AcSB

Accounting Standards Board

Improvements to Presentation and Disclosure of Investments for Pension Plans

Responses to Exposure Draft

October 2024

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PROVINCIAL AUDITOR
of Saskatchewan

September 25, 2024

K. Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
TORONTO, ON M5V 3H2

Dear K. Christopoulos:

Re: Improvements to Presentation and Disclosure of Investments for Pension Plans

We support the proposed Standard as outlined in the exposure draft *Improvements to Presentation and Disclosure of Investments for Pension Plans* but have some areas where clarity could be added. The attachment sets out our responses to the specific questions listed in the exposure draft.

Yours truly,

T. Clemett

Tara Clemett, CPA, CA, CISA
Provincial Auditor

nd/mr
Attachment

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	Question	Response
1	The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?	Yes, we agree with the proposed definition and agree the examples included in 4600.05(pa) are the most relevant ones. However, we suggest there be clarity added to differentiate "investment expenses" from "transaction costs" (term used in current paragraph 4600.20). This could be achieved by providing specific examples and defining what is meant by transaction costs in paragraph 4600.20.
2	The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of "investment expenses" and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?	Yes, we agree differentiating between investment expenses and pension administration and other expenses will provide useful information to users of pension plan financial statements. The nature of these expenses and how they are typically determined differs (e.g., many investment expenses are determined based on market value changes versus administration costs which are not normally directly linked to market values). Presenting this information separately will increase transparency around pension plan expenses.

	Question	Response
3	The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?	Yes, the proposed disclosure requirements will provide useful information to users of pension plan financial statements. This will allow all pension plan financial statements to include the same requirements. This also removes inconsistencies between IFRS and Part IV, and removes the need to continue to update these fair value disclosure requirements in Part IV.
4	Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "*for all other investments measured at fair value,* ~~*a description of how fair values have been determined*~~ *the disclosures required by* IFRS 13 Fair Value Measurement in Part I *of the Handbook.*"	Yes, we agree it would be useful for pension plans to provide the disclosures required by IFRS 13 for investments measured at fair value.
5	The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?	Yes, we agree the proposed disclosure requirements will provide useful information to users of pension plan financial statements. This will allow financial statement users to understand the nature and extent of the pension plan's interests in investment vehicles. This also helps increase transparency about the types of investments the plan holds and the associated risks.

	Question	Response
6	The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?	Yes, we agree the proposed disclosures will provide useful information to users of pension plan financial statements. This will allow financial statement users to better understand the plan’s investment expenses and the nature of costs involved in managing the plan’s investments.
7	The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?	Yes, we agree with the proposed disclosure regarding embedded investment expenses as it increases transparency and provides better information to financial statement users on the true costs associated with the plans’ investments.
8	Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?	Yes, we agree with the proposed transitional provisions.

OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

Independence. Credibility. Integrity.

September 25, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards Board

Dear Ms. Christopoulos:

Subject: Exposure draft: Improvements to Presentation and Disclosure of Investments for Pension Plans

We are pleased to have the opportunity to comment on the Accounting Standards Board's (the "AcSB") exposure draft on Improvements to Presentation and Disclosure of Investments for Pension Plans. We agree that there is a need to improve the presentation and disclosure of investments held by pension plans to increase transparency for financial statement users. Overall, we agree with the proposed improvements. However, we believe there needs to be additional clarification or guidance to some proposed improvements.

Please find our comments to the exposure draft in the appendix to this letter.

Should you wish to discuss any of our comments, please contact Keith Butt (keithbutt@oag.nl.ca).

Yours sincerely,

Keith Butt

Keith Butt, CPA, CA
Assistant Auditor General
Professional Practice and Innovation

Appendix

1. The AcSB proposes in paragraph 4600.05(pa) that “investment expenses” be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between “investment expenses” and “pension administration and other expenses”. Do you agree with this proposed definition of “investment expenses” in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

   Yes, we agree with the proposed definition of “investment expenses” in paragraph 4600.05(pa). We would, however, suggest providing additional clarity regarding the examples included. It may be helpful to specify whether ‘management fees’ encompass both internal and external fees. If not, distinguishing between the two could provide additional clarity, particularly since internal management costs are mentioned separately in the third example. Additionally, the second example, ‘performance fees,’ might benefit from specifying whether it includes both external and internal performance fees or only external fees. Including specific examples of both internal and external management fees would further assist financial statement preparers and enhance the understanding for users of the financial statements.

2. The AcSB proposes in paragraphs 4600.25(e)-(f) that “investment expenses” and “pension administration and other expenses” be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of “investment expenses” and “pension administration and other expenses” be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   Yes, we agree that the proposed presentation changes will provide useful information to users of pension plan financial statements. Separating ‘investment expenses’ and ‘pension administration and other expenses’ improves transparency by clearly distinguishing between the two. Allowing these details to be presented either on the face of the statement or in the notes gives financial statement preparers flexibility while still providing users with valuable information.

3. The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   We agree that the proposed disclosure requirements will provide useful information. Withdrawing the Appendix to Section 4600 and aligning with IFRS 13 will enhance comparability and consistency in the valuation of pension plan investments.

4. Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, ~~a description of how fair values have been determined~~ <u>the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook.</u>"

   Yes, we believe it would be useful for pension plans to provide the disclosures required by IFRS 13 for all investments measured at fair value. This amendment would enhance transparency and provide a consistent framework for fair value measurement, benefiting users of the financial statements by offering more detailed and standardized information.

5. The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   Yes, we agree that the proposed disclosure requirements will provide useful information. Disclosing the fair value and nature of pension plan interests in investment vehicles, along with associated risks, enhances transparency and helps users better understand the plan's investment strategies and risk exposure. However, more guidance on investment vehicles, such as clarification on the scope, would be helpful. This would reduce the risk of differing interpretations between the financial statement preparers and the auditors.

6. The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   Yes, we agree that the proposed disclosures will provide useful information. Qualitatively disclosing the types of investment expenses included in the statement of changes in net assets available for benefits enhances transparency and helps users better understand the nature of costs associated with managing the pension plan's investments.

7. The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

   Yes, we agree that the proposed disclosures related to embedded investment expenses will provide useful information. By disclosing the types of investment income with embedded expenses and their nature helps users better understand the total cost of investments and their impact on financial performance. As 'investment expenses' are defined and presented separately from 'pension administration and other expenses' in the statement of changes in net assets, this disclosure will clarify both investment expenses outside of and those embedded within investment income, addressing any potential gaps in understanding.

8. Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

   Yes, we agree with the proposed effective date of January 1, 2026, with earlier application permitted, as it allows sufficient preparation time and flexibility.

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Healthcare of Ontario Pension Plan

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September 27, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Ms. Christopoulos:

Subject: Accounting Standards Board (AcSB) – Exposure Draft – Improvements to Presentation and Disclosure of Investments for Pension Plans

We have read the Exposure Draft issued in June 2024 titled '*Exposure Draft – Improvements to Presentation and Disclosure of Investments for Pension Plans*' (the ED) and we are grateful for the opportunity to respond with our comments. We support the AcSB's effort to improve the presentation and disclosure of investments held by pension plans.

HOOPP is a jointly sponsored, multi-employer, defined benefit pension plan. HOOPP independently manages all aspects of the pension provision, not only administering the pension plan but also investing member and employer contributions to ensure that pensions can be paid now and in the future.

HOOPP has been helping to build financially secure retirements for Ontario's healthcare workers for over 60 years. HOOPP is now one of Canada's largest pension plans. Currently, there are over 460,000 active, deferred and retired members, over 670 participating employers (both private and public sector entities), and HOOPP's net assets available for benefits as at December 31, 2023 were approximately $112 billion. HOOPP is an independent pension service provider to hospitals, as well as many private sector healthcare employers.

HOOPP's responses to the questions within the ED follow.

Thank you for the opportunity to comment on this ED. If you have any questions, please do not hesitate to contact Juliana Duray Kikuchi at jduraykikuchi@hoopp.com or 416-350-4277.

