Message

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http://www.frascanada.ca/standards-for-public-sector-entities/documents-for-comment/item85653.pdf

1.
KPMG:

"We support the view that the discount rate guidance in Section PS 3250 needs to be reviewed for appropriateness and sufficiency. The comparability and consistency of public sector entity financial reporting would be enhanced by providing more direct guidance on the basis for determining an appropriate discount rate."

Do you agree that PSAB needs to consider whether the discount rate guidance in RETIREMENT BENEFITS, Section PS 3250, is appropriate and sufficient?
Yes we agree. The existing lack of specific guidance in PS 3250 leads to inconsistencies in practice which reduce the comparability of financial reporting amongst public sector entities. At present, PS 3250 references a requirement for internal consistency in determining discount rate, and expected return on plan assets or cost of borrowing as examples of a basis for the discount rate. We do not view this as appropriate or sufficient guidance, as it does not assist public sector entities with the determination of which discount rate may be most appropriate in certain circumstances.

What challenges do you have, if any, in applying the discount rate guidance in Section PS 3250?
Guidance on when to use return on plan assets and when to use cost of borrowing as the discount rate.

Do you find the discount rate guidance in Section PS 3250 sufficient?
No. Insufficient guidance is provided with respect to determining the appropriate benchmark for measuring cost of borrowing.

Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans?
No. We do not support using different discount rate bases/ views depending on the funding status of the respective plans as the funding status does not impact benefits due to plan members.

Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation?
No. We do not believe that a discount rate approach taken for estimating accrued pension benefit obligation would be inappropriate for estimating accrued non-pension benefit obligation. Considering our view that different discount rate bases/ views should not be used depending on the funding status of the respective plans, the discount rate approach for estimating accrued pension benefit obligation would also be appropriate for estimating accrued non-pension benefit obligation.

2.
HOOPP:

For decision making purposes, the best estimate of the return on assets is the only discount rate that can be used to provide plan administrators with an appropriate and accurate estimate of the current financial position of the plan. We would view the use of other methodologies for selecting the discount rate, such as government bond yields or corporate bond yields, as being contrived , artificial rates which would lead to significant misstatements of the financial position of the plan by either overstating or understating the present value of the plan liabilities. This misstatement of the financial position of pension plans can lead to
inappropriate decisions which can negatively affect the retirement outcomes of millions of Canadians. We have witnessed inappropriate decisions negatively impacting pensioners in plans from other jurisdictions
that have utilized these types of artificial discount rates to value their liabilities and determine their financial positions.

HOOPP supports the use of the expected return on plan assets as the discount rate for determining the pension obligations.

PSAB guidance does not have to align with international accounting standards.

3.
CUPE (Canadian Union of Public Employees)
CUPE believes that the PSAB should continue the current practice of permitting public sector employers to use the exp ected return discount rate when calculating pension liabilities of funded pension
obligations.

As has been particularly evident over the past year, market yields of debt instruments can be remarkably volatile. Bond y ields change hourly and daily, and over the course of a year, yields can vary significantly.
Should government pension liability measurement be directly tied to these measures, we would expect the same volatili ty in reported pension obligations.

4.
Canadian Labour Congress
In summary, the CLC questions the need for a change to existing discount rate guidance. We believe that the expected return approach to discount rate determination presents a sound basis for estimating and coherently accounting for public sector pension liabilities and conveying these to users of public sector financial statements. Critics and opponents of public sector wages and benefits have endeavoured to exaggerate the magnitude of public sector compensation, and benefits. In our view, departing from current guidance and adopting a borrowing rate method would sacrifice clarity, coherence, and
relevance for financial statement users, with no discernible benefit or purpose.

5.
Simon Fraser University
Public sector organizations have virtual assurance of an indefinite future organization life - which exceeds the going conc ern concept applied to private sector organizations
The intention of pension accounting is to match the recognition of expense with the provision of service by employees.
Excessively conservative discount rates which result in recording
expense beyond the most likely outcome deprive citizens of services now and result in generating pension assets on fina ncial statements which are not realizable.

6.
Ontario Teachers' Pension Plan

Using a discount rate based on the cost of borrowing poses two important risks to our plan:

1) It impedes our ability to make effective funding decisions, because a cost of borrowing approach misaligns with the valuation method we use to inform plan changes. We are concerned that an accounting misalignment - or possible conflict - between the Province's financial statements (as our Sponsor) and the plan's funding valuation method will negatively impact our robust governance framework and funding management approach.

2) Short-term "spot rate" measures for discount rates do not reflect the time horizon for DB pensions. This type of measure would introduce unnecessary volatility in the Province's financial statements, and would not be indicative of the plan's true financial health. It would also create unnecessary risk concern for provincial taxpayers.

7.
PricewaterhouseCoopers:

11. Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on:

(a) the entity's funding policy as described in paragraph .116; or
(b) the benefit plan's funding level as described in paragraph .121?

In line with our previous responses, we believe comparability, both between an entity's employment benefit obligations and between entities, will be enhanced when the discount rate is determined independently of the plan's funded status.

13. Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued nonpension benefit obligation?

No. In our view there are no reasons why a discount rate approach taking for estimating accrued benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation. To the extent these are similar obligations they should be measured similarly and consistently.

8.
Deloitte
11. Do you support using different discount rate bases/views for fully funded, partiallyfunded and unfunded benefit plans? If yes, should it be based on:
(a) the entity's funding policy as described in paragraph .116; or(b) the benefit plan's funding level as described in paragraph .121?
We believe that a single discount rate should be used because the ultimate benefit payments due to plan members would not be affected by whether assets have been segregated to fund
future payments. Therefore, we believe that the benefit plan's funding policy is irrelevant to the measurement of the fulfillment value of the accrued benefit obligation.

9.
Office of the Comptroller of Ontario:

7. Which of the discount rate views identified in paragraphs .093-.106 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.
As pension plans are long term in nature and to be funded through assets set aside to generate returns, projected rates of return on plan assets are most appropriate for funded plans. The current borrowing rate is most appropriate for unfunded plans, the current rate being the best estimate of future borrowing costs.

11. Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on: (a) the entity's funding policy as described in paragraph .116; or (b) the benefit plan's funding level as described in paragraph .121?

Yes. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. The discount rate should be based on the funding level of the plan which best demonstrates the funding source of the pension obligation.