628	745	621

Comparative figures: HOOPP Ending Fiscal 2016	Current						Proposed	
			(all employers)		(Ontario) (of 56%)		(Ontario) (of 56%)	
							1. Unamortized contribution differences	
(employer contributes 126% of employee contributions)								
% of assets, obligations	**100%**	**100%**	**56%**	**56%**	**85.2%**	**84.5%**	**85.2%**	**84.5%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)					84.40%		84.40%	
Accrued benefit obligation, opening balance	49,720		27,843		23,500		23,500	
Less: pension fund assets, opening balance	(53,873)		(30,169)		(25,463)		(25,463)	
Pension liability (surplus) - BOY	(4,153)		(2,326)		(1,963)		(1,963)	
Unamortized experience losses (gains)	6,211		3,478		2,936		2,936	
Pension liability (asset) at BOY	2,058		1,152		973		973	
Adjustment for contribution differences	-		98		83		-	
Pension liability (asset) at BOY (PY %)	2,058		1,251		1,056		973	
Adjustment for change in annual allocation percentage								
Adjusted Pension liability (asset) at BOY (CY %)								
Opening balance adjustment (by layer)							(83)	
Pension Liability - Ending								
Accrued benefit obligation, closing balance	52,825	55,894	29,582	31,301	25,204	26,449	25,204	26,449
Less: pension fund assets, closing balance	(60,001)	(66,422)	(33,601)	(37,196)	(28,628)	(31,431)	(28,628)	(31,431)
Pension deficit/(surplus) - EOY	(7,176)	(10,528)	(4,019)	(5,896)	(3,424)	(4,982)	(3,424)	(4,982)
Unamortized experience losses (gains)	8,809	11,369	4,933	6,367	4,203	5,380	4,203	5,380
Pension liability (asset) at EOY	1,632	841	914	471	779	398	779	398
Adjustment for "contributions differences"	-	-	109	124	93	104	-	-
Pension liability (asset) at Fiscal EOY	1,632	841	1,023	594	872	502	779	398
Pension Liability - Continuity (fiscal year)								
Opening Fiscal pension liability	2,058	1,632	1,251	1,023	1,056	872	1,056	779
a. Adjusted due to change in annual % allocation					10	(7)	9	(6)
b. adjustment for unamortized contribution differences	-	-	-	-	-	-	(83)	-
Adjusted opening balance liability	2,058	1,632	1,251	1,023	1,066	865	982	772
Pension expenditure	683	381	882	744	751	628	745	621
Less: employer contributions (to % of 56% of total cont.)	(1,109)	(1,173)	(1,109)	(1,173)	(945)	(991)	(949)	(996)
Ending Fiscal pension liability	1,632	841	1,023	594	872	502	779	398
balance test	(0)	0	(0)	(0)	(0)	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a result of "other employee contributions" (buyback)
3. No adjustment for cumulative transfer
4. No adjustment to current adjustment for non-controlled/non-consolidated agencies

OPSEUPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Assumptions														
BOY discount rate	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%	6.50%	6.25%
Reconciliation - Obligation														
BOY DBO	15,133	15,557	7,567	7,779	7,567	7,779	7,567	7,779	7,567	7,779	7,211	7,413	7,211	7,413
Interest accrued on benefits	969	958	484	479	484	479	484	479	484	479	462	456	462	456
Total current period benefit cost (including past service)	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Less: benefits paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Experience loss/(gain)	(202)	(65)	(101)	(33)	(101)	(33)	(101)	(33)	(101)	(33)	(96)	(31)	(96)	(31)
Change in assumptions (basis)	124	610	62	305	62	305	62	305	62	305	59	291	59	291
EOY DBO (actuary)	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Reconciliation of Assets - MVA (based on actuary's letter)														
BOY, Market value of assets	17,481	18,399	8,741	9,200	8,741	9,200	8,741	9,200	8,741	9,200	8,330	8,767	8,330	8,767
Contributions - employees	241	259	121	130	121	130	121	130	121	130	115	123	115	123
Contributions - Ontario	214	219	107	109	107	109	107	109	107	109	102	104	102	104
Contributions - other participating employers	51	31	26	16	26	16	26	16	26	16	24	15	24	15
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit paid	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Assets return	1,293	876	647	438	647	438	647	438	647	438	616	417	616	417
End of year, Market value of assets	18,399	18,904	9,200	9,452	9,200	9,452	9,200	9,452	9,200	9,452	8,767	9,008	8,767	9,008
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)														
BOY, MRVA	16,370	17,380	8,185	8,690	8,185	8,690	8,185	8,690	8,185	8,690	7,800	8,282	7,800	8,282
Contributions and transfers	506	509	253	255	253	255	253	255	253	255	241	243	241	243
Transfers	16	20	8	10	8	10	8	10	8	10	8	10	8	10
Benefit payment	(897)	(900)	(449)	(450)	(449)	(450)	(449)	(450)	(449)	(450)	(427)	(429)	(427)	(429)
Expected return on assets (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Actuarial asset gain/(loss), in excess of EROA	2,437	2,481	1,218	1,240	1,218	1,240	1,218	1,240	1,218	1,240	1,161	1,182	1,161	1,182
EOY, MVRA	17,380	18,415	8,690	9,208	8,690	9,208	8,690	9,208	8,690	9,208	8,282	8,775	8,282	8,775
Pension Expense														
Current service cost (gross), including past service	414	416	207	208	207	208	207	208	207	208	197	198	197	198
Less employer contribution (consolidated agencies)													(27)	(24)
Less employee contributions (in respect of current service cost)	(241)	(259)			-	-	-	-	-	-				
Interest - obligation	969	958	484	479	484	479	484	479	484	479	461	456	461	456
Expected rate of return (MRVA)	(1,052)	(1,075)	(526)	(537)	(526)	(537)	(526)	(537)	(526)	(537)	(501)	(512)	(501)	(512)
Amortization - (gains)/losses	51	(11)	26	(6)	26	(6)	26	(6)	26	(6)	24	(5)	24	(5)
Amortization of cumulative transfers	(11)	(11)	(6)	(6)	(6)	(6)	-	-	-	-	-	-	-	-
Amortization of contribution differences	-	-	(5)	(7)	-	-	-	-	-	-	-	-	-	-
Expense/(Income)	129	18	180	132	185	139	191	144	191	144	182	137	155	113