Sincerely,
HEALTHCARE OF ONTARIO PENSION PLAN

Barbara Thomson, CPA, CA (she/her)
Chief Financial Officer

Responses to Specific Questions:

1. The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

<u>HOOPP's Response:</u>

We agree with defining "investment expenses", as the proposals within the ED to improve the presentation and disclosure of investments rely on this definition. However, we have the following concerns:

- Management fees and performance fees may not be <u>separable</u> for some investment types. For example, investment income or loss may only be reported to investors net of management and / or performance fees. While we assume that the presentation requirements in paragraph 4600.25(e) do not require these <u>embedded fees</u> to be reported as investment expenses, we recommend the AcSB clarify this and consider whether the definition of "investment expenses" needs to be adjusted to acknowledge this. For embedded fees that are not separable, we understand that they are within the scope of proposed paragraph 4600.32F(c)-(d) and thus require only qualitative disclosure. In the absence of this clarification, applying the definition of investment expenses is impractical, costly and could lead to significant differences in application.
- The term "directly attributable" in the phrase "internal investment management costs that are directly attributable to net investment assets" is unclear. One of several interpretations for pension plans with an in-house investment management function could be that costs that are directly attributable are payroll expenses for individuals involved in investment decision-making only. An alternative interpretation could be that costs that are directly attributable are all costs associated with any function that supports investment activities, including technology costs and payroll expenses for internal management reporting and financial reporting. Given the range of possible interpretations, we recommend the AcSB supplement the examples already included in the definition with additional application guidance or illustrative examples for what costs are included and excluded from directly attributable to net investment assets. This additional guidance will promote comparability in the reporting by pension plans in Canada.
- The investment expense definition in paragraph 4600.05(pa) requires internal investment management costs to be separated between directly attributable and indirectly attributable. Therefore, it is assumed that these categories of investment expenses should be separately presented on the face of the financial statements or detailed in the notes according to paragraph 4600.27(b). We recommend that the AcSB clarify that investment expenses do not need to be separately presented between directly attributable and not directly attributable as investment expenses on the face of the financial statements or notes and, only qualitative disclosure described in paragraph 4600.32F(b) is required in relation to indirectly attributable internal investment management costs included in investment expenses.

2. The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of "investment expenses" and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

<u>HOOPP Response:</u>

We agree with the proposed presentation changes, as this will help users to compare and better understand the magnitude of investment expenses incurred by a pension plan relative to non-investment related expenses. However, as indicated in our response to question 1 above, for embedded investment expenses, only qualitative disclosure will be possible.

3. The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

<u>HOOPP Response:</u>

We agree with this proposal, as the guidance in IFRS 13, *Fair Value Measurement* in Part I of the Handbook has been updated since the Appendix to Section 4600 was introduced, and application guidance is available. However, we recommend that this specific proposal be effective for reporting periods beginning on or after January 1, 2027 to allow sufficient time to research and apply the requirements, including to comparative disclosures.

4. Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, ~~a description of how fair values have been determined~~ <u>the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook.</u>"?

<u>HOOPP Response:</u>

We agree with this proposal, as it will maintain consistency in the fair value disclosures for financial instruments and other investments that are not financial instruments but measured at fair value. However, we recommend that this specific proposal be effective for reporting periods beginning on or after January 1, 2027 to allow sufficient time to research and apply the requirements, including to comparative disclosures.

5. The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

<u>HOOPP Response:</u>

We agree in principle with the need to provide transparent information about a pension plan's investments and the risks associated with a plan's investments to users of this financial information. However, Section 4600 already requires pension plans to prepare robust risk disclosure in the financial statements. In addition, many pension plans with complex investment structures supplement the financial statement investment disclosures with more information in the Annual Report.

Given the extent of investment risk disclosure already in practice, we have the following concerns with respect to paragraphs 4600.32D-.32E:

- The term "investment vehicles" is a generic term which is not defined in the standard or in this ED. As such, it will be difficult to apply for pension plans with complex investment strategies and legal entity structures. For example, larger pension plans in Canada gain exposure to markets using various derivative products and through external fund managers. In addition, pension plans gain access to private markets through fund investments. As currently drafted, all these investments can be interpreted as investment vehicles resulting in a significant disclosure burden for pension plans where the cost of preparing such disclosure will not provide the intended benefit to financial statement users. If this proposal is retained, we recommend that the AcSB clearly define "investment vehicles" and limit that definition to specific investment types such as fund investments. This would be similar to the approach the AcSB has previously taken with master trusts.
- Part IV of the CPA Canada Handbook already has extensive risk disclosure requirements that provide users with information about the risk profile of investments in a pension plan. Therefore, additional risk disclosure to provide users with risk-related information about investments will result in duplicative or redundant disclosures that do not provide relevant information to financial statement users.
- Pension plans in Canada with more complex investment strategies where the proposed disclosures may be relevant, already issue Annual Reports to provide greater depth of information to users. While these Annual Reports are not audited, they are subject to scrutiny during the audit process and therefore, remain a reliable source of information for users of pension plan financial information.
- The principles-based guidance in paragraph 4600.32D(b) of the proposals will be challenging to apply and will result in significant diversity in practice without supporting application materials. As noted in the Basis for Conclusions paragraph 16, the AcSB used IFRS 12, *Disclosure of Interests in Other Entities* as a reference standard to develop the guidance. We note that IFRS 12 provides specific guidance in paragraphs 29-31 which clarify how to demonstrate a parent organizations' exposure to risk through interests in other entities. This clarifying guidance is not included in the AcSB's proposals and therefore, makes the guidance challenging to apply.
- The proposed requirements in paragraphs 4600.32D(a) and 4600.32E(a) are unclear on the level of disaggregation required for these disclosure requirements. For example, a portfolio could include investments in different asset classes such as real estate, private equity, infrastructure, etc. Within these asset classes, the portfolio could be diversified further with direct investments, co-investments and fund investments. These are all exposed to different risks based on the nature of underlying holdings. To be decision useful, the disclosures would need to be disaggregated at a very granular level, likely at an individual investment vehicle level. This level of

disclosure would pose a significant burden on preparers where the cost to prepare the disclosure would not exceed the benefit to users. In contrast, if the disclosure is aggregated as proposed, it would not provide financial statement users with sufficient information to make risk determinations about holdings in investment vehicles.

- Furthermore, pension plan disclosures of the details of and amounts invested in certain investment vehicles, even at a high level, could unintentionally reveal confidential or proprietary investment strategies and diversification approaches. There could also be confidentiality issues where the investment vehicles invested in are private funds that do not publicly disclose their investment strategies and risks. This could have an unintended impact on the pension plan's ability to rely on or execute certain strategies.

6. The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

HOOPP Response:

We agree with the proposed qualitative disclosure requirement in paragraph 4600.32F(a). However, we recommend that the AcSB clarify whether the disclosure requirement in paragraph 4600.32F(a) is separate from the proposed presentation requirement in paragraph 4600.27(b) and if so, what additional disclosure is required in paragraph 4600.32F(a) relative to paragraph 4600.27(b). Providing 'details of investment expenses', per paragraph 4600.27(b) may be sufficient.

7. The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

HOOPP Response:

We agree with this disclosure requirement as qualitative disclosures of the types of investment expenses included in investment income are helpful.

However, illustrative examples or application guidance would be helpful to understand the AcSB's expectations for the level of granularity expected for these proposed qualitative disclosures. For example, interpreting the term "embedded" in the context of embedded expenses is challenging because a pension plan may invest in a real estate property and have a holding company that manages the property. There are embedded costs in the holding company such as mortgage interest, taxes, etc. that are offset by rental income from the property. It is unclear whether these expenses are investment expense categories that are relevant for disclosure if the holding company is carried at fair value in the unconsolidated financial statements of the pension plan. One alternative is for the AcSB to use the term "netted expenses" or a similar variation instead of embedded as it would have a clearer interpretation in practice.

If the AcSB intended that embedded investment expenses are limited only to those in the investment expenses definition proposed in paragraph 4600.05(pa), then clarifying this in the standard is beneficial. Alternatively, if the AcSB is proposing additional disclosure, we recommend clarifying what additional disclosures should be provided by pension plans.

8. Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

<u>HOOPP Response:</u>

We agree with the proposed effective date and transitional provisions in paragraphs 4600.45 subject to the amendments being issued in Spring 2025 as noted in the ED, except as noted earlier in our response, we recommend that the proposals related to IFRS 13 disclosures be effective one year later (i.e., for annual periods beginning on or after January 1, 2027). This will allow pension plans sufficient time to research and apply the requirements, including to comparative disclosures.

