Commented [NP1]: Should this be a joint submission (TBS and MOF?)

**Office of the Provincial Controllers Division** | Accounting Policy and Financial Reporting

# Pension Asset Expert Advisory Panel Report back – Business Case

October 18, 2016

President of Treasury Board

Deputy Minister of Treasury Board

# Table of Contents

## Request

To report back the constituting instrument for the Pension Asset Expert Advisory Panel, which will be a Minister's Order.

To report back on the rates of remuneration requested for panel members, and seek approval for the related LGIC OIC..

## Purpose of the Request

On October 5th Treasury Board/Management Board of Cabinet approved the Terms of Reference for the Pension Asset Expert Advisory Panel to review the application of the PSAS to accounting for pension assets, and to provide advice to government. Treasury Board Secretariat is reporting back with the Minister's Order that would create the panel, and to seek approval to propose to LGIC the OIC for the rates of remuneration to be paid to panel members.

This report back will complete the requirements under the Agencies and Appointments Directive (the Directive) for the establishment of short-term bodies, such as the envisioned Expert Panel.

## Business Case Rationale / Background

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

The government passed a time-limited regulation under the Financial Administration Act (FAA) to require the accounting for these pension assets align with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

It is intended that the Expert Advisory Panel will commence its review immediately on appointment of its members. Creation of the panel is to be achieved by a Minister's Order, made by the President of Treasury Board, pursuant to Section 6.1 of the *Ministry* *of Government Services Act*. The Minister's Order will set the termination date for the Panel's activities to be March 31, 2017, enable the Minister to appoint a minimum of 4 and a maximum of 6 panel members and to designate one member as the chair, enable the Minister to approve the Terms of Reference (as previously provided in draft to Treasury Board/Management Board of Cabinet), and require the Minister to seek LGIC approval for rates of remuneration for individual members.

**Commented [NP2]:** The earlier of XXX or XX? (what if the Panel's activities are expedited/completed earlier?

**Commented [CV3]:** I thought we said 3?

**Commented [NP4]:** is this a range? Types of costs? How generic does the wording have to be?

The panel will be supported by staff in Treasury Board Secretariat and the Ministry of Finance, and all expenses related to the panel will be managed from within TBS allocation.

**Commented [NP5]:** ISPPD?

With the appointment of the panel members, and the establishment of the Terms of Reference, a report to the President of the Treasury Board, which will be shared with the Auditor General of Ontario and subsequently made public, will be due from the panel by December 31, 2016.

**Commented [NP6]:** Will the results be made public? A summary version of the report? Not sure if the intent would be to disclose the entire report? May be some sensitive aspects in the report that aren't for public consumption.

Remuneration must take into consideration the following factors:

1. This assignment is urgent to support the government's 2017-18 planning cycle and 2017 Budget as the issue of pension asset accounting is complex, technical and has significant immediate and long-term financial implications to the government. This creates a high degree of pressure on the Panel to thoroughly assess and provide advice on this item in a short period of time.

2. The Province and the Auditor General are in public disagreement on this issue. The release of the results of the Expert Advisory Panel will likely receive significant public and media scrutiny and place the professional reputations of Panel members in the media. The level of expertise required and the professional risk to the Panel members need to be considered in setting compensation.

3. The topics being assessed in particular with respect to the accounting are based on principled-based standards which contain ambiguity. Panel members are being selected based on their professional reputations, as there is no clearly articulated guidance in the accounting standards related to pension assets for jointly sponsored pension plans so professional judgement is required.

4. Pension accounting, actuarial modelling to value pension plan assets and pension plan governance are very specialized areas within legal, actuarial and

accounting professions. Panel members will be expected to provide personal in-depth analysis, in combination with any procured services.

**Commented [NP7]:** Do we mean advice? Not sure what personal analysis is.

## Performance Measurement

Submission of final report by December 31, 2016 and within approved budget.

**Commented [NP8]:** Yes the termination date for the Panel is March 31/17?

## Financial Implications

The proposed remuneration is $2,000 per day for the Chair and $1,900 per day for the members. These rates are consistent with the Directive, which specifies up to $2000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time. The total budget is estimated at $1.3M, which is comprised of:

**Commented [NP9]:** Until the date that the report is issued? Or to the termination date?

Proposed Budget

| | #people | Per diem | # Days | Total Cost |
|---|---|---|---|---|
| Chair | 1 | 2,000 | 75 | $ 150,000 |
| Members | 6 | 1,900 | 50 | 570,000 |
| | | | | 720,000 |
| Travel Budget @10% | | | | 72,000 |
| Procurement costs | | | | 500,000 |
| Total Budget for the Panel | | | | $1,292,000 |

**Commented [NP10]:** Shouldn't the differential for the Chair be higher? $150/day?

**Commented [NP11]:** May want to describe. What are these?

Other experts sitting on Provincial Advisory Panels have been remunerated at similar rates including the short-term Expert Investment Advisory committee on issues related to Hydro One, established in 2015 compensated all committee members at $2,000 per diem. Don Drummond was compensated at $1500 per diem for a long term lower risk report than this Expert Advisory Panel.