Comparative figures: OPSEUPP (DRAFT) Ending Fiscal 2016	Current				Proposed									
									Accounting treatment related to other agencies					
					Contribution differences (EE vs ON)		Cumulative transfers		Accumulated other agencies contributions adjustment		Reduce portion to reflect non-consolidated agencies		Reduce expense to reflect consolidated agencies	
(employer contributes 126% of employee contributions)														
Province's % of assets, obligations	**100%**	**100%**	**50%**	**50%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**47.7%**	**47.7%**	**47.7%**	**47.7%**
($ in millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Pension Liability - Opening (1 April 2015)														
Accrued benefit obligation, opening balance	15,133		7,567		7,567		7,567		7,567		7,211		7,211	
Less: pension fund assets, opening balance	(16,370)		(8,185)		(8,185)		(8,185)		(8,185)		(7,800)		(7,800)	
Pension liability (surplus) - BOY	(1,237)		(619)		(619)		(619)		(619)		(589)		(589)	
Unamortized experience losses (gains)	(366)		(183)		(183)		(183)		(183)		(174)		(174)	
Pension liability (asset) at BOY	(1,603)		(802)		(802)		(802)		(802)		(764)		(764)	
Unamortized losses (gains) for cumulative transfers	35		17		17		-		-					
Adjustment for contributions (other employer)	508		254		254		254		-		-		-	
Unamortized difference in contributions (EE vs ON)	-		43		-		-		-		-		-	
Pension liability (asset) at BOY	(1,060)		(487)		(530)		(547)		(802)		(764)		(764)	
							-		-					
Opening balance adjustment (by layer)					**(43)**		**(17)**		**(254)**		**38**		**-**	
Pension Liability - Ending														
Accrued benefit obligation, closing balance	15,557	16,596	7,778	8,298	7,778	8,298	7,778	8,298	7,778	8,298	7,413	7,908	7,413	7,908
Less: pension fund assets, closing balance	(17,380)	(18,415)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,690)	(9,208)	(8,282)	(8,775)	(8,282)	(8,775)
Pension deficit/(surplus) - EOY	(1,823)	(1,819)	(912)	(910)	(912)	(910)	(912)	(910)	(912)	(910)	(869)	(867)	(869)	(867)
Unamortized experience losses (gains)	96	(129)	48	(65)	48	(65)	48	(65)	48	(65)	46	(62)	46	(62)
Pension liability (asset) at EOY	(1,727)	(1,948)	(864)	(974)	(864)	(974)	(864)	(974)	(864)	(974)	(823)	(928)	(823)	(928)
Unamortized losses (gains) for cumulative transfers	24	12	12	6	12	6	-	-	-	-				
Adjustment for other employer contributions	559	591	280	295	280	295	280	295	-	-	-	-	-	-
Unamortized difference in contributions	-	-	52	65	-	-	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY	(1,145)	(1,345)	(521)	(607)	(573)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
			(520)	(607)										
Pension Liability - Continuity (fiscal year)														
Opening Fiscal pension liability	(1,060)	(1,145)	(487)	(520)	(487)	(572)	(487)	(584)	(487)	(864)	(487)	(823)	(487)	(823)
opening balance adjustment (write-offs)	-	-	-	-	(43)	-	(61)	-	(315)	-	(277)	-	(277)	-
Adjusted opening balance liability	(1,060)	(1,145)	(487)	(520)	(530)	(572)	(547)	(584)	(802)	(864)	(764)	(823)	(764)	(823)
Pension expenditure	129	18	180	132	185	139	191	144	191	144	182	137	155	113
Less: x% of contribution (in excess of ON contributions)					(14)	(20)	(14)	(20)	(39)	(36)	(27)	(24)	-	-
Less: ON contributions	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)	(214)	(219)
Ending Fiscal pension liability	(1,145)	(1,345)	(520)	(607)	(572)	(673)	(584)	(679)	(864)	(974)	(823)	(928)	(823)	(928)
balance test	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Commentary:

1. no adjustment related to contribution receivable
2. Adjustment related to unamortized contribution differences
   - current difference is a comparison between ON contributions and total employee contributions (which includes portion in respect of other employers)
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 47.7% to reflect participation of non-consolidated employers (consistent with HOOPP)
5. Reduce expense (similar to PSPP) by contributions made by consolidated employer (estimated)

