

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

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 rewards¹ of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

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

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored

¹ Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

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.

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 be 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 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).

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, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

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

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

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

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the “funding valuation” prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

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

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the

issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits* (PS 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 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 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 GPFSSs 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.

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 misrepresented 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 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

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.

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 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.

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 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 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 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.

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 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.

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.

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 – 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.

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 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.

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 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.

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.

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.

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.

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.

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 OTTP;
- 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.

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook²

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

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

PS 1000.14-.18 Users and user information needs

- .14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.
- .15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.
- .16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.
- .17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

² 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 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 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 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
 - (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.

- .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 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 arrangement² between the government and a party or parties outside of the government reporting entity³ that has all of the following characteristics:
- (a) the partners co-operate toward achieving significant clearly defined common goals;
 - (b) the partners make a financial investment in the government partnership;
 - (c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
 - (d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered

to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government partnership

Contractual arrangement

- .11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).
- .12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.
- .13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.
- .14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:
 - (a) the activity, duration and reporting obligations of the government partnership;
 - (b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;
 - (c) the financial investments by the partners; and
 - (d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.
- .15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

- .16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

- .17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.
- .18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

- .19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

- .20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

- .21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

- .22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

- .29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.
- .30 Governments may enter into government partnerships that are similar to governmental units ⁵ except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.
- .31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

- .32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.
- .33 Governments may enter into government business partnerships that are similar to government business enterprises ⁶ except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, ⁷ equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

- .34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.
- .35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

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.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

- .017 The components of the retirement benefit liability are:
 - (a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;
 - (b) plan assets, if any; and
 - (c) unamortized actuarial gains and losses.

PS 3250.50-.59 Limit on the carrying amount of an accrued benefit asset

- .050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.
- .051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.
- .052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may

be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

- .053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).
- .054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.
- .055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.
- .056 A government determines its expected future benefit as the sum of:
- (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
 - (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.
- .057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.
- .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.

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.

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.