Within a budget approved by Treasury Board Secretariat, the Advisory Panel may retain such counsel, staff, or expertise considered necessary in the performance of its duties at reasonable remuneration approved by Treasury Board Secretariat. Panel Members shall be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

**Commented [NP12]:** Section seems vague. Original TOR had support staff referenced, but it was deleted. What is invisioned here? That limited resources, based on consensus of the Panel, could be procured?

Any savings on per diem costs may be reallocated to procurement costs in the approved budget.

The Panel's main deliverable is for December 31, 2016 however the panel will exist until March 31, 2017. The budget recognizes that some of the work of the panel may still occur after December 31, 2016 and is included in the maximum budget.

The Advisory Panel shall follow Treasury Board/Management Board of Cabinet Directives and Guidelines and other applicable government policies in obtaining other services and goods considered necessary in the performance of duties, unless it is not possible to follow them. Should such a circumstance arise, the Chair will consult with government representatives in Treasury Board Secretariat.

The members of the Expert Advisory Panel, including the Chair, shall be paid such remuneration and expenses as the Lieutenant Governor in Council may determine.

The Province will be responsible for the costs of the appointed members to attend the meetings. The costs of any individuals or expenses incurred by such individuals supporting the work of the Panel will also be borne by the Province.

Proposed appointees:

Trish O'Malley, former KPMG partner and member of the Accounting Standards Board
Bill Matthews, Comptroller General – Canada
Uros Karadzic, Partner, Ernst & Young; member, PSAB Task Force
Jim Leech, former CEO, Ontario Teachers' Pension Plan
Murray Gold, partner Koskie Minsky
David Smith, former PwC Chairman
Tom Scott, Director, School of Accounting and Finance, University of Waterloo

**Commented [NP13]:** Does not explicitly address per diem remuneration. Regardless of work continuing after December 31st, from a VFM perspective, one might challenge continuing costs at $2,000/day after bulk of work is completed.

**Commented [NP14]:** Why do we start to delete references to 'expert' here in the document.

**Commented [NP15]:** Isn't this already addressed above?

**Commented [NP16]:** Is this travel and accommodation? Will all meetings be in person? If can't attend, will they still be compensated?

**Commented [NP17]:** Perceived conflict? – fellow Conceptual Framework Task Force member with the Provincial Controller

## Legislative and Regulatory Requirements

The remuneration for the panel will be set by OIC; no legislation or regulation changes are needed.

## Risks and Mitigating Strategies

Proposed remuneration is consistent with that provided for other expert level advisory panels, which mitigates the risk of criticism for providing compensation at higher rates than are paid to OPS employees.

## Stakeholder Engagement

Selection of panel members will be achieved through the Public Appointments Secretariat.

## Communications and Issues Management

A communication plan will be developed for review by the Expert Advisory Panel. All additional communications relating to the Advisory Panel will be the responsibility of the Advisory Panel.

Treasury Board Secretariat shall make the final report of the Advisory Panel available to the public. In delivering the report to the Ministry, the Advisory Panel shall ensure that the report is in a form appropriate for public release, consistent with the requirements of the Freedom of Information and Protection of Privacy Act and other applicable legislation. The Advisory Panel shall also ensure that the report is delivered in both English and French at the same time, in electronic and printed versions in sufficient quantity for public release.

**Commented [NP18]:** Need to use consistent terminology in referring to the Panel.

**Commented [CV19]:** Not sure this is true – I think the communication strategy will be the responsibility of TBS

**Commented [NP20]:** See comment above: not sure we want to commit to making the entire report public, or just the recommendations. Consider sensitive details related to the plans, etc.

**Commented [CV21]:** We should include some costs for translation

## Recommendation

That Treasury Board/Management Board of Cabinet approve the request to establish the Pension Asset Expert Advisory Panel.

That Treasury Board/Management Board of Cabinet endorse the Ministers order establishing the Review and the terms of reference.

## Proposed Minute

- Approve the Minister's Order to establish the Pension Asset Expert Advisory Panel.
- Approve remuneration rates for panel members, and direct TBS to seek LGIC approval of the related Order-in-Council.
- Approve the Ministry budget for the Advisory Panel

# Proposed Terms of Reference

**Background**

In connection with the preparation and audit of the 2015-16 Public Accounts, the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan. The government passed a time-limited regulation to align the accounting for these pension assets with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

The government released an annual report and unaudited financial statements on October 3, 2016, and concurrently announced that an advisory panel would be formed to review the application of PSAS to these pension assets.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to write off the pension assets.

**Governance**

An Advisory Panel is established as a short-term advisory body appointed by the President of the Treasury Board to review the application of the PSAS to accounting for pension assets and provide advice to government. The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario, and made public thereafter. The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the panel.[1]

**Commented [NP22]:** See comments above re: release

[1] The Public Sector Accounting Board established a task force to review the standards on pension plans. Should their review results in changes to the standards, these new standards would be applied by the Province.

Mandate

The Advisory Panel's mandate is to deliver advice and recommendations to the government on the application of PSAS to the recognition and measurement of pension assets. The Advisory Panel's advice and recommendations to the government will consider:

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.
- 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 Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in their review of the retirement and post-employment benefits standards.

