RE: Divide and conquer

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Sun, 18 Sep 2016 11:25:24 -0400

Here you go. n

From: Veinot, Cindy (TBS)
Sent: September-18-16 11:01 AM
To: Petsche, Nadine (TBS)
Subject: RE: Divide and conquer

Here's a first draft at the description of the impact of legislation:

The Province's accounting policy related to pension reporting for jointly sponsored defined benefit pension plans was changed in accordance with O.Reg XXX effective April 1, 2015. Prior to the effective date of O. Reg XXX, the Province had consistently applied its interpretation of public sector accounting standards related to retirement benefits for all of its solely and jointly sponsored pension plans. Since adopting the standard in 2001, the Province had continued to receive clean audit opinions on its reporting under the previous method. Specifically, the Province had recorded a net pension asset related to both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employee Union Pension Plan which reflected the Province's share of the reported accounting surplus in each of the plans. The reported accounting surplus is defined under the accounting standards as the excess of contributions and returns earned in the plan over the present value of the obligation to make retirement payments under the plans. Where a plan is in a surplus position for accounting purposes, the accounting standards require analysis of the ability of the sponsor to benefit from the reported accounting surplus. Based on the Province's analysis, which is informed by external legal and accounting opinions, the accounting test for recognizing the asset on the Province's books appears to be satisfied and no adjustment is required to the reported asset value. In summary, the Province has determined that there is no basis to change from the accounting practices which have been followed since 2001 when the Province first implemented the pension accounting standard.

During the course of the Public Accounts audit, the Auditor General reviewed the economic assumptions and balances related to the Province's pension accounting and concluded that Province's application of the accounting standards on pension accounting is not in accordance with public sector accounting standards and that the entire balance reported by the Province at March 31,2016 ($10.6 billion) should be written off of the Province's balance sheet. He conclusion is based on her assessment of the Province's legal ability to recover the economic benefit as represented by the pension asset. Since we have not been able to reach a common interpretation of the application of the accounting standards for this complex matter, the Province determined that in order to reflect the accounting interpretation of the Auditor General, the Province would have to legislate the accounting interpretation of the Auditor General. Therefore, the 2015-16 financial balances and results of the Province are presented in accordance with Public Sector

Accounting Standards, except with regards to the accounting for pensions which is in accordance with the Auditor General's treatment. The impact of complying with this legislation on the financial position and results of the Province has been to write off any pension assets as at March 31, 2016 and prior years to NIL in the 2015-16 Public Accounts and to reflect that change as an impact on the deficit of the Province. For purpose of year over year comparatives, the prior year's financial results, trend analysis and financial indicators have also been restated to reflect the regulatory change in accounting policy.

For purpose of reviewing key financial results over the past 5 years, t he following table reflects the impact of complying with this legislation for fiscal 2015-16 and the previous four years:

[insert table]

From: Veinot, Cindy (TBS)
Sent: September-18-16 10:47 AM
To: Petsche, Nadine (TBS)
Subject: RE: Divide and conquer

Hi Nadine – just confirming what this version is – this is only if we choose the legislated accounting option – correct? Just a bit confused as you have added a comment to the statement of responsibility re: legislated accounting but have not edited it.

Please confirm back

From: Petsche, Nadine (TBS)
Sent: September-17-16 9:54 PM
To: Veinot, Cindy (TBS)
Cc: Chen, Raymond (TBS)
Subject: Divide and conquer

Cindy,
Further to your suggestion that we 'divide and conquer', please find attached a draft copy of suggested edits to the FSD&A narrative for the 'legislated accounting' option which involves retroactive restatement.
I think we need a pretty good copy of this by Monday to be able to share with internal parties to review the impact and narrative. As they review the various comms products and impacts, it will help them to better understand the various impacts of the change. I've left a section for you to insert an overview of the change in acctg.

Thanks.
Nadine