CCSP

Conseil sur la comptabilité dans le secteur public

Projet de chapitre SP 3251, «Avantages sociaux»

Réponses à l'exposé-sondage

Avril 2022

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AMO Association of Municipalities Ontario

November 10, 2021

Mr. Michael Puskaric
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Exposure Draft on Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for the opportunity to provide input on the Exposure Draft (ED) on Employee Benefits, Proposed Section PS 3251. As you are aware, the Association of Municipalities of Ontario (AMO) has been engaged on this proposal since it was first considered in the Invitation to Comment on Employment Benefits: Non-Traditional Pension Plans in Fall 2018. The proposed changes would impact most Ontario municipalities and we are pleased to participate in the consultation process. These comments are a response to question 5, regarding proposed paragraphs PS 3251.033-035 of the ED.

Following the release of the Invitation to Comment, AMO communicated our concerns with proposed guidance that public sector entities participating in pension plans should reflect the "proportionate share of the risk and ultimate cost of all types of pension plans in the accrued benefit obligations reported by the employer." Municipal employers predicted significant administrative challenges to implement such guidance, particularly in the case of OMERS-participating employers, the pension plan covering the greatest number of municipal employees in Ontario.

We are pleased to see the inclusion of paragraphs PS 3251.033-035 which outline scenarios in which a public sector entity may not be able to identify its share of the underlying financial position and plan performance with sufficient reliability.

Municipal employers participating in OMERS do not have ability to reflect their proportionate share of liabilities and assets on their financial statements. There is no reliable methodology to calculate an individual employer's proportion of the pension obligation within a jointly sponsored multiemployer pension plan as risk is shared between many employers and plan members. Such a calculation would be significantly complex that it would be a burden for most municipalities to calculate, with much of the

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information held by the pension administrator rather than the employers. We believe that both scenarios articulated in paragraph .035 apply to municipal employers.

Therefore, our interpretation of PS 3251.035 leads us to the conclusion that municipal employers participating in the OMERS pension plan will not be required to recognize their proportionate share of the liabilities and assets of the pension plan in which they participate. Municipal employers expect that the inclusion of these provisions will enable them to continue the current practice of accounting for their pension obligations according to the guidance for defined contribution plans. Municipal employers strongly endorse the inclusion of these provisions in the standard.

Thank you for the opportunity to comment.

Sincerely,

Brian Rosborough
AMO Executive Director

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November 17, 2021

Michael Puskaric
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto Ontario
M5V 3H2

Via Email

Dear Mr. Puskaric:

Thank you for the opportunity to comment on the Exposure Draft—Employee Benefits, Proposed Section 3251.

The National Union of Public and General Employees represents 390,000 people, largely in the public sector and broader public sector. The pension plans to which our members belong include half of the 10 largest pension plans in Canada, as well as a number of smaller pension plans.

Whether our members will be able to enjoy a financially secure retirement hinges on how well their pension plans are managed, so the National Union and its Components are heavily involved in pension issues. Many of our plans are jointly trusteed, with union representatives and employer representatives sharing responsibility for how the plans are run. For plans where the plan sponsor is the employer or employers, we closely monitor how the plans are being run and provide input.

For all plans, members of the National Union have a strong interest in ensuring that the financial situation is reported as accurately as possible.

Discount Rate

Because of our interest in ensuring that the financial situation of pension plans is reported as accurately as possible, the National Union believes that the discount rate should be an actuarially determined expected rate of return for plan assets. The proposal in the Exposure Draft to use the “expected market-based return” on plan assets as the discount rate for funded plans appears to allow the expected rate of return to be used, which the National Union supports.

However, the change from the current language in PS 3250, which reads “expected rate of return”, to “expected market-based return” in the proposed draft may cause unnecessary confusion. Given that paragraphs 112, 113, and 114 set out how the rate of return should be calculated, and that paragraph 088 states that “financial assumptions should be based on market expectations,” adding “market-based” appears redundant.