OTPP - comparative figures (draft EY 19 May 2017).pdf

Comparative figures: OTPP (DRAFT)
Ending 2016

		Current				Proposed									
						1. Contribution Receivable (without adjusting MRVA)		2. contribution differences		3. Cumulative transfers		4. Other agencies		5. EROA/MRVA adjustment for contribution receivable	
Province's % of assets, obligations		100%	100%	50%	50%	50%	50%	50%	50%	50%	50%	49%	49%	49%	49%
($ in millions)	2014	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Reconciliation - Obligation															
BOY DBO		113,801	116,367	56,901	58,184	56,901	58,184	56,901	58,184	56,901	58,184	55,762	57,020	55,762	57,020
Interest accrued on benefits		7,310	7,277	3,655	3,639	3,655	3,639	3,655	3,639	3,655	3,639	3,582	3,566	3,582	3,566
Total current period benefit cost (service accrual)		2,902	2,933	1,451	1,467	1,451	1,467	1,451	1,467	1,451	1,467	1,422	1,437	1,422	1,437
Transfers, including buy-backs (ER and EE)		14	13	7	7	7	7	7	7	7	7	7	6	7	6
Less: Benefits paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Experience loss/(gain)		(2,741)	(731)	(1,371)	(366)	(1,371)	(366)	(1,371)	(366)	(1,371)	(366)	(1,343)	(358)	(1,343)	(358)
Change in assumptions (basis)		617	3,638	309	1,819	309	1,819	309	1,819	309	1,819	302	1,783	302	1,783
EOY DBO		116,367	123,772	58,184	61,886	58,184	61,886	58,184	61,886	58,184	61,886	57,020	60,648	57,020	60,648
Reconciliation of Assets - MVA (based on actuary's letter)															
BOY MVA		154,476	171,440	77,238	85,720	77,238	85,721	77,238	85,721	77,238	85,721	75,693	84,006	75,693	84,006
Contributions - EE (in respect of CY accrual)		1,615	1,653	808	827	808	827	808	827	808	827	791	810	791	810
Contributions (ON) - est. receivable from PY (in respect of PY accrual)	(1,504)	(1,571)	(1,610)	(786)	(805)	(786)	(805)	(786)	(805)	(786)	(805)	(770)	(789)	(770)	(789)
Contributions (ON) - actual cash during fiscal year (in respect of PY accrual)	1,525	1,597	1,634	799	817	799	817	799	817	799	817	783	801	783	801
Contributions (ON) - est. receivable in next fiscal year (in respect of CY accrual)	*1,571*	*1,610*	*1,638*	805	819	805	819	805	819	805	819	789	803	789	803
Contributions (ON) - (special payments for foregone CPI)	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Contributions (other ER) - CSC		33	34	17	17	17	17	17	17	17	17	16	17	16	17