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October 1, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Ms. Christopoulos:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB") on the June 2024 Improvements to Presentation and Disclosure of Investments for Pension Plans Exposure Draft (the “Exposure Draft”). Our responses to the specific questions posed in the Exposure Draft are included below.

Comments on Specific Questions Requested by the AcSB

1. The AcSB proposes in paragraph 4600.05(pa) that “investment expenses” be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between “investment expenses” and “pension administration and other expenses”. Do you agree with this proposed definition of “investment expenses” in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

   We agree with the proposed definition of “investment expenses” in paragraph 4600.05(pa) and generally agree that the examples of investment expenses included in the proposed definition are the most relevant to users of pension plan financial statements. However, we recommend that the AcSB define “internal investment management costs” as we believe it could be unclear to pension plans which costs these refer to, particularly for those that do not have an internal investment management function. We also recommend clarifying that custodial fees may be investment expenses or pension administration expenses, depending on their nature, as they are included as an example of investment expenses in paragraph 4600.05(pa) while also being included in proposed paragraph 4600.27(c) as a “pension administration and other” expense. Lastly, we note that proposed paragraph 4600.27(c) includes an example of trustee fees along with the reference to custodial fees, while only custodial fees are included in the proposed definition of “investment expenses” in paragraph 4600.05(pa); however, we would generally expect that these two types of fees would be similar and thus we would expect that at least a portion of trustee fees could also be an “investment expense”.

2. The AcSB proposes in paragraphs 4600.25(e)-(f) that “investment expenses” and “pension administration and other expenses” be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of “investment expenses” and “pension administration and other expenses” be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed

presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

We agree that the proposed presentation changes will provide useful information to users of pension plan financial statements as we believe users are interested in the costs associated with generating net investment income in pension plans. However, we believe that pension plans should have the option to separately distinguish "investment expenses" and "pension administration and other expenses" either on the face of the statement of changes in net assets available for benefits or in the notes to the financial statements. We observe that these expenses may not be significant for a pension plan in comparison to other amounts in the statement, such as benefit payments. In this case, a pension plan may prefer to include the distinguishment of "investment expenses" and "pension administration and other expenses" in the notes to the financial statements.

We believe that additional wording is required to clarify the proposed disclosure requirement in paragraph 4600.27(b). It is unclear if "details of investment expenses" would comprise the examples of investment expenses in paragraph 4600.05(pa). We observe that in proposed paragraphs 4600.27(a), (c) and (d), it is clearly stated which details of contributions, pension administration and other expenses and benefit payments are to be shown separately whereas this has not been stated for paragraph 4600.27(b). Further, given the proposed disclosure requirement in 4600.32F(a) which requires qualitative disclosure of the types of investment expenses, it is unclear what separate details are required to be disclosed in 4600.27(b) that would not already have been disclosed under paragraph 4600.32F(a).

3. The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   We agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements as we believe the additional disclosure requirements in IFRS 13 Fair Value Measurement *will help add transparency to a pension plan's investments.*

4. Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: *"for all other investments measured at fair value, ~~a description of how fair values have been determined~~* *the disclosures required by* IFRS 13 Fair Value Measurement *in* Part I *of the Handbook."*

   We agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements.

5. The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated

with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

We agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements as we believe it will increase transparency on a pension plan's interests in investment vehicles other than master trusts. However, we note that while the proposed required disclosures in 4600.32E(a) and (b) are straightforward, they do not specifically address the objective of disclosing the nature of and changes in the associated risks; this would appear to fall to point (c) of this paragraph. While we understand that this requirement is intended to be a principle-based requirement, the lack of prescriptive disclosure requirements may result in little or no disclosure being provided under proposed paragraph 4600.32E(c).

Regarding the disclosure requirement in proposed paragraph 4600.32E(b) on the nature of the investment vehicle, we recommend that further clarity be added concerning what is meant by "nature of the investment vehicle". Paragraph 15 of the Basis for Conclusions gives as an example that this disclosure could be of the primary types of investments held by those investment vehicles; however, this example of the nature of the investment could be added to the proposed paragraph in 4600.32E(b) to help preparers and practitioners interpret this requirement in the way intended by the AcSB.

We would also like to comment that we agree it may not be practicable for pension plans to provide certain look-through disclosures on investment vehicles other than master trusts, as noted in Paragraph 14 of the Basis for Conclusions. While we do not foresee pension plans having an issue addressing the proposed disclosures in paragraphs 4600.32D-.32E, we believe obtaining additional information would be a challenge if look-through disclosure requirements were broadened beyond these paragraphs. We also believe that broadened look-through disclosure requirements would pose a challenge to practitioners in auditing disclosures if pension plans were to present third-party underlying fund information. Therefore, we support proposed paragraphs 4600.32D-.32E as currently drafted.

6. The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

   It is unclear whether the proposed disclosures will provide useful information to users of pension plan financial statements as we believe clarification is required to proposed paragraph 4600.27(b). Please refer to our response to question 2. We believe that sufficient detail of the types of investment expenses included in the statement of changes in net assets available for benefits could be achieved by pension plans addressing the requirement in paragraph 4600.27(b) to present details of investment expenses in either the statement of changes in net assets available for benefits or the notes to the financial statements. For example, if a pension plan presented management fees as a detail of investment expenses as required by paragraph 4600.27(b), we do not believe it would be necessary to also qualitatively disclose that management fees are a type of investment expense.

   If, however, the AcSB intended a different distinction between the requirements of proposed paragraphs 4600.27(b) and 4600.32F(a), we believe that some pension plans may respond to the requirement in 4600.32F(a) with a generic list of investment expenses based on the proposed *definition in 4600.05(pa), which may ultimately not provide useful information to users of pension plan financial statements.*

7. The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

   We believe that the proposed disclosures in paragraphs 4600.32F(c)-(d) would be of marginal benefit to users of pension plan financial statements.

   We believe addressing the proposed disclosures may pose a practical challenge to some preparers of pension plan financial statements. Smaller pension plans may not be knowledgeable of the exact fee structures of their investments, such that they may be unaware that embedded expenses are being incurred. Furthermore, it may be difficult for such preparers to identify the specific "types of investment expenses that are embedded" as proposed in paragraph 4600.32F(d) without spending considerable time to understand the fee structure for each individual investment. For example, it may be difficult for a pension plan to identify whether the embedded expenses it incurs are management fees or performance fees. We also see a risk that pension plans may not appropriately reassess the need for these disclosures each reporting period. These challenges may also make it difficult for practitioners to assess the accuracy and completeness of the proposed disclosures at each reporting period end.

   Furthermore, we believe that there is the risk that the proposed disclosures may result in boilerplate wording in pension plan financial statements given that the qualitative disclosures are related to "types of investment income" as opposed to specific investments; additionally, such disclosures may be misleading if only a small percentage of a type of investment income is subject to embedded investment expenses.

   We also believe that users of pension plan financial statements do have a general understanding that investment management fees may be embedded in net investment income. We observe that embedded investment expenses are included in personal investment products such that a reasonable user of pension plan financial statements would understand this investment expense structure in the context of a pension plan's investments without the proposed disclosures. Therefore, we do not believe that the proposed disclosures in paragraphs 4600.32F(c)-(d) are necessary.

8. Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

   We believe the proposed effective date may not provide pension plans with sufficient time to implement the proposals since there is expected to be less than one year between the issuance of these amendments and the beginning of the first year in which the amendments are required to be adopted. As a result, we recommend that the proposed amendments should apply for annual periods beginning on or after January 1, 2027.

We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Eric Spiekman, Professional Practice Director, at 416-943-3779 (Eric.Spiekman@ca.ey.com).

Yours sincerely,
ERNST & YOUNG LLP

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

2 October 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Exposure Draft – *Improvements to Presentation and Disclosure of Investments for Pension Plans*

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft.