NATIONAL UNION OF PUBLIC AND GENERAL EMPLOYEES / SYNDICAT NATIONAL DES EMPLOYÉES ET EMPLOYÉS GÉNÉRAUX ET DU SECTEUR PUBLIC
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copesepb ontario

Reporting Requirements for Multi-Employer Plans
In paragraph 032 of the Exposure Draft, the reporting requirement for multi-employer plans would become that each employer "account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan." This is a change from the current PS 3250, which acknowledges that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer" and allows governments participating in multi-employer to use the standards for defined contribution plans.

While paragraph 033 of the Exposure Draft still allows governments participating in multi-employer to use the standards for defined contribution plans "when sufficient information is not available," the wording of the Exposure Draft appears to assume that employer-level data is available. This would change the default standard for multi-employer plans, and employers would now be required to demonstrate that employer-level data is not available.

Based on the multi-employer plans that the National Union is familiar with, participating employer-level information is not available. Those who have looked at the issue have concluded that producing the information would either be impossible or prohibitively expensive.

The inability to produce participating employer-level information will mean that, in practice, governments participating in multi-employer plans will still be using the standards for defined contribution plans. However, changing the default assumption for reporting for multi-employer plans will potentially lead to confusion, accounting disputes, and increased administrative costs.

Given the way multi-employer plans in Canada are set up, the wording in the current PS 3250 on the reporting requirement for multi-employer plans better reflects the reality in Canada than what is proposed in the Exposure Draft.

Conclusion
In closing, we would like to thank the Public Sector Accounting Board (PSAB) for the opportunity to comment on the questions raised in the PSAB's Employee Benefits, Proposed Section 3251.

If you would like to discuss any of the issues raised by the National Union in greater detail, we would be pleased to do so.

Sincerely,

Bert Blundon
Secretary-Treasurer

cc: Larry Brown, President
National Executive Board

OPFFA

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November 18, 2021

Michael Puskaric, MBA, CPA, CMA
Director
Public Sector Accounting Board
277 Wellington Street West,
Toronto, ON, M5V 3H2

RE: Response to Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

We appreciate the opportunity to comment on the Public Sector Accounting Board's (PSAB) Exposure Draft: *Employee Benefits, Proposed Section PS 3251* (the ED). While the ED lists fifteen questions for comment, our response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans.

The Ontario Professional Fire Fighters Association is a participating sponsor in the OMERS defined benefit pension plan, which is a multi-employer, jointly-sponsored pension plan with more than 1,000 participating employers.

As a sponsor in a multi-employer pension plan (i.e., OMERS) we are pleased that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. We expect we will not have sufficient information.

Specifically, our interpretation of the ED leads us to the conclusion that participating employers will not be required to recognize a proportionate share of the net assets of the multi-employer pension plan in which they participate. Our conclusion that the proposed rules will not apply to OMERS employers is based principally on the proposals set out in new paragraphs .033 - .035, which state that an entity would not be required to recognize a proportionate share when sufficient information is not available.
The ED sets out that sufficient information would not be considered available if:
a) the entity is exposed to actuarial risk from employees of other employers, or
b) the entity does not have access to sufficient information.
We believe both conditions will apply to OMERS employers such as the OPFFA.

We reiterate that the inclusion of paragraphs .035(a) and (b), as drafted, is critical.

We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB during future phases. We will continue to monitor the project's developments closely.

For more information, please contact me at csantoro@ontariofirefighters.org

Yours truly,

Carmen Santoro
President
Ontario Professional Fire Fighters Association

November 18, 2021

By email: info@psabcanada.ca

To: Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

From: The City of Calgary

Re: PSAB Exposure Draft – Employee Benefits (PS 3251)

Purpose:

The purpose of this memo is to provide to the Public Sector Accounting Board (PSAB) the City of Calgary's ("The City" or "City") commentary and input on the Proposed Accounting Standards – Employee Benefits Exposure Draft issued July 2021. All responses have been prepared by The City's Corporate Financial Reporting team and the Pensions and Benefits team.

All references made to the standard are in red.