**Timelines**

A report to the President of the Treasury Board and the Auditor General of Ontario is due by the end of 2016.

**Commented [NP23]:** So what is the justification for termination of the Panel as at March 31st? How will remuneration be applied from a VFM perspective?

**Membership**

The membership of the Panel will comprise accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards. All members will be appointed by the President of the Treasury Board.

The identified members should attend/participate in the meetings; no substitutes or alternates should attend in place of a member.

**Commented [NP24]:** All in person or via teleconference?

**Support**

The Province will identify individuals to support the Panel and work collaboratively to provide information related to the pension plans sponsored by the Province of Ontario.

**Funding**

The Province will be responsible for the costs of the appointed members to attend the meetings. The costs of any individuals supporting the work of the Panel will also be borne by the Province.

# Appendix: Bios of proposed appointees

**Tricia O'Malley** (potential Chair) was Chair of the Canadian Accounting Standards Board (AcSB) from 2009 to 2010 and also served as its first full-time Chair from 1999 to 2001. Ms. O'Malley was a member of the International Accounting Standards Board (IASB) from 2001 until 2007 and she served on its staff as Director of Implementation Activities from 2007 to 2009. Supported by AcSB staff, she chaired the International Forum of Accounting Standard Setters, an informal association of bodies with a responsibility for setting or reviewing accounting standards in their various jurisdictions, from 2011 until April 2016. Ms. O'Malley has been a member of the Canadian Actuarial Standards Oversight Council since 2012, serving as Chair since January 2015. She has also been a member of the Canadian Accounting Standards Oversight Council since 2013. She is currently a member of the Board and Audit Committee of Assuris, which guarantees benefits on policies written by life insurers in Canada.

Before joining the AcSB in 1999, Ms. O'Malley was for 17 years a partner in the National Assurance and Professional Practice Group of KPMG Canada, where she consulted on complex accounting issues, with particular emphasis on financial instruments and structured finance transactions. While at KPMG, she was a member of the AcSB's Emerging Issues Task Force from its inception in 1989 until 1997 when she became Vice-Chair of the AcSB. As chair of the AcSB, she represented Canada on international groups such as the G4+1 Group of Standard Setters and the International Joint Working Group of Standard Setters on Financial Instruments.

Ms. O'Malley has also served on numerous other Boards and Committees. Her professional activities include membership on the Independent Accounting and Financial Auditing Advisory Committee of the Office of the Auditor General of Canada from 1993 to 2004 and from 2012 to the present and 6 years as a member of the executive of the Canadian Academic Accounting Association, one year as President.

In 2011, Ms. O'Malley was named as one of Canada's Top 100 Most Powerful Women by the Women's Executive Network. In 2012, she received the Queen Elizabeth II Diamond Jubilee Medal. She received the degree Doctor of Laws honoris causa from the University of Waterloo in June 2016.

**Murray Gold** is a senior pension and benefits partner with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trusteed pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia.

**Uros Karadzic** is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

He has extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

**Jim Leech** (potential chair) joined the Ontario Teachers' Pension Plan in 2001 to lead Teachers' Private Capital and was appointed President and CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

**Bill Matthews** was appointed Comptroller General of Canada effective July 17, 2014.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

**Commented [NP25]:** No reference to Bill's involvement with PSAB's Conceptual Framework Task Force (perceived conflict).

**Tom Scott**, a noted leader and senior administrator, came to the School of Accounting and Finance (SAF) from the Alberta School of Business at the University of Alberta, where he held positions of Vice Dean and Professor of Accounting. Tom has created a legacy of strategic and academic excellence for the Alberta School of Business. He led several academic program initiatives, while building a strong platform to support both teaching and research. Tom has published in leading academic and practitioner journals, and has been a member of the Accounting Standards Board of Canada (AcSB) from 2003 to 2011. In this capacity, Tom chaired the Academic Advisory Committee and played an important role in developing Accounting Standards for Private Enterprises.

Tom earned his PhD from Queen's University and holds a Master Business Administration and Bachelors of Commerce from McGill University. In addition to his appointment as Director, Tom is also a professor, with tenure, in the School of Accounting and Finance. In August 2012, Tom was awarded the Queen Elizabeth II Diamond Jubilee Medal for his significant contributions to in the improvement of accounting standards in Canada.

**David Smith** (potential chair) serves on the Board of the Ontario Teachers' Pension Plan as Chair of the Audit and Actuarial Committee, and is a member of the Governance Committee. He is a former chair and senior partner of PricewaterhouseCoopers and former CEO of the Canadian Institute of Chartered Accountants.

Mr. Smith has served on numerous boards throughout his 40-year career. He is currently chair of the Government of Canada Audit Committee and the North American member of the International Federation of Accountants' nominating committee. He is also past and founding chair of the Small Departments and Agencies Audit Committee, set up by the federal government.

Mr. Smith is a chartered accountant and a graduate of the Institute of Corporate Directors. He holds a B.Comm. (Hons) from the University of Windsor.