IESO PSAB Accounting – Speaking Notes

- The adoption of PSAB in 2011 was not as a result of government or ministry mandate, but required due to the changes in accounting frameworks as prescribed by the Accounting Standards Board of the Canadian Institute of Chartered Accountants at that time.

- Prior to January 1, 2011, the IESO followed the Canadian Generally Accepted Accounting Principles (CGAAP) for all of its accounting included the accounting for pension and other post-employment benefits.

- On January 1, 2011, the Canadian Generally Accepted Accounting Principles (CGAAP) ceased to exist and the IESO had to move to a new accounting standard.

- The Province of Ontario classifies the IESO as an "other government organization" (OGO) within its general accounts and in all classifications. OGOs had a choice of adopting either PSAB or IFRS. In making this choice, an OGO would normally select PSAB unless the PSAB standards did not meet the financial statement users' needs. If this was the case, IFRS would be selected.

- The IESO believed the reporting requirements of PSAB were more suitable to the IESO and the users of its financial statements than IFRS.

- The Ontario Power Authority also adopted PSAB, as did the Ontario Energy Board.

- The IESO's external financial statement auditors concurred with the IESO's adoption of PSAB in 2011, as evidenced by their audit opinions without modification since 2011.

- The analysis of PSAB identified several areas of impact to the IESO. These areas of impact included: financial statement presentation; retirement and post-employment benefits; financial instruments; presentation of capital assets; and associated note disclosures.

- The largest area of differences between CGAAP and PSAB, for the IESO, was within the calculation of pension and post-employment benefits expenses.

- Both CGAAP and PSAB use the accrual method for accounting for pensions and other post-employment benefits including:

    - Calculation of service cost for benefits being earned;
    - Interest accrual on the assets and liabilities; and
    - To the extent experience is different from expected, or the plan is amended, the amortization of gains and losses in a systematic manner and the amortization of the impact of plan changes.

- While the key principals of accrual accounting are the same under both approaches, there are two important points

- some of the calculation methodology is different, and
- the difference between the two methodologies at the transition date has to be dealt with, as always the case, in an accounting transition.

[redacted]

- The changes in accounting standards were expected to have implications on the 2011 and future financial statements and these were discussed at the IESO's 2011 rate case with the Ontario Energy Board.

- It was noted that the Ontario Energy Board (OEB) report issued by the Board in July 2009, discussed the types of changes mentioned above for the adoption of IFRS and the Board provided explicit principles to rate regulated entities. More specifically the stated principles for setting regulatory accounting, reporting and filing include fairness, minimizing intergenerational inequity and minimizing rate volatility.

- The Board confirmed its expected continuation with the current approach of establishing and clearing of deferral and variance accounts, which the IESO used to account for the transfer of cumulative actuarial losses and past service costs into a deficit account.

[redacted]

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