Transfers		14	13	7	7	7	7	7	7	7	7	7	6	7	6
Benefit paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Expected return on assets		9,929	10,603	4,965	5,302	4,965	5,302	4,965	5,302	4,965	5,302	4,865	5,195	4,833	5,165
Actuarial asset gain/(loss) for MRVA smoothing		9,272	(4,120)	4,636	(2,060)	4,636	(2,060)	4,636	(2,060)	4,636	(2,060)	4,543	(2,019)	4,575	(1,988)
End of year, Market value of assets		171,440	175,561	85,721	87,781	85,721	87,782	85,721	87,782	85,721	87,782	84,006	86,025	84,006	86,025
Reconciliation of Assets - MRVA															
BOY, MRVA		143,076	156,998	71,538	78,499	71,538	78,499	71,538	78,499	71,538	78,499	70,107	76,929	70,107	76,929
adjustment for interest on cont. receivable		(37)	(38)	(18)	(19)	(18)	(19)	(18)	(19)	(18)	(19)	(18)	(19)	-	-
Contributions and transfers		3,299	3,363	1,650	1,681	1,650	1,681	1,650	1,681	1,650	1,681	1,617	1,648	1,617	1,648
Expected return on assets (MRVA)		9,227	9,739	4,614	4,869	4,614	4,869	4,614	4,869	4,614	4,869	4,521	4,772	4,521	4,772
Reversed expected return on assets (MRVA) on receivable														(103)	(101)
Benefit paid		(5,536)	(5,725)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,768)	(2,863)	(2,713)	(2,805)	(2,713)	(2,805)
Actuarial asset gain/(loss) - to be amortized		6,968	5,459	3,484	2,730	3,484	2,730	3,484	2,730	3,484	2,730	3,415	2,675	3,474	2,713
EOY MVRA		156,998	169,796	78,499	84,898	78,499	84,898	78,499	84,898	78,499	84,898	76,929	83,200	76,904	83,155
						-	-	-	-	-	-				
Pension Expense															
Current service cost		2,902	2,933	1,451	1,467	1,451	1,467	1,451	1,467	1,451	1,467	1,422	1,437	1,422	1,437
Interest - obligation		7,312	7,186	3,656	3,593	3,656	3,593	3,656	3,593	3,656	3,593	3,583	3,521	3,583	3,521
Expected rate of return (MRVA)		(9,227)	(9,739)	(4,614)	(4,869)	(4,614)	(4,869)	(4,614)	(4,869)	(4,614)	(4,869)	(4,521)	(4,772)	(4,418)	(4,671)
Interest - ON contribution receivable		38	37	19	19	19	19	19	19	19	19	19	18	-	-
Amortization - (gains)/loss		(723)	(1,364)	(362)	(682)	(362)	(682)	(362)	(682)	(362)	(682)	(354)	(668)	*(354)*	*(668)*
Amortization - cumulative transfer		(11)	(10)	(6)	(5)	(6)	(5)	(6)	(5)	-	-	-	-	-	-
Amortization - over/under contribution		-	-	(27)	(30)	(27)	(30)	-	-	-	-	-	-	-	-
Expense/(Income)		302	(946)	118	(508)	118	(508)	145	(478)	151	(473)	148	(464)	232	(381)