Sincerely,

Heather Miller, CPA, CMA

Assistant Auditor General
Office of the Auditor General of Canada

Specific questions posed by the Accounting Standards Board (AcSB):

Question 1

The AcSB proposes in paragraph 4600.05(pa) that “investment expenses” be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between “investment expenses” and “pension administration and other expenses”. Do you agree with this proposed definition of “investment expenses” in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

OAG response:

No, we do not agree with the proposed definition of investment expenses in paragraph 4600.05(pa). There are several issues with the proposed definition:

- The wording “costs related to managing the net investment assets” constrains the definition of an investment expense to not include some investment-related expenses and using the word “managing” introduces additional subjectivity. For example, it does not include interest expense as an example of “investment expenses”. A pension plan that uses leveraged investing incurs significant interest expense and therefore, we are of the view that the AcSB should consider including interest expense in the definition of “investment expenses”.
- We note that in IFRS, they do not define investment expenses. Investment expenses is a term that is commonly known as including certain types of costs, such as interest expense and commissions, and having a definition that is more restrictive could cause confusion for users and comparability issues.
- When investments are managed by a separate entity such as the investments of the largest pension plan of the Government of Canada’s employees, it is not clear whether all costs incurred and allocated to the pension plan (including overhead) would qualify as an investment expense.
- It refers to “net investment assets of the pension plan”. However, in the current Section 4600.05, this term is not defined. We note that there is only a definition of “Investment assets” or “Investment liabilities” (4600.05(q)). It is not clear what a “net investment asset” would be within the scope of this definition.

No, we do not agree that the examples of investment expenses included in the definition in Section 4600.05(pa) are the most relevant to users of pension plan financial statements. Despite the fact that the term investment expenses has been defined by providing examples along with the caveat of “include but are not limited to …”, we are of the view that the Board should consider adding directly related expenses for investment liability instruments such as interest expenses and commissions.

Question 2

The AcSB proposes in paragraphs 4600.25(e)-(f) that “investment expenses” and “pension administration and other expenses” be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of “investment expenses” and “pension administration and other expenses” be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

OAG response:

Yes, we agree that the proposed presentation changes will provide useful information to users of the pension plan financial statements as the nature of these two expenses are different. This would improve comparability with other pension plans.

Question 3

The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

OAG response:

Yes, we agree that the proposed disclosure requirements in paragraph 4600.32(a)(ii) to use IFRS 13 *Fair Value Measurement* in Part I of the Handbook will provide useful information to users of the pension plan financial statements mainly because the IFRS 13 disclosures provide additional information regarding level 3 valuations not previously required in Section 4600.

Question 4

Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: *“for all other investments measured at fair value, ~~a description of how fair values have been determined~~ the disclosures required by* IFRS 13 Fair Value Measurement *in* Part I *of the Handbook.”*

OAG response:

Yes, we agree that it would be useful for pension plans to provide the disclosures required by IFRS 13, as the alignment with IFRS 13 will introduce additional disclosure including that of fair value measurements categorized within level 3 of the fair value hierarchy. Since level 3 fair value measurements use significant unobservable inputs, they have a greater degree of uncertainty and subjectivity and therefore, additional information on how fair value is measured will be beneficial. We agree with the proposed amendments to paragraph 4600.32(b).

Question 5

The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan’s interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

OAG response:

No, we do not agree that the proposed disclosure requirements will provide useful information. While the basis for conclusions indicates the intent is only to provide additional disclosure regarding investment vehicles, it does not define what is meant by an investment vehicle and it makes it difficult to understand how far entities need to look to identify the unit of account. We are of the view that the term "investment vehicles" should be defined. Without further clarification, we believe the proposed paragraphs could have unintended consequences in that they could require users to look through investments at a more granular level to articulate additional risk disclosure and it could create confusion to users of pension plan financial statements as to how these investments are managed and who manages them.

Some pension plans investments are managed by separate investment entities. We know that some of those separate investment entities that report under IFRS apply the IFRS 10.31-.33 exception to consolidation for investment entities. According to this exception, an investment entity shall not consolidate its subsidiaries when it obtains control of another entity. As per IFRS 10.31, "Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9." The AcSB should clarify whether those pension plans are required to disclose the information in paragraphs 4600.32D-.32E. If the intent of the AcSB is to look through those investments at fair value, we think it could create inconsistencies between the financial statements of the investment entities and those of the pension plan. In addition, it would represent a significant endeavour of limited value.

We are of the view that providing the IFRS 13 disclosure for investments would be sufficient for users to have a good understanding of those investments and the risks associated with them, and we do not believe pension plans should have to look through investments to provide the additional disclosure per paragraph .32D and .32E.

Question 6

The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

OAG response:

Yes, we agree that the proposed disclosures will provide useful information to users of the pension plan financial statements. Where quantitative disclosure is not sufficient, disclosing qualitative information would be important to readers. The additional disclosure could allow readers to better understand the nature of investment expenses and could lead to better comparability.

Question 7

The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

OAG response:

No, we do not agree that providing information on the type of investment income that include embedded investment expenses would be useful for those investments measured at fair value.

The reason for measuring at fair value is that it measures and evaluates the performance of the investments as a whole. If this information were required, pension plans would likely need to look through the investments and we do not believe that the benefits of doing this would outweigh the costs. We do not believe that providing qualitative disclosure about the types of investment income that include embedded investment expenses reflects the true nature of the investment income since the embedded expenditures are structurally related to the investment and where investments are measured at fair value, it would be contradictory to the measurement and presentation of these investments. We are of the view that no additional disclosure should be required for embedded investment expenses.

Question 8

Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

OAG response:

Yes, we agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026 in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted.

However, if the intention of the AcSB is that it would be useful for users to look through the investments within the pension plans, we believe that there would need to be additional time added to the transition provisions given that this information is not readily available and significantly deviates from the requirements of any other framework in terms of disclosure. As mentioned above, we have concerns regarding looking through the investments given that we anticipate the effort needed would be extensive with minimal benefit, as well as the confusion it may cause users.

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October 2, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON, M5V 3H2

Dear Ms. Christopoulos,

Re: Accounting Standards Board June 2024 Exposure Draft: *Improvements to Presentation and Disclosure of Investments for Pension Plans*

We appreciate the opportunity to comment on the Accounting Standards Board's (AcSB) Exposure Draft: *Pension Plans*, Section 4600 (the Exposure Draft or the Section) and support the AcSB's efforts to improve the presentation and disclosure of investments. OMERS believes that enhancing the relevance and clarity of accounting standards for pension plan investments will increase transparency and consistency of application, thereby improving financial reporting across the pension and benefit plan sector.

About OMERS

Founded in 1962, OMERS is one of Canada's largest defined benefit pension plans, with $134 billion in net assets as at June 30, 2024. OMERS is a multi-employer, jointly sponsored pension plan, with over 1,000 participating employers ranging from large cities to local agencies and more than 600,000 active, deferred and retired members. Our members include union and non-union employees of municipalities, school boards, local boards, transit systems, electrical utilities, emergency services and children's aid societies across Ontario. OMERS teams work in offices around the world – serving members and employers and originating and managing a diversified portfolio of high-quality investments in bonds, public and private credit, public and private equity, infrastructure and real estate.

OMERS prepares our financial statements in accordance with the requirements of Section 4600, *Pension Plans*. Improvements to this standard could have a direct impact to our financial reporting. Our EVP Corporate and Capital Markets Finance, Brandon Weening, is accountable for the preparation of OMERS financial statements, and is a member of the Pension Plan Advisory Committee involved in the preparation of this Exposure Draft.

Our Response

Our responses to select questions of the Exposure Draft follow; we do not have comments on the other questions within the Exposure Draft.

Question 1 - The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

We believe that adding a definition of "investment expenses" in paragraph 4600.05(pa) will help to clarify the requirement for presentation and support consistency of application.

We recommend that the proposed explanation for management fees (i.e. "based on the level of invested assets") be amended to clarify that such fees may also be based on total committed capital and not necessarily the level of invested assets, as referenced.

We agree that the examples of investment expenses included in the definition in paragraph 4600.05(pa) are the most relevant to users, except for transaction costs. We believe that transaction costs should be embedded with net investment income, netted against gains and losses, and not explicitly defined as an investment expense. Presenting transaction costs with net investment income is also consistent with Global Investment Performance Standards, which requires all returns, including gross returns, to be calculated after the deduction of transaction costs incurred during the period.

Question 3 - The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

We agree with the proposal to require pension plans to provide the disclosures required by IFRS 13, instead of the current Section 4600 Appendix, because it modernizes the Standard, is consistent with the fair value measurement requirement, and ensures that users of pension plan financial statements will continue to receive useful information on all investments as investment strategies evolve.