Responses to Specific Questions:

PURPOSE AND SCOPE

1. *Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.*

City Response:

Overall, The City has found that the scope of this standard is clear and covers all the types of employee benefits that The City currently provides. The City would like some clarity on Section .005(c) and the types of informal practices which could exist here. An example would be very helpful.

GLOSSARY

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?*

City Response:

The City would like to suggest including Fair Value relating to plan asset in the Glossary. Clarification is required on valuation/measurement date, and further guidance would be appreciated when the valuation/measurement date does not coincide with financial reporting date. Having a definition in the Glossary for "common control" would be helpful in interpreting .039-.042.

Overall, the definitions contained are helpful in interpreting and applying the standard.

Response to Specific Questions (continued):

POST-EMPLOYMENT BENEFITS – DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

City Response:

The City, as a controlling public sector entity, recognizes net defined benefit cost in its consolidated financial statements. Applying the guidance in Section .039 - .042 would not change The City's accounting treatment for its involvement in a post-employment benefit plan. However, it would change the accounting treatment for some of The City's related authorities (subsidiaries). These controlled entities currently do not recognize the cost in their individual financial statements due to difficulties in the measurement of their portion of net defined benefit cost.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?*

City Response:

Not Applicable for The City of Calgary as The City does not participate in any category-wide plans. It would be helpful to have a section which explains the distinct differences between a category-wide plan and multi-employer plan.

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

City Response:

The City currently follows the standards for defined contribution plans to account for the multi-employer pension plans it participates in, due to lack of information that is required to determine the portion of the plans' obligations and assets attributable to each employer. Therefore, applying Section .033 and Section .035 will not change the accounting treatment for The City's involvement in multi-employer plans.

Response to Specific Questions (continued):

POST-EMPLOYMENT BENEFITS – DEFINED BENEFIT PLANS

DISCOUNT RATE GUIDANCE

6. *Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

City Response:

According to the guidance in Section .105 - .109, The City's post-employment benefit plans are currently either partially funded or unfunded. However, The City has concerns over the short-term change stated in Section .110. The City would like clarification on the definition of short term and if it is defined as a term less than one year or less than five years given the long-term nature of benefit obligations? If short term is defined as a term of less than one year, The City would like clarification if a public sector entity is required to conduct such an assessment more frequently than once every 12 months?

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.*

City Response:

The City does not agree with the discount rate approaches proposed in Section .111 - .114 for fully funded plans for the following reasons:

1. Discount rate should reflect the estimated timing of benefit payments and the risks specific to the employee benefit liability that are unlikely relating to plan assets or return on plan assets.
2. The proposed approaches would potentially result in an increased volatility in deficit or surplus.

The City does not agree with the discount rate approaches proposed in Section .115 - .117 for partially funded plans for the following reasons:

1. Clarification is required on short-term funding shortfalls. Refer to City Response to Question #6.
2. Discount rate should reflect the estimated timing of benefit payments and the risks specific to the employee benefit liability that are unlikely relating to plan assets or return on plan assets.
3. The proposed approach would potentially result in an increased volatility in deficit or surplus.
4. The proposed approach would require more assumptions, estimates and judgements which could be more prone to errors or inaccuracy.
5. The complexity of this proposed approach may jeopardize the understandability of plan information that is relevant to the users of The City's financial statements.
6. Lack of consistency.

The City agrees with the discount rate approaches proposed in Section .118 - .120 for unfunded plans.

Response to Specific Questions (continued):

POST-EMPLOYMENT BENEFITS – DEFINED BENEFIT PLANS (continued):

DISCOUNT RATE GUIDANCE (continued):

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.*

City Response:

Clarification is required on short-term funding shortfalls. Refer to City Response to Question #6.

9. *Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges*

City Response:

Please refer to City Responses to Question #6 and #7 for the challenges to The City and the sources of these challenges.