Comparative figures: OTPP (DRAFT)
Ending 2016

		Current				Proposed									
						1. Contribution Receivable (without adjusting MRVA)		2. contribution differences		3. Cumulative transfers		4. Other agencies		5. EROA/MRVA adjustment for contribution receivable	
Province's % of assets, obligations		100%	100%	50%	50%	50%	50%	50%	50%	50%	50%	49%	49%	49%	49%
($ in millions)	2014	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Pension Liability - Opening (1 April 2015)															
Accrued benefit obligation, opening balance		113,801		56,901		56,901		56,901		56,901		55,762		55,762	
Less: pension fund assets, opening balance		(143,076)		(71,538)		(71,538)		(71,538)		(71,538)		(70,107)		(70,107)	
Pension liability (surplus) - BOY		(29,275)		(14,638)		(14,638)		(14,638)		(14,638)		(14,345)		(14,345)	
Unamortized experience losses (gains)		9,631		4,816		4,816		4,816		4,816		4,719		4,719	
Pension liability (asset) at December BOY		(19,644)		(9,822)		(9,822)		(9,822)		(9,822)		(9,625)		(9,625)	
Adjustment															
Adjustment for interest on OTPP receivable from Province		37		18		18		18		18		18		-	
Adjustment for special payments - foregone CPI		(2)		(1)		(1)		(1)		(1)		(1)		(1)	
Adjustment for different year ends		1,712		856		-		-		-		-		-	
Reversal of ON contribution receivable included in assets						1,610		1,610		1,610		1,610		1,610	
Adjustment for cumulative transfer		51		25		25		25		-		-		-	
Unamortized difference in contributions		-		256		256		-		-		-		-	
Pension liability (asset) at BOY		(17,897)		(8,667)		(7,913)		(8,169)		(8,195)		(7,998)		(8,016)	
Opening balance adjustment						754		(256)		(25)		196		(18)	
Pension Liability - Ending															
Accrued benefit obligation, closing balance		116,367	123,772	58,184	61,886	58,184	61,886	58,184	61,886	58,184	61,886	57,020	60,648	57,020	60,648
Less: pension fund assets, closing balance		(156,998)	(169,796)	(78,499)	(84,898)	(78,499)	(84,898)	(78,499)	(84,898)	(78,499)	(84,898)	(76,929)	(83,200)	(76,904)	(83,155)
Pension deficit/(surplus) - EOY		(40,631)	(46,024)	(20,316)	(23,012)	(20,316)	(23,012)	(20,316)	(23,012)	(20,316)	(23,012)	(19,909)	(22,552)	(19,884)	(22,507)
Unamortized experience losses (gains)		18,003	19,100	9,001	9,550	9,001	9,550	9,001	9,550	9,001	9,550	8,821	9,359	8,880	9,500
Pension liability (asset) at December 31EOY		(22,628)	(26,924)	(11,314)	(13,462)	(11,314)	(13,462)	(11,314)	(13,462)	(11,314)	(13,462)	(11,088)	(13,193)	(11,004)	(13,007)
Adjustment															
Adjustment for interest on OTPP receivable from Province		38	37	19	19	19	19	19	19	19	19	19	18	-	-
Adjustment for special payments - foregone CPI		(3)	(4)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(2)	(1)	(2)
Adjustment for different year ends		1,751	1,779	876	890	-	-	-	-	-	-	-	-	-	-
Reversal of ON contribution receivable included in assets						1,610	1,638	1,610	1,638	1,610	1,638	1,610	1,638	1,610	1,638
Adjustment for cumulative transfer		40	30	20	15	20	15	20	15	-	-	-	-	-	-
Unamortized difference in contributions		-	-	254	251	254	251	-	-	-	-	-	-	-	-
Pension liability (asset) at Fiscal EOY		(20,803)	(25,082)	(10,147)	(12,290)	(9,413)	(11,542)	(9,667)	(11,793)	(9,687)	(11,807)	(9,461)	(11,539)	(9,395)	(11,371)
Pension Liability - Continuity															
Opening fiscal pension liability -				(8,667)	(10,147)	(8,667)	(9,412)	(8,667)	(9,667)	(8,667)	(9,687)	(8,667)	(9,461)	(8,667)	(9,396)
Opening balance adjustment				-	-	754	-	496	-	473	-	669	-	869	-
Adjusted opening balance liability				(8,667)	(10,147)	(7,913)	(9,412)	(8,169)	(9,667)	(8,195)	(9,687)	(7,998)	(9,461)	(8,016)	(9,396)
Pension expenditure				118	(508)	118	(508)	145	(478)	151	(473)	148	(464)	232	(381)
Less: % of contribution in excess of ON contribution (cash) *						(19)	13	(45)	(13)	(45)	(13)	(12)	21	(13)	40
Less: ON contributions				(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)	(1,598)	(1,635)
Ending fiscal pension liability				(10,147)	(12,290)	(9,412)	(11,542)	(9,667)	(11,793)	(9,687)	(11,808)	(9,461)	(11,539)	(9,396)	(11,371)
balance test						0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