Question 5 - The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

The proposed paragraph 4600.32D names "investment fund, securitization vehicle or asset backed financing" as an example of an investment vehicle, however the universe of investment vehicles could be viewed more broadly. We suggest that the Standard include explanatory comments on the nature of investment vehicles that are intended to be captured by this requirement, or alternatively those that are not intended to be captured. We believe that the intention is to capture investment vehicles that are external to the pension plan, rather than those structured within it. With this clarity, we believe the proposed disclosure requirements will provide useful information to users of pension plan financial statements.

Question 7 - The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

We suggest that a definition or explanation of "embedded investment expenses" be added to the Standard to assist users in determining whether certain investment expenses should be reported separately as an expense or included within net investment income as an embedded expense.

With the inclusion of this definition, we agree with the proposal to qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income. Adding this clarity will help to ensure consistency of application as well as increased transparency and comparability.

Thank you for the opportunity to provide our comments. Should you have any questions regarding this letter please contact Brandon Weening (bweening@omers.com).

Sincerely,

Jonathan Simmons, FCPA, FCA
Chief Financial and Strategy Officer
OMERS Administration Corporation

Brandon Weening, CPA, CA
Executive Vice President, Corporate & Capital Markets Finance
OMERS Administration Corporation

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October 2, 2024

Katharine Christopoulos
Director, Accounting Standards Board
Accounting Standards Board (AcSB)
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Ms. Christopoulos:

We appreciate the opportunity to respond to the Accounting Standards Board's Exposure Draft ("ED") proposing amendments to Section 4600, focusing on the presentation and disclosure of pension plan investments.

We are generally supportive of the proposed changes, however we have identified certain areas that could benefit from further clarification or adjustment to ensure consistency in practice and minimize interpretative differences. Our responses to the ED's questions are presented below and have been organized into the following four sections:

- Presentation and Disclosure of Investment Expenses (Questions: 1, 2, 6, 7)
- Disclosure of Interests in Investment Vehicles (Question 5)
- Fair Value Disclosures (IFRS 13 Alignment) (Questions: 3, 4)
- General Recommendations (Question 8)

PRESENTATION AND DISCLOSURE OF INVESTMENT EXPENSES

*<u>ED Question 1:</u> The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, **custodial fees** and transaction costs. A pension plan may choose to allocate internal investment management costs that are not **directly attributable** (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?*

<u>OTPP Comments:</u> In general, the definition is broad enough to capture the key types of cost incurred managing pension plan investments. The inclusion of management fees, performance fees, and transaction costs ensures that a wide range of direct costs associated with investment management are captured. We agree that these are the expenses most relevant to managing investments and are well-understood by users

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of pension plan financial statements. However, some refinements and additional clarity related to custodial fees would be helpful, as follows:

- Custodial fees are included in the proposed definition of "investment expenses" (s.4600.05(pa) and "pension administration and other expenses"(s.4600.27(c)). We suggest that the AcSB clarify their classification to ensure consistency across plans. In our view, custodial fees should be included in investment expenses only if "directly attributable", consistent with the approach outlined for internal investment management costs.

*ED Question 2: The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that **details of "investment expenses"** and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

OTPP Comments: We agree that the proposed presentation changes will provide useful information to users of pension plan financial statements, by distinguishing between investment-related expenses (which can directly impact returns) versus operational costs related to pension administration. However, we have noticed that the requirement in paragraph 4600.27(b) to present "details of investment expenses" does not outline the types of expenses that should be reported separately. For instance, is there a requirement to present performance fees separately from base management fees? This is different from the approach used in 4600.27(a), (c) and (d), where AcSB offers more granular requirements. We believe that pension plans would benefit from clarity on the types of expenses that should be reported separately to ensure consistency of practice.

*ED Question 6: The AcSB proposes in paragraph 4600.32F(a) that pension plans **qualitatively disclose** the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

OTPP Comments: We agree that well-balanced quantitative and qualitative disclosures can offer greater transparency on investment expenses, helping users understand better the relationship between expenses and investment performance.

*ED Question 7: The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include **embedded investment expenses**, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded*

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investment expenses?

OTPP Comments: The proposed requirements in paragraph 4600.32F(c)-(d) reference "embedded investment expenses" which could be interpreted to conflict with the requirement in 4600.25(e) to separately distinguish investment expenses on the statement of changes in net assets available for benefits. As a result, we believe there is ambiguity whether certain fees (e.g., management fees) that are embedded in investment income should also be reported separately as investment expenses. If the same fee is disclosed twice (once as part of investment income and again as a separately reported investment expense) it could lead to misrepresentation (double counting) of the costs borne by the pension plan. To promote consistency in reporting, we believe the AcSB should explicitly clarify that embedded costs should be excluded from investment expenses

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DISCLOSURE OF INTERESTS IN INVESTMENT VEHICLES

ED Question 5: The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in ***investment vehicles*** *other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

OTPP Comments: We generally agree with the principle-based approach to enhance transparency around complex investment structures and provide insight into the associated risks and changes in risk over time, however we believe additional clarity is required, as follows:

- The new term "investment vehicle" is not clearly defined, which could lead to inconsistent interpretations and reporting among pension plans. While AcSB provides examples (e.g. securitization vehicles, asset-backed financings and investment funds), a more detailed definition or list of common types of "investment vehicles" could help ensure uniformity. As an alternative, we suggest an amendment to 4600.32D to limit the scope to the three aforementioned "investment vehicles".
- The proposed requirement in paragraph 4600.32E(c) implies that additional commentary on risks specific to investment vehicles is required to meet the disclosure objective in paragraph 4600.32D(b). As pension plans are already required to disclosure risk information under IFRS 7, it is unclear what new risk disclosures would be required. AcSB should clarify how these new disclosures should be positioned relative to IFRS 7, particularly in areas like market risk, credit risk and liquidity risk.

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FAIR VALUE DISCLOSURES (IFRS 13 ALIGNMENT)

AcSB Question 3: The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

AcSB Question 4: Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, ~~a description of how fair values have been determined~~ the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook."

OTPP Comments: We generally support the proposed changes related to IFRS 13 alignment. As many stakeholders compare pension plan performance to other asset managers, this alignment will improve comparability across industries and reduce confusion for users familiar with IFRS 13.

GENERAL RECOMMENDATIONS

ED Question 8: Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

OTPP Comments: Given that the new fair value disclosure requirements include quantitative information for both the current and comparative period in the year of adoption, we believe that the proposed amendment in 4600.32(a)(i) should be deferred by one year to first apply for annual periods beginning on or after January 1, 2027. This deferral will allow pension plans to address the practical challenges of the new disclosure requirements and determine the necessary incremental quantitative information for the comparative period during the valuation process, rather than retrospectively. For additional clarity, should AcSB consider removing the requirement for comparative periods in the first year of adoption, we believe that disclosing only one year of quantitative information in the year of adoption without comparatives will not provide useful information to the users of pension plan financial statements.

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We also seek clarification on whether the proposed effective date of January 1, 2026, also applies to interim financial statements. Specifically, the proposed wording in 4600.45 states "apply to **annual** financial statements relating to fiscal years beginning on or after January 1, 2026." When read together with paragraph 34 of the Basis of Conclusion which notes the timing allows "most pension plans over a year to implement the amendments", we believe this creates uncertainty regarding whether the changes also apply to interim periods within 2026. As it suggests, pension plans who prepare interim financial statements will have less time than those who only prepare annual financial statements. Clarity on this matter in conjunction with the change proposed in the preceding paragraph would ensure that pension plans can adequately plan their transition efforts and avoid potential inconsistencies in financial reporting for interim periods.

In conclusion, we believe the proposed changes in the Exposure Draft are generally positive and aligned with the goal of enhancing transparency in pension plan financial reporting. However, the areas we have outlined above, require further clarification to ensure consistency and to minimize interpretative challenges.

We appreciate the opportunity to provide feedback and look forward to continued engagement with AcSB to refine and finalize these proposals. If you have any questions regarding this letter, please contact Monika Sawa (monika_sawa@otpp.com).