The City consistently uses an average of interest rates for its long term borrowing from Alberta Government as the discount rate for its post-employment plans, whether they are fully funded or fully unfunded. This discount rate fairly reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid by The City. Therefore, The City proposes to use such a discount rate as an alternative to the approach proposed in Section .111 - .120 to reduce the challenges that The City can foresee.

REVALUATIONS ON THE NET DEFINED BENEFIT LIABILITY (ASSETS)

10. *Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.*

City Response:

The City has concerns over the recognition of revaluation adjustments and why subsequent recognition would not be recorded through surplus/deficit similar to .064(c). The City would appreciate further information on how this revaluation will be recorded if the Credit entry is to the liability account (considering the revaluation results in a loss), what would the Debit side be? The exposure draft does not provide guidance on how often the revaluations need to be done. Guidance on how often the revaluations should be done will be helpful in determining the treatment of revaluation gains/losses. An illustrative example would be helpful in determining why the Board has elected the revaluations to be recorded through net assets.

Response to Specific Questions (continued):

REVALUATIONS ON THE NET DEFINED BENEFIT LIABILITY (ASSETS) (Continued):

11. *PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.*

City Response:

The City agrees there is the possibility of increased volatility in net debt arising from the immediate recognition of actuarial gains and losses. At this time, no further presentation related items are considered necessary by The City; however, additional disclosure should be considered to detail the major factors which may have contributed to the changes in net debt. For example, Section .163 provides a scope of what these disclosures could be.

TRANSITIONAL PROVISIONS

12. *Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?*

City Response:

The City is in agreement with the transitional provisions as set out by PS 3251 however additional disclosure on the transitional provisions should be considered as part of Question 11 as retrospective application could result in a large change to net debt on opening balances if a public sector entity has been amortizing a significant actuarial gain or loss over a period of time. A basis of conclusion explanation would be helpful in understanding the other transitional provisions (i.e. prospective) that were not considered.

ILLUSTRATIVE EXAMPLES

13. *Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?*

City Response:

The City has reviewed the illustrative examples and agrees the examples help assist with the interpretation and application of the proposed section. An example would be helpful which details how to record revaluation surplus deficit as detailed in question 10 above.

Response to Specific Questions (continued):

OTHER:

14. *Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.*

City Response:

The City does not think that applying the proposals as outlined in the Exposure Draft would significantly change the understandability of financial reporting on employee benefits except for the proposed discount rate approach as discussed in Question #7 above. The City views this proposed standard as moving away from putting abnormal or irregular transactions and balances into surplus and deficit and moving them into net debt/asset.

15. *Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.*

City Response:

The City does not think that applying the proposals as outlines in the Exposure Draft would result in changes in the decision making for employee benefits. The three major changes understood by The City are:

a) requiring the immediate recognition of actuarial gains and losses in a public sector entity's statement of financial position, and measurement of plan assets at market value;
b) no recognition of actuarial gains and losses in the statement of operations; and
c) requiring the rate used to discount a public sector entity's defined benefit obligation to reflect the time value of money.

The City does not see decision making being changed as a result of City policies already in place or due to legislative requirements.

Conclusion:

Our responses to your questions take into consideration The City stakeholders and ultimately the users of the annual consolidated financial statements of The City and their needs. The City strives to continue developing a high degree of public knowledge, trust, and delivering value for our citizens.

Thank you for your consideration of our responses. If you have any further questions, please contact me at (403) 268-1734.

Sincerely,

Nicole Hiscock, CPA, CA
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November 22, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

RE: Response to Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

We appreciate the opportunity to comment on the Public Sector Accounting Board's (PSAB) Exposure Draft: *Employee Benefits, Proposed Section PS 3251* (the ED). While the ED lists 15 questions for comment, our response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans.

We are a participating employer in the OMERS defined benefit pension plan, which is a multi-employer, jointly-sponsored pension plan with more than 1,000 participating employers.

As an employer in a multi-employer pension plan (i.e., OMERS), we are pleased that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. We expect we will not have sufficient information.