Commentary:
1. Adjusted to reflect ON's contribution receivable included in market value of assets
2. Adjustment related to unamortized contribution differences
   - current contribution differences do not reflect contributions by other employers appropriately
3. Adjustment for cumulative transfer
4. Reduce employer's share from 50% to 49% to reflect participating of other employers (consistent with HOOPP)
5. Estimated adjustment to reflect the expected return on contribution receivable included in P&L, corresponding impact to MRVA and gain/loss calculations

* To balance, the contributions should correspond to the contributions included for determining the market related value of assets; the differences also include differences between actual contributions and contribution receivable assumed.

PSPP - comparative figures (draft EY 18 May 2017).pdf

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Assumptions						
BOY discount rate	6.25%	6.00%	6.25%	6.00%	6.25%	6.00%
Reconciliation - Obligation						
BOY DBO	22,215	23,147	22,215	23,147	22,215	23,147
Interest accrued on benefits	1,375	1,373	1,375	1,373	1,375	1,373
Current service cost (in respect of current period's accrual)	586	615	586	615	586	615
Past service cost - employee	29	38	29	38	29	38
Past service cost - employer	5	5	5	5	5	5
Transfers	111	85	111	85	111	85
Less: benefits paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Experience loss/(gain)	62	915	62	915	62	915
Change in assumptions (basis)	(59)	-	(59)	-	(59)	-
EOY DBO	23,147	24,934	23,147	24,934	23,147	24,934
Reconciliation of Assets - MVA						
BOY, Market value of assets	22,223	23,075	22,223	23,075	22,223	23,075
Contributions - employees (in respect of current service accrual)	290	302	290	302	290	302
Contributions - Ontario (total, except past service)	361	368	361	368	361	368
Contributions - other employers	48	53	48	53	48	53
Contributions - past service (employees and employers)	33	42	33	42	33	42
Transfers	111	85	111	85	111	85
Benefit paid	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Assets return	1,184	1,385	1,184	1,385	1,184	1,385
EOY, Market value of assets	23,075	24,066	23,075	24,066	23,075	24,066
Reconciliation of Assets - MRVA (does not reflect proposed adjustment)						
BOY	20,435	21,886	20,435	21,886	20,435	21,886
Contributions and transfers	843	851	843	851	843	851
Benefit payment	(1,176)	(1,245)	(1,176)	(1,245)	(1,176)	(1,245)
Expected return on assets (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Actuarial asset gain/(loss)	3,051	2,670	3,051	2,670	3,051	2,670
EOY MVRA	21,886	22,861	21,886	22,861	21,886	22,861
Pension Expense						
Current service cost (Gross)	586	615	586	615	586	615
Less employee contributions (in respect of current service cost)	(290)	(302)	(290)	(302)	(290)	(302)
Less other employer contributions	-	-	-	-	(48)	(53)
Past service cost (employer, not contributed by ON)	5	5	5	5	-	-
Interest - obligation	1,375	1,373	1,375	1,373	1,375	1,373
Expected rate of return (MRVA)	(1,267)	(1,301)	(1,267)	(1,301)	(1,267)	(1,301)
Amortization - (gains)/loss	203	132	203	132	203	132
Amortization of unwinding cumulative transfer reported as CSC in historical year	(74)	-	-	-	-	-
Expense/(Income)	538	522	612	522	560	464
check against current workbook	538	522				

Comparative figures - PSPP (proposed) Ending Fiscal 2016	Current		Proposed		Proposed	
			Cumulative Transfer		Other employers	
% of assets, obligations (in millions)	100% 2015	100% 2016	100% 2015	100% 2016	100% 2015	100% 2016
Pension Liability - Opening (1 April 2015)						
Accrued benefit obligation, opening balance	22,215		22,215		22,215	
Less: pension fund assets, opening balance	(20,435)		(20,435)		(20,435)	
Pension liability (asset) at BOY	1,780		1,780		1,780	
Unamortized experience losses (gains)	(1,238)		(1,238)		(1,238)	
Pension liability (asset) at BOY	542		542		542	
Adjustment for cumulative transfer	74		-		-	
Adjustment for different year ends	592		592		-	
Pension liability (asset) at BOY	1,208		1,134		542	
Opening balance adjustment (by layer)			(74)		(592)	
Pension Liability - Ending						
Accrued benefit obligation, closing balance	23,147	24,934	23,147	24,934	23,147	24,934
Less: pension fund assets, closing balance	(21,886)	(22,861)	(21,886)	(22,861)	(21,886)	(22,861)
Pension liability (asset) at Fiscal EOY	1,261	2,073	1,261	2,073	1,261	2,073
Unamortized experience losses (gains)	(521)	(1,237)	(521)	(1,237)	(521)	(1,237)
Pension liability (asset) at Fiscal EOY	740	837	740	837	740	837
Adjustment for "different year ends"	644	702	644	702	-	-
Pension liability (asset) at Fiscal EOY	1,385	1,539	1,385	1,539	740	837
Pension Liability - Continuity (fiscal year)						
Opening Fiscal pension liability	1,208	1,385	1,208	1,385	1,208	740
Opening adjustment (accumulative)	-	-	(74)	-	(666)	-
Adjusted opening balance liability	1,208	1,385	1,134	1,385	542	740
Periodic pension expenditure	538	522	612	522	560	464
Less: Ontario contributions	(361)	(368)	(361)	(368)	(361)	(368)
Ending Fiscal pension liability	1,385	1,539	1,385	1,539	740	837
balance test	0	0	0	0	(0)	(0)

Commentary:

1. no adjustment related to contribution receivable
2. no adjustment related to unamortized contribution differences
3. Cumulative transfer is fully amortized by end of Fiscal 2015
4. Adjustment to non-controlled/non-consolidated agencies represents:
   - Offset to expense to reflect participation of other employers
   - Removal of year-end adjustment is offset (almost fully) by the same removal of year-end adjustment to the consolidated other agencies