Sincerely,

Mabel Wong
Chief Financial Officer

Monika Sawa
Managing Director, Financial Reporting

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October 2, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
277 Wellington Street West
Toronto, Ontario M5V 3H2

Comment letter: Exposure Draft Improvements to Presentation and Disclosure of Investments for Pension Plans

We have chosen to respond to the following questions on the Exposure Draft.

Question 1 – Definition of investment expenses
The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

Question 6 – Qualitative disclosure of the types of investment expenses
The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

Question 7 – Qualitative disclosure of investment income that includes embedded investment expenses
The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

Response to questions 1, 6, and 7:
We agree that additional investment expense disclosures would benefit users of pension plan financial statements. However, as a smaller single-employer pension plan, we are concerned that the costs to obtain this information will outweigh the benefits. Expenses such as internal investment management costs, custodial fees, and transaction costs are not currently reported by our investment managers. Investment managers adjusting to meet these requirements could increase management fees and expenses or divert resources from investment

management activities. Given our defined benefit pension plan structure, additional costs would impact employer contributions and not plan members, limiting the benefits of the additional disclosure.

Question 8 – Implementation timeline
Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

Response:
Accommodating the reporting changes would require additional reporting from our investment managers, who may need lead time to implement. We believe an effective date of January 1, 2026 might pose challenges and suggest the AcSB seek direct feedback from investment managers on the readiness of technology and systems to handle the new requirements. This feedback would provide insights into the practicality of the changes and achievability of the timeline.

Sincerely,

Farouk Zaba
Director, Corporate Finance
British Columbia Lottery Corporation

October 2, 2024

SENT ELECTRONICALLY

Katharine Christopoulos, CPA, CA
Director, Accounting Standards Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Re: Improvement to Presentation and Disclosure of Investments for Pension Plans

Dear Ms. Christopoulos,

Thank you for the opportunity to provide input to the Accounting Standards Board (AcSB) on the above noted document.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as pension plans, credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizable contingent of publicly traded companies. We believe that we are well-positioned to provide feedback on this exposure draft ("ED").

We have reviewed the ED and have provided our comments below. While we support the AcSB's efforts to improve the presentation and disclosure of investments held by pension plans, we believe that specific proposals within the ED would be challenging for some smaller pension plans. Specifically, we have concerns about the substantial time and cost that may be necessary for pension plans to implement and comply with these new disclosure requirements, and we believe that the benefits to users of these financial statements would not outweigh those costs. Our responses to specific questions in the ED are provided, below.

Question 1: The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

We believe the choice to allocate internal investment management costs not directly attributable to net investment assets between investment expenses, pension administration and other expenses, as well as the possible application of different allocation methods, may result in a lack of comparability among the financial statements of pension plans. We would propose that the choice to allocate these costs be removed from the definition.

Question 3: The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

The disclosure requirements under IFRS 13 are robust. In order to meet the proposed requirements, pension plans are likely to request additional information from plan managers (i.e. banks and/or other financial institutions). Where this information is not currently available, efforts to develop new reporting to meet the requirements, will add significant time and costs. We are of the view that the additional efforts and costs to apply these amendments would outweigh any benefits for the majority of our clients.

We recommend further research be done to determine what information would benefit users of smaller pension plan financial statements, as well as consideration for the ability of those managing the pension plans investments to be able to meet these reporting requirements without a significant amount of cost and effort.

Question 4: Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook."

Please see our response to Question 3.

Question 5: The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

We agree with the proposed requirement in paragraph 4600.32D(a) for pension plans to disclose information that enables users of its financial statements to understand the nature and extent of its interest in investment vehicles. We believe that this information would be useful to users to better understand how the pension plans assets are being invested.

However, it is our opinion that the proposed requirement in paragraph 4600.32D(b) for pension plans to disclose information that enables users to evaluate the nature of, and changes in, the risks associated with its interest in investment vehicles is too broad. Without more specific guidance pension plans will have difficulty determining what exactly they should disclose, and this could lead to diversity in practice and lack of comparability. We recommend the proposed standard be updated to provide more details of the specific nature of information that the AcSB is expecting to be disclosed under this requirement, including a list of required or suggested disclosures.

Question 7: The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

We are of the view that this would not be beneficial disclosure for users of pension plans financial statements. Users would be more concerned with the total quantitative impact of investment expense as opposed to the types of investment income that includes embedded investment expenses. Further, getting this information from plan managers may be difficult as they may not be able to provide this information at that level of detail without a significant amount of effort. We recommend removing this requirement from the proposed presentation and disclosure amendments.

Question 8: Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

If the AcSB decides to proceed with the presentation and disclosures proposals, we believe that the proposed timeline would be too short. The proposed amendments and transition plan apply to the beginning of the earliest period presented, which would require pension plans to include disclosures for the comparative years beginning, January 1, 2025. Given the robust nature of the disclosures required under IFRS 13, and that additional information would likely have to be requested from third parties (i.e. banks and/or financial institutions), the proposed timeline may not be adequate for all pension plans.

Further, we believe that an option should be available to apply these amendments only to the period in which the amendments are first applied with no comparative disclosure for the earliest period presented. Comparative information is normally available to pension plans that have the same plan manager. However, pension plans that change their plan manager during the year have sometimes encountered challenges in obtaining prior period information, especially given the level of detail being requested by the AcSB in the proposed amendments.

We would be pleased to offer our assistance to the AcSB for any future proposed changes to accounting standards and in helping to find solutions which meet the needs of the financial statement users.

MNP LLP

Maryse Vendette

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October 2, 2024

Re: AcSB Exposure Draft – Improvements to Presentation and Disclosure of Investments for Pension Plans ("the Exposure Draft")

Dear Ms. Christopoulos,

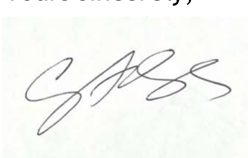
We have reviewed the Exposure Draft issued in June 2024 and are grateful for the opportunity to provide our feedback. After careful consideration, we have outlined our responses to your specific questions below.

We generally agree with the proposals included in the Exposure Draft. However, we have noted some areas where clarification may be needed to avoid diverse interpretations and ensure consistency in application. Specifically, we address concerns related to the allocation of internal investment management costs, the required level of detail for presenting and disclosing investment expenses, and disclosure related to investment vehicles.

Additionally, we support the proposed adoption of the disclosures in IFRS 13 *Fair Value Measurement* for investments measured at fair value but recommend the Board ensure a defined process is adhered to for evaluating future amendments to IFRS 13, particularly in the context of the cost/benefit to users of pension plan financial statements.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 647-798-1331 or via email at ccross@bdo.ca.

Yours sincerely,



Craig Cross, CPA, CA
Partner, National Accounting Standards
(through a Professional Corporation)
BDO Canada LLP

1. *The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?*

   We generally agree with the proposed definition of "investment expenses". We agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users. However, we noted that custodial fees are included in both the definition of investment expenses at 4600.05(pa) and as one of the significant categories of pension administration and other expenses at 4600.27(c). Including custodial fees in both places may lead to different interpretations increasing diversity in practice. We recommend that the Board clarify situations when custodial fees would be classified as either investment expenses or pension administration and other expenses. In our interpretation of the proposals, we suggest all custodial fees are classified as investment expenses.

   We note that the policy choice to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses" may result in inconsistent application. This is due to the lack of a clear definition of internal investment management costs and what can be allocated as "investment expenses". Although paragraphs 4600.32F(a) – (b) do require some disclosure, there is a concern that the proposed requirements for internal investment management costs are too vague to allow for comparability between pension plan financial statements.

2. *The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of "investment expenses" and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

   We agree with the proposal in paragraphs 4600.25(e)-(f) that the "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. However, through discussion with employees and partners, we noted that there were different interpretations about the level of detail required by 4600.27(b) and as a result, the current proposal may result in diversity in practice, particularly when the requirement is considered in conjunction with the disclosure requirements proposed in 4600.32F(a).

If it was the Board's intent to include quantitative disclosure related to the details of investment expenses, such as the specific types of investment expenses within the overall "investment expenses" amount, we believe that this level of detail could be onerous without providing significant value to the users of the financial statements. Therefore, we propose that paragraph 4600.27(b) be amended as follows:

(b) ~~details of~~ investment expenses;

3. *The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

   We agree that the proposed disclosure requirements requiring pension plans to apply the disclosure requirements under IFRS 13 *Fair Value Measurements* to investments that are financial instruments measured at fair value provides useful information. We agree with the Board's reasoning for the proposed change as outlined in paragraph 3 of the Basis for Conclusions.

