Re: Draft speaking notes -- accounting slide

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>, "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Mon, 16 Jan 2017 20:32:48 -0500

Sorry, looks like in mu quick drafting of the initial notes I mis-labelled the impact reflected in the table. Great to know it's the OTPP and OPSEUPP reversal only.
The cap and trade item is timing only, so I guess you don't want to mention it? N

From: Hosick, Sarah (TBS)
Sent: Monday, January 16, 2017 6:47 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: RE: Draft speaking notes -- accounting slide

Will do – thank you both

From: Veinot, Cindy (TBS)
Sent: January-16-17 6:28 PM
To: Petsche, Nadine (TBS); Hosick, Sarah (TBS)
Subject: Draft speaking notes -- accounting slide

Sarah – can you take a cold read and then send on – thanks,

There are **two major accounting issues** that we want to make you aware of that impact the fiscal plan:

- While we await the final report of the Expert Advisory Panel on Pension Assets, as you have heard today from the Chair of the Panel, the Panel has determined that the Province's initial accounting for the OTPP and the OPSEUPP was correct.
- In the last phase of its work, the Panel will also review whether net assets for the HOOPP and CATTPP should be reported when those plans are in a net asset position. Those plans are different in nature than the OTPP and the OPSEUPP, so there is risk that the conclusion could be different.
- We anticipate the Panel's final results to be available for HOOPP and CATTPP in mid-February.
- For purposes of today's discussion, we have assumed that the Panel's recommendations for HOOPP and CATTPP will differ and will not support the recognition of a net pension asset, thereby requiring a full valuation allowance for net assets of those plans.
- The amounts reversed in the table are the amounts taken on in FES for OTPP and OPSEUPP only. As a reminder, these amounts are based on valuations completed based on December 2015 data. The amounts will be updated incorporating December 2016 data by mid-February.
- While the Panel's recommendations for OTPP and OPSEUPP will result in the Province reversing the write-off of the OTPP and OPSEUPP net pension assets, it is uncertain whether the AG would accept the Panel's recommendations.

- If the AG does not agree, then based on the material difference between the two approaches, the AG would qualify her opinion.
- We are developing our plans for releasing the report to both the AG and publicly and engaging with the AG on the results of the Panel's work.

The **second major issue** impacting the fiscal plan relates to the way that the Province reports the results of OPG and Hydro One on our consolidated financial statements.

- Currently, both of the entities prepare their own entity level financial statements based on US Accounting Principles which is accepted by both the securities regulators and the Ontario Energy Board. However, Public Sector Accounting Standards would require that the Province adjust and reflect the results of the entities based on International Financial Reporting Standards (IFRS).
- In 2016, the Public Sector Accounting Standards Board rejected a request from the Province to permit the use of US GAAP for consolidation under Public Sector Accounting Standards.
- The Auditor General agrees that IFRS is required to be used for consolidation.
- There is a significant difference between the results of OPG in particular when computed on an IFRS basis compared to US GAAP. For Hydro One, the difference between US GAAP and IFRS has been and is expected to be immaterial in foreseeable future.
- The largest difference for OPG relates to the requirement under IFRS to update the discount rate used to value its asset retirement obligation (ARO) related to its nuclear facilities.
- The fiscal impact analysis shows the comparative impact of reporting the entities on a US GAAP basis compared to two different scenarios – one which reflects the discount rate the OPG originally used in 2015 when estimating the impact of reporting under IFRS and an updated 'preferred' rate which according to OPG would better reflect the liability under IFRS. The main difference between the two approaches is that the original approach (labelled high impact) would only update the rate in the year of an ONFA update which takes place every 5 years compared to the preferred (smoothed) approach which reflects an annual update to the discount rate.
- The AG has stated that while she will continue to assess the Province's error using the "high impact" approach if the Province does not adopt IFRS, she will consider the use of the preferred approach if the Province adopts IFRS for consolidation.
- As with the pension estimates, these estimates are in the process of being updated using December 2016 data -- the updated estimates should be available by the end of February.