Specifically, our interpretation of the ED leads us to the conclusion that participating employers will not be required to recognize a proportionate share of the net assets of the multi-employer pension plan in which they participate. Our conclusion that the proposed rules will not apply to OMERS employers is based principally on the proposals set out in new paragraphs .033 - .035, which state that an entity would not be required to recognize a proportionate share when sufficient information is not available. The ED sets out that sufficient information would not be considered available if a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not

have access to sufficient information. We believe both conditions will apply to OMERS employers such as the Municipality of Chatham-Kent.

We reiterate that the inclusion of paragraphs .035(a) and (b), as drafted, is critical.

We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB during future phases. We will continue to monitor the project's developments closely.

Sincerely,

Digitally signed by Gord Quinton
Date: 2021.11.22 12:05:09 -05'00'

Gord Quinton, MBA, CPA, CGA
Chief Financial Officer / Treasurer /
GM, Finance, Budget, Information Technology & Transformation

caat
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November 24, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric,

Accounting matters for defined benefit pension plans. Negative changes to accounting standards have been a significant driver of the closure of defined benefit plans worldwide. This despite, when well governed and managed, defined benefit pension plans haven proven that they acheive the best outcomes for providing retirement security to society.

As a result, significant and careful consideration of public sector accounting for pension plans must be made to ensure the strong and world-leading Canadian public pension plan model endures. As a completely new standard, a full evaluation needs to be made of the principles for recognizing the benefits and risks of a public pension plan, particularly by a government entity consolidating participating entities in a multi-employer plan.

As noted in our detailed responses below, the CAAT Pension Plan is supportive of the discount rate provisions and has no comments on the deferral provisions. Beyond some specific issues, we note that disclosure requirements are excessive.

We continue to advocate that where a government does not control a defined benefit pension plan, it does not share in the same risks as it does when it sponsors a plan. Instead of a government utilizing defined benefit pension accounting for plans that 'share risks between public sector entities under common control' – a term that is undefined, the definition of a liability would suggest one only be recorded for such a plan where future cash flows meet the tests for recognition. It is our belief that for only those defined benefit plans where a government is a sponsor of the plan should defined benefit accounting be used.

While an asset ceiling test exists that restricts the recognition of a surplus in a defined benefit plan, no liability ceiling is applied. Working the same way, a liability ceiling would limit a pension liability to the amount of future additional special payments or increased contributions that would be paid. This incongruency inherently misrepresents the risks and rewards of participating in a defined benefit pension plan,

skewing towards the negative where only the added liability is recognized. Conversely, if a public sector entity is responsible for the downside risks of maintaining a defined benefit pension plan, then it should also be entitled to recognize the upside benefits when they arise.

The result of the asset ceiling test for the CAAT Pension Plan on the Province of Ontario's financial statements is effectively defined contribution accounting with a significant amount of disclosure about the plan. Should however, the plan ever become underfunded (a very small probability, based on current actuarial forecasts) an asymmetrical result would occur however and a liability would be recorded on the province's statements, despite there being no impact to future cash flows. This is a counterintuitive result. Moreover, the government does not have any decision making power on how to address such a shortfall. Those decisions are the responsibility of the independent governors of the CAAT Pension Plan.

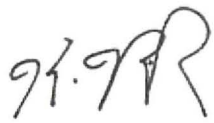
Recognizing that this position has previously been communicated by the CAAT Pension Plan and others, there needs to be clarity as to when a government should use defined benefit accounting for a multi-employer plan. We continue to advocate that defined benefit accounting should only be used for pension plans which are themselves controlled by the government, using the definitions under public sector accounting standards. This is in the best public interest, and does not create a moral hazard in the public believing that such plans are backstopped by a government when they are not.

We thank PSAB for all the effort that went into this draft, and its openness to hearing input and in gaining understanding of the unique characteristics of the Canadian public pension industry. We were very pleased to see that understanding reflected in the proposed standards.

Our responses to the questions posed follow. Kevin Rorwick would be happy to elaborate further on any response.