   We would encourage the Board to consider how the applicability of future amendments to IFRS 13 will be evaluated with respect to pension plans. Particularly what the process will be to seek feedback from pension plans on proposed amendments to IFRS as well as the process for considering amendments to Part IV to allow for exceptions to the disclosures required in IFRS 13 as needed.

   As the Board undertakes its project relating to Evaluating the Preface of the Handbook, we note that confusion can result where sections under certain parts of the Handbook refer to other parts of the Handbook. We ask that the Board consider the cost benefit of including all applicable guidance for pension plans in Part IV without reference to other parts of the Handbook.

4. *Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, ~~a description of how fair values have been determined~~ the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook."*

   We agree it would be useful for pension plans to provide the disclosures required by IFRS 13 for all other investments measured at fair value. We believe that the same reasoning behind applying IFRS 13 to investments that are financial instruments measured at fair value applies in this situation as well.

5. *The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in*

investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

We agree that the proposed disclosure requirements for a pension plan's interest in investment vehicles other than master trusts would provide useful information to the users of the financial statements. We understand the Board's intent was to introduce principle-based disclosure requirements as it may not be practicable for pension plans to provide look-through disclosures on such investment vehicles. However, based on the views of employees and partners, the proposals could result in diversity in practice. Therefore, we encourage the Board to consider further education and illustrative examples of sufficient disclosure to emphasize the intent of the requirements and reduce diversity in practice.

6. *The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?*

   We noted through discussion with employees and partners that there were different interpretations about the level of detail required by 4600.32F(a). Many interpreted the proposal as only requiring basic disclosure of the types of investment expenses. However, as a requirement to disclose the types of investment expenses only may be addressed by the current wording of 4600.27(b), there was a view that the proposal could be interpreted as requiring the disclosure of key terms and conditions related to management fees, performance fees and other investment expenses. We recommend that the Board consider providing further clarification through education and illustrative guidance.

7. *The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?*

   We agree that the proposed disclosures will provide useful information related to embedded investment expenses. The proposal provides greater transparency regarding the costs of generating net investment income without being onerous.

8. *Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?*

   We agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted. This allows sufficient time for education regarding the amendments and for pension plans applying Part IV to implement the amendments.

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October 2, 2024

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Subject: Invitation to Comment - Exposure Draft: Improvements to Presentation and Disclosure of Investments for Pension Plans, Section 4600

Dear Ms. Christopoulos:

We thank you for the opportunity to provide comments on the above noted Exposure Draft regarding the proposed amendments to Pension Plans, Section 4600.

We support the AcSB's objective of improving the information a pension plan provides to its users in regard to its fair value investments. We agree that the enhanced disclosures will allow users to better understand, and consequently, have a better ability to assess the risks and sensitivities associated with the reported fair values of a pension plans investments that are measured using significant unobservable inputs.

We also agree that a principle-based disclosure requirement is generally appropriate for investment vehicles, however, the lack of clarity over the intended scope and definition of an investment vehicle may lead to diversity in practice.

From an auditor's perspective, our key concern is to ensure that the proposed requirements can be implemented consistently, and that the information included in financial statements is reliable and verifiable. Consequently, we have included additional areas which in our view, would benefit from further clarification for the Board's consideration.

Please find attached our comments to the specific questions raised in the Exposure Draft. If you have any questions, please contact Martin Roy (mroy@deloitte.ca) at 416-601-5679.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

Appendix
Proposed Improvements to Presentation and Disclosure of Investments for Pension Plans, Section 4600

1. **The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?**

   We agree with the proposed definition for "investment expenses" and based on our internal discussions, the expenses included in the definition in Paragraph 4600.05(pa) are the most relevant to users of pension plans.

   The proposed standard provides a policy choice for pension plans with respect to the allocation of internal investment management costs that are not directly attributable between investment expenses and pension administration and other expenses. This will likely result in a decrease in comparability across different pension plans. However, we note that this diversity and loss in comparability may be acceptable as the performance of each plan may be assessed on a different basis depending on the size of the plan and the nature of its investments (e.g., investments managed by a third-party service provider versus directly managed by the plan). Furthermore, allocation methodologies are often subject to management judgement and the associated effort in auditing the appropriateness of the allocation methodology, as well as the annual allocated amounts, requires incremental effort. We agree that a policy choice will result in presentation of more relevant information for each plan, without enforcing undue burden on plans to perform an allocation when they are not already doing so.

2. **The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of "investment expenses" and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?**

   We agree with the proposed amendment relating to the separate presentation of "investment expenses" and "pension administration and other expenses" on the statement of changes in net assets available for benefits or in the notes to the financial statements.

   We acknowledge that while this may encourage increased transparency and consistency of presentation, it may not directly result in increased comparability across different pension plans. For instance, plans may develop an internal policy and allocation methodology for "directly attributable" costs. Although we expect that all pension plans will develop similar policies, the policies and methodologies will likely not be identical. Furthermore, some plans may choose not to allocate costs that are not directly attributable between investment expenses and pension administration and other expenses. Consequently, total investment expenses may not be directly comparable from plan to plan. Nevertheless, we agree that the balance of investment expenses is critical for users to understand the performance of the plan and the increase in consistency in presentation will provide more relevant information to plan users to assess plan performance.

3. **The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?**

We agree that the proposed disclosure requirements. Given the increasing complexity of alternative investments and the associated valuation of those investments, we agree that the incremental disclosure requirements of IFRS 13 would provide users with more relevant information to users of pension plan financial statements.

We expect that the application of the requirements of IFRS 13 will require incremental effort and costs for pension plans. The impact may be more significant for smaller pension plans that may not have the internal resources to prepare such disclosures. For example, smaller pension plans may primarily rely on external service providers to prepare fair value information rather than prepare the required valuations in-house. We anticipate that these preparers may face difficulties in preparing the disclosures required for their level 3 investments. In particular, for circumstances where the entity does not have visibility into the significant unobservable inputs or when an entity does not actively participate in the development of such information in determining the fair value of their level 3 investments. These plans will likely rely on their service provider for incremental information in order to meet the disclosure requirements of IFRS 13.

Additionally, we note that IFRS 13 Paragraph 93(d) does not mandatorily require an entity to create quantitative information about significant unobservable inputs used in fair value measurement to comply with the disclosure requirements. IFRS 13 Paragraph 93(d) further indicates that an entity cannot ignore quantitative unobservable inputs that are significant to fair value measurement and are “reasonably available to the entity”. For those plans that primarily rely on service providers to provide fair value information, there may be management judgement in determining what is considered “reasonably available”. This also leads to audit challenges as auditors are required to assess management’s judgement and interpretation given that there is no standard definition.

While IFRS 13 Paragraph 92 provides latitude and allows plans to exercise judgement in determining the level of detail of the information to provide, we believe this could lead to diversity in practice and limit comparability across pension plans, and present audit challenges with regards to ascertaining whether sufficient detail has been presented by the plan.

Finally, we note that although direct reference to Part I of the Handbook will reduce the need for future amendments to Section 4600 which will reduce administrative burden, it will also subject pension plans to apply all future amendments to the disclosure requirements of IFRS 13. We encourage the Board to consider if the IFRS 13 disclosure requirements should be incorporated as an Appendix to Section 4600 or if there should be direct reference to Part I of the Handbook as currently proposed.

4. **Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: "for all other investments measured at fair value, a description of how fair values have been determined the disclosures required by IFRS 13 Fair Value Measurement in Part I of the Handbook."**

   We agree that the disclosures required by IFRS 13 with respect to all other investments would provide useful information for users of the financial statements. However, we would also like to highlight that some preparers may face challenges with application upon transition when compiling historical information for comparative periods, in particular, for plans that have a high volume of other investments. Furthermore, pension plans with investments in non-financial instruments may not have access to the information required to produce disclosures and may need to apply a certain degree of hindsight in their assessment. For example, these two requirements may be onerous to apply to prior year comparative information:

   1. The highest and best use of a non-financial asset as required by IFRS 13 Paragraph 93(iii); and
   2. Sensitivities for significant unobservable inputs as required by IFRS 13 Paragraph 93(h)(i).

