Subject: Auditor General-Global Adjustment Asset Securitization-June 7 2018 election

Question:

As there seems to be considerable public uncertainty about the accuracy of the Government of Ontario's budget disclosures, I am wondering if Premier Kathleen plans to address the discrepancy, (ie by disclosing the actual terms of the actual relevant portions of the terms of the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan agreements), between what the Pension Asset Advisory Panel has stated in their report and what the Auditor General has said in her report?

Response:

The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

In September 2016, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans – the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP). A full valuation allowance reduces the value of the net assets of these plans to NIL. The Auditor General communicated in her 2016 annual report that the valuation allowance is required because the province does not have unilateral access and control of the assets, and there is no agreement between the sponsors to provide this (2016 AG Annual Report, Chapter 2, page 64).

During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

1. The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

   The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS. The report summarizes the key terms in each plan.

Two key findings of the panel were:

a) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

b) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

2. An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the OTPP. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

3. Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and the government will continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in PSAS.