Sincerely,

CAAT Pension Plan



Kevin Rorwick, Chief Operating Officer and Chief Financial Officer

Responses:

1. *Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.*

   CAAT Pension Plan has no comments on para .004 - .008.

   We note that para .001 refers to recognizing a liability and an expense, but makes no reference to recognizing an asset, despite para .010, .036, .053, .056, and .064 each requiring recognition of an asset in various circumstances. Para .001 should be clear that either an asset or a liability will be recognized in certain circumstances for completeness.

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?*

   The glossary is generally helpful in providing clear definitions. The CAAT Pension Plan notes the following:

   Asset ceiling – It is unclear whether refunds from the plan or reductions in future contributions have to be potentially available to the public sector entity (incorporated into a funding policy, for example) or whether they have to already be formally declared.

   Assets held by a long-term employee benefit fund – The definition indicates that the assets are available only to be used to pay or fund employee benefits. Many benefit plans will also have administration costs to administer and invest the plans assets paid from the fund. It is recommended to add in b) "and administration and investment costs of the benefit plan".

   Defined contribution plans – This definition is correct and does not need any adjustment. The focus is correctly on the public sector entity not having a constructive obligation to pay further contributions. CAAT Pension Plan's DBplus plan design fits this definition. We note that CAAT Pension Plan offers 2 plan designs, one that meets the definition of a defined benefit plan (DBprime), and one that meets the definition of a defined contribution plan (DBplus). Both are offered to public sector employers, and most public sector employers participate in both plan designs.

   Joint defined benefit plan – The definition indicates such a plan is a contractual agreement between the public sector entity and other parties. Such a contractual agreement is often between a party representing the public sector entity and other parties. This should be represented throughout this definition, for example in c), a single public sector entity often does not participate in decisions and is represented by the party who signed the contractual agreement. For Ontario's colleges, this is the College Employer Council. For other joint plans, it will be other representative entities, or the provincial government itself.

Multi-employer plans – While clear, this definition causes confusion in applying the definition of a defined benefit plan that shares risks between public sector entities under common control. The CAAT Pension Plan has participating public sector entities (Ontario colleges and the Royal Ontario Museum) that are consolidated into the accounts of the Province of Ontario (and are thus presumably, controlled) as well as many not-for-profit and for-profit entities that are clearly not under the control of the Province of Ontario (with many outside Ontario altogether). As such CAAT Pension Plan clearly meets the definition of a multi-employer plan – there are various entities that are not under common control. It is much less clear whether the plan also meets the definition of a defined benefit plan that shares risks between public sector entities under common control, as this is not defined. (Refer to the response to question 3)

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

It is uncertain whether paragraphs .039 - .042 would result in a change in accounting treatment for the CAAT Pension Plan, as there lacks a definition of what constitutes a defined benefit plan that shares risk among various public sector entities under common control. Given the provision determines whether a government recognizes a defined benefit pension plan or not, additional clarity is required. There is a substantial risk of including pension plans where there is no identifiable risk of liability to the government. There is also a question as to what degree risks are shared.

Currently a portion of the CAAT Pension Plan is recognized on the books of the Province of Ontario. At time of writing, the CAAT Pension Plan has over 150 participating employers, 25 of which (24 colleges plus one museum) are currently consolidated on the Province of Ontario's financial statements. The "risks" of the plan are shared with plan members, and then shared between all participating entities. There is also a strong argument (made by CAAT Pension Plan in previous responses to Invitations to Comment) that there is no risk that is being shared among CAAT's participating public sector entities and that including a liability where there is none is misleading to readers and creates a moral hazard.

This provision has an underlying assumption that there must be an entity that consolidates a pension plan. It is true that for a single employer defined benefit pension plan, the employer assumes all the risks of providing retirement benefits to its employees. It is also reasonable to assume that where all the participating entities in a multiemployer plan are controlled by government, that the government has assumed the risks of providing retirement benefits to all of the employees of the participating entities. The CAAT Pension Plan however, is an open plan which is rapidly expanding its membership and participating entities beyond that controlled by one government, to private and not-for-profit sector entities and potentially entities controlled by other governments across Canada. It operates as an independent entity and is not controlled by the Province of Ontario.