   The costs associated with preparing comparative disclosures may outweigh the benefits, particularly given that the measurement of the investments will not have changed, and a new valuation will have already been prepared for the current year. Consequently, we believe that transitional relief for comparative periods may be beneficial to preparers.

5. **The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?**

   We agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements, particularly in scenarios described within the Basis of Conclusions Paragraph 14, in relation to investment vehicles where financial statements are not always publicly available. However, we anticipate certain application challenges that may lead to diversity in disclosures.

   Although Paragraph 4600.32D provides examples of investment vehicles, the interpretation of what constitutes an "investment vehicle" could be significantly broad. For example, it is unclear if an investment that is held through a series of holding companies would be considered an investment vehicle. Although the investment is held indirectly, the underlying risks associated with the investment may be no different than if the investment was held directly. It is unclear if Paragraph 4600.32D is intended to capture all investments that are held indirectly or not. If the intention of the amendment is to capture all indirectly held investments, the incremental disclosures regarding nature, risk and total fair value may not provide more relevant or decision useful information to users. We understand that the proposed amendments provide a principal-based approach to allow plans to apply judgement on the investment vehicles that may warrant additional disclosure. We also acknowledge that a closed end definition of investment vehicles may not allow the proposed amendments to grow with the continual evolution of investment products that are being offered. However, we expect that the lack of a formal definition of an "investment vehicle" will lead to a diversity in practice. Consequently, we recommend that either a formal definition of "investment vehicle" be added to the standard or further guidance and expanded examples of what is expected to be disclosed, as well as examples of what may not be expected to be disclosed, to be incorporated into the Basis of Conclusions.

Furthermore, we note that it is unclear by reading Paragraph 4600.32D(a)-(b) if the disclosure requirements require a plan to describe the risks associated with holding the investment vehicle itself or the risks associated with the underlying investments. For example, if a plan holds units in a real estate investment fund, it is unclear if the disclosure requirements require a plan to address the risk of holding units in the investment fund itself (e.g. liquidity of the fund units) or the risks associated with the underlying real estate assets, or both. We note that Paragraph 15 of the Basis of Conclusions states that the disclosure regarding the nature of investment vehicles includes "the primary types of investments held by those investment vehicles" as an example, which infers that the plans should disclose the risks associated with the underlying investments. However, it is unclear from reading Paragraphs 4600.32(D)(a)-(b) if this is indeed the requirement. Therefore, we suggest amending Paragraph 4600.32(D)(a)-(b), "[…] interest in investment vehicles" to "[…] interest in investment vehicles and the primary types of investments held by those investment vehicles". We suggest a corresponding amendment to the Basis of Conclusions Paragraphs 19(a)-(b).

6. **Do The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?**

   We agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements as the type of investment expenses will allow users to better understand the costs associated with generating returns from the plan.

7. **The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?**

   We agree that the proposed qualitative disclosure of the types of investment income that include embedded expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits would be useful information to users. This will ensure transparency and completeness of information so that users are aware of the total cost to manage the net investment assets and liabilities of the pension plan.

   We considered the interaction between the proposed definition of "investment expense" under Paragraph 4600.05(pa), the disclosure requirements in the statements of changes in net assets available for benefits under Paragraph 4600.25(e) and the qualitative disclosure requirements for "embedded investment expenses" under Paragraphs 4600.32F(c)-(d). We note that the proposed definition for "investment expenses" would include expenses that are considered "embedded investment expenses". As such, it is unclear if "embedded investment expenses" need to be included in the statements of changes in net assets available for benefits under the requirements of Paragraph 4600.25(e) if the dollar value of the "embedded investment expenses" is known, or if a pension plan is permitted to present "embedded investment expenses" net of investment income if the plan complies with the disclosure requirements of Paragraph 4600.32F(c)-(d). For example, if an investment fund generates investment income of $100 and charges $2 in management fees and embeds the fee in investment income yielding a net return of $98, it is unclear if a plan is required to:

(a) present and classify the $2 with other identifiable investment expenses as defined in Paragraph 4600.05(pa) on the statement of changes in net assets available for benefits as required by Paragraph 4600.25(e); or
(b) disclose that net investment income of $98 consists of embedded investment expenses of $2; or
(c) disclose that net investment income of $98 consists of embedded investment expenses without disclosure of the dollar amount; or
(d) it is a policy choice.

Consequently, we recommend clarifying if embedded investment expenses are required to be disclosed, if identifiable without undue cost, and if the identifiable embedded expenses can be presented net in investment income or if it is required to be presented with all other investment expenses as required by Paragraph 4600.25(e). We also suggest including a definition of an "embedded investment expense" similar to investment expense. Finally, in clarifying the requirement, we encourage the Board to consider if there would be any bias for investment expenses that would typically be charged separately to be restructured into an embedded investment expense that is charged net of investment income.

8. **Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?**

We agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026. We note that in accordance with Paragraph 4600.45, plans are required to apply the amendments to "[…] *annual financial statements* relating to *fiscal years* beginning on or after January 1, 2026". However, we note that certain pension plans prepare and publish condensed interim financial statements. Based on the current wording, it is unclear if the amendments should be applied to interim financial statements or if plans should defer application of the amendments to their annual financial statements for the fiscal year. We suggest amending the wording to "[…] financial statements relating to annual periods beginning on or after January 1, 2026" or provide clarification otherwise.

We would also ask the Board to consider transitional relief with respect to the preparation of comparative period information, particularly with respect to some of the application challenges noted with regards to the proposed amendment to require IFRS 13 disclosures as noted in Question #4.

October 7, 2024

Section 4600 Exposure Draft on Improvements to Presentation and Disclosure of Investments for Pension Plans

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Katharine,

We are writing to you on provide feedback on the Section 4600 Exposure Draft issued by the Accounting Standards Board, which proposes improvements to the presentation and disclosure of investments for pension plans. We appreciate the opportunity to contribute to the development of accounting standards that enhance transparency and comparability in financial reporting.

We commend the Board's efforts to address the complexities associated with the presentation and disclosure of investments for pension plans. The proposed changes are a significant step towards providing clearer and more comprehensive information to stakeholders. However, we would like to offer the following comments and suggestions for your consideration:

1. **Clarity and Consistency in Presentation**: We support the proposed requirement for a standardized format for presenting investment information. This will enhance comparability across different pension plans and provide stakeholders with a clearer understanding of the investment strategies and performance. We recommend that the Board provide detailed guidance and illustrative examples to ensure consistent application of the new presentation requirements.

2. **Investment vehicles:** The term "investment vehicles" is not defined under S4600 and IFRS, which creates challenges with consistency and clarity. For example, it is unclear whether holding companies or only funds are considered investment vehicles. Providing further descriptors or examples would help address this ambiguity.

   Additionally, we would like to understand the intent and objective of this requirement. There are already significant risk disclosures under IFRS 7, and it is not clear what additional requirements are needed. Other financial institutions with complex investments, such as banks, do not disclose "investment vehicles," and it is unclear what value this disclosure would provide to users of the financial statements.

3. **Investment expenses:** We would appreciate further clarification on definitions, including "directly attributable" expenses and the recommended disclosure of transaction costs, such as those for dead deals. There is inconsistency in the Exposure Draft regarding embedded expenses, such as whether management fees should be presented in investment expenses or remain embedded in investment income, potentially leading to double counting if preparers are unclear. Additionally, obtaining more granular information for reporting purposes on all externally managed funds may be challenging, especially for pension plans that primarily invest through externally managed funds.

4. **Implementation Timeline**: We appreciate the Board's efforts to provide a reasonable implementation timeline for the proposed changes. However, given the complexity of some of the new requirements, we suggest that the Board consider a phased implementation approach, with a 1-year deferral in the implementation of IFRS 13 Fair Value Measurement. This will allow pension plans, especially pension plans with fewer internal resources, sufficient time to adapt systems and processes to comply with the new standards.

In conclusion, we believe that the proposed improvements to the presentation and disclosure of investments for pension plans will enhance the quality of financial reporting in this area. We appreciate the opportunity to provide our feedback and hope that our comments will be helpful in finalizing the Exposure Draft.

Thank you for your consideration.

Sincerely,

DocuSigned by:
AFBB3BC98F73415...

Karen Rowe
Chief Financial Officer
University Pension Plan