Pension Asset Review - Embargoed Copy - Confidential

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Attachments:	17 02 06 Executive Summary final.docx (26.06 kB); 17 02 06 Pension Asset Expert Advisory Panel Report Final.docx (96.74 kB)

Jim,

Just want to give you an update on the pension asset review. Here is an embargoed copy of the Expert Panel Report. It is scheduled to be released early next week. Please keep confidential.

The last time the media wasn't interested in speaking to former TPP experts.

I don't know if there will be interested this time, but I wanted to make sure you were kept up to-date on the review.

Please let me know if you would be available to speak to the media if necessary.

Happy to chat if you have any questions.

Steve

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Billions at stake in accounting dispute
Toronto Star
Tue Feb 7 2017
Page: A4
Section: News
Byline: Martin Regg Cohn

Billions of dollars are at stake in a simmering dispute pitting **Ontario**'s auditor general against the provincial government. With the spring budget looming, neither side is backing down.

Now, an outside panel of top accounting and pension experts has determined that auditor general Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets, according to multiple sources.

But the auditor tells me she won't climb down, setting the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone.

The independent pension asset expert panel met her Friday to reveal their findings - explaining why they concluded the pension surplus is a legitimate asset on the government's books. Their report will be made public later this month, giving Lysyk more breathing room to reconsider her position before the budget deadline.

The government - and all Ontarians - may pay a price for this seemingly arcane accounting dispute if the auditor's controversial stance constrains its fiscal margin of manoeuvre, notably Liberal plans to reallocate funds for hydro relief or other spending. Fearing another credit downgrade from outside rating agencies, or an electoral downgrade from the official opposition, Premier Kathleen **Wynne** has turned a balanced budget into an article of faith.

But **Wynne** never accounted for an accounting dispute, which made her deficit elimination goal more complicated.
Lysyk announced last year that she was overturning the rules that allowed governments to book billions of dollars in surpluses for jointly-run pensions deemed provincial assets. First implemented under a PC government, and carried over by the Liberals, the traditional auditor's approach enhanced **Ontario**'s fiscal

picture.

Now Lysyk has changed her mind. Yet she seems to be having it both ways.

On the one hand, the auditor says (naturally) that any deficits in joint pension funds must be counted as government liabilities. That's standard practice.
But with a pension surplus, Lysyk now says not a penny can be counted as an asset. Neither a liability nor a surplus, these billions of dollars are being treated as trans-assets, transmogrified by the auditor into phantom money - a virtual disappearing act.

It's tempting to cast this as a political dispute between Liberal partisans and a politicized auditor. But that would be a misreading of the battle lines.

The most vociferous opposition to Lysyk's position comes from the civil servants who count up the money in the provincial treasury. The auditor, in turn, is as mistrustful of the public servants as she is of their political masters.

Lysyk challenged the controller in the government's treasury board - senior civil servant Cindy Veinot - to provide her with additional evidence that the pension money should continue to be treated as an accounting surplus. But when outside accounting consultant Deloitte LLP corroborated that position, the auditor balked. According to multiple sources, Lysyk dismissed the Deloitte submission as being biased - claiming a conflict of interest because Veinot had previously been a partner at Deloitte, and because the firm was paid a fee.
Lysyk acknowledged such fees are standard practice. But she would not comment on whether Deloitte was biased because a former partner was now a public servant.

Deadlocked, the government announced an independent panel on **Public Service** Accounting Standards, headed by a former chair of the Canadian Actuarial Standards Oversight Council. The expert panel reached its own conclusions:
Like a deficit, a surplus belongs to employers provided they comply with basic rules. Jointly-held pensions aren't that much more complicated - as with a joint bank account or jointly held GIC, both parties hold a proportionate share of the asset.
Lysyk wouldn't discuss Friday's meeting with the independent panel of experts, or its findings to date. Asked about the panel's credentials, she countered, "we did our homework, and we did a lot of work."

The auditor told me her mind is made up and nothing she has heard so far has changed her view. Which leaves her on a limb and the government in the lurch.

If both sides harden their positions, the auditor may refuse to fully endorse the treasury's public accounts and the government may opt to go its own way - providing detailed explanations to credit rating agencies to disprove the auditor's stance.

There are political overtones to this dispute and economic consequences. The opposition will side with the godly auditor against a big bad Liberal government. But the financial and accounting community will make up its own mind when they look at the books and the detailed explanations.

Billions of dollars are at stake, to be sure. Reputations, too.

Martin Regg Cohn's political column appears Tuesday, Thursday and Saturday. mcohn@thestar.ca, Twitter: @reggcohn

Illustration:
• Bonnie Lysyk has wiped away nearly $11 billion in government assets.
Edition: ONT
Length: 785 words

Wynne welcomes report saying pension surplus counts toward province's bottom line

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Section: News | Toronto Star
Byline: Rob Ferguson(https://author.thestar.com/content/thestar/authors.ferguson_rob.html)

Premier Kathleen Wynne is welcoming a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset against the province's bottom line.

The finding gives her Liberal government ammunition in a spat((www.thestar.com»)) with Auditor General Bonnie Lysyk, who concluded last year that the money, which is not readily available to the province, should no longer be listed as an asset.
"There was a conflict between the advice that the auditor general is giving us and the advice that our officials were giving us," Wynne said Tuesday.

"We sought independent third-party advice and you know we have to take that independent advice very seriously."
The report, on which the auditor general was briefed last week, will be made public later this month.

Lysyk's ruling((www.thestar.com»)), which reversed 14 years of counting the surplus as an asset, became a point of contention because it affects the size of Ontario's deficit, which Wynne promised to eliminate by 2018 when she seeks re-election.
Without the surplus from the Ontario Public Service Employees' Union and Ontario Teachers' pension plans, last year's deficit was $5 billion, not the $3.5 billion the government calculated.

Lysyk's new interpretation of the accounting treatment for the money came after her office took a closer look at the government's claim on the pension plans it co-sponsors.

The change prompted opposition parties to warn the government suddenly had a massive hole in its budget, but Finance Minister Charles Sousa maintained that the budget would be balanced on schedule regardless.

The practice of counting the pension surplus as a government asset dates to the previous Progressive Conservative government.
Lysyk could not immediately be reached for comment, but told the Star's Martin Regg Cohn on Monday that she will not back down.

Wynne said the expert panel included four people with "vast experience" on such issues.

The panelists are: Tricia O'Malley, chair of the Canadian Actuarial Standards Oversight Council; Murray Gold, of Koskie Minsky LLP, a law and pension consulting firm; Uros Karadzic, a partner at Ernst and Young, and Paul Martin, a controller with the government of New Brunswick and a former partner at accounting giant Grant Thornton LLP.

"What we have to do as government is get the best advice that we can," Wynne said Tuesday.

Illustration:
• Ontario Premier Kathleen Wynne: Without the surplus from the Ontario Public Service Employees' Union and Ontario Teachers' pension plans, last year's deficit was $5 billion, not the $3.5 billion the government calculated.
Length: 391 words