Take the situation of an underfunded independent multiemployer plan. By underfunded, it is important to emphasize this is based on its funding valuation,

prepared for the purpose of determining whether current contributions are adequate or not, which is fundamentally different from the accounting valuation prescribed under this standard. There are several ways to address the shortfall – by increasing investment risk and seeking higher investment returns, by lowering future employee benefits, or by increasing funds coming into the plan via special payments or an increase in contribution rates. For the CAAT Pension Plan, the government has no input to this decision. Any one method, or a combination of methods can be decided upon by the independent governors of the plan.

This means it is impossible for the government to determine the amount of any potential future increase in cash outflows to solve the shortfall. Recording all of the shortfall as a commitment for future cash outflows of the government can result in a dramatic overstatement of that liability. This also creates a moral hazard, with readers of the financial statements believing that the government backs all the liabilities of the plan. The definition of a liability (PS 1000.44 and .45) requires that settlement is expected to result in the future sacrifice of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand. The accounting required under this standard for the CAAT Pension Plan is inconsistent with this definition.

We strongly recommend that the concept of control of the pension plan replace the concept of 'shared risks between public sector entities under common control', using the indicators of control under PS 1300.18 - .24. Being a named sponsor of the pension plan in its governing documents is a strong indicator of control. Only then should the pension plan be equity accounted into the financial statements of the government entity. Without control, the government should be following the accounting of its consolidated entities, as noted under Para .109 or otherwise as applicable.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?*

CAAT Pension Plan has no comments on this question.

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

Assuming for the purposes of this question that the CAAT Pension Plan is a multiemployer plan, CAAT Pension Plan does not believe there would be any changing in accounting treatment for the Plan by participating public sector entities. Such

entities do not have sufficient information available to use defined benefit accounting, and that information is not readily available from the CAAT Pension Plan. Example 1 of the Illustrative Examples helps to clarify by providing sample disclosure wording indicating why defined contribution accounting is used.

As noted in our response to the previous Invitation to Comment, any allocation of pension plan liabilities that by design are meant to be aggregated results in negative outcomes to the public good, for example, a reduced ability of public sector workers to move careers between entities as the new employer would not want to absorb the past pension liability for the worker, and the previous employer not wanting a pension liability for a worker who no longer works for them.

CAAT Pension Plan remains of the opinion that the application of DB accounting to entities participating in a well governed, independent DB pension plan has the potential to mislead readers and require the recording of liabilities where none exist. We believe that better information regarding the risks and rewards of the entity participating in the public pension plan exists in the financial statements and other reporting of the public plan itself.

6. *Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

CAAT Pension Plan finds the provisions of para .105 - .110 to be overly prescriptive. At issue is the effort required to make a determination of funded status. In most circumstances, it should be clear which category a plan falls in and it should be rare that a pension plan changes status from fully to partially funded and vice versa. As such, para .110 should be sufficient for identifying the the appropriate rate to use to discount obligations rather than performing the calculations of para .107 on an annual basis. Only in the limited situation where a fully funded status in the foreseeable future is at question would the provisions of para .107 be required.

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.*

CAAT Pension Plan is fully supportive of the discount rate approaches taken for fully funded, partially funded, and unfunded plans and applauds PSAB for deviating from IPSAS 39 and recognizing the unique aspects of Canadian public sector pension plans and its comparative strength to other jurisdictions.

The measurement of a liability is based on expected future cash flows, as opposed to risk. We highly caution the use of a discount rate based on bond yields for fully funded pension plans supported by any argument based on the risk to a government sponsor. While we conceptually agree with some of the arguments that a government sponsor is taking on risk by offering a pension plan, we disagree that financial statements should account for the worst possible outcomes of that risk. This would result in a deliberate

overstatement of the liability of a government in virtually all circumstances, ignoring the benefits of setting aside funds and prudently investing them to generate investment returns to fund a future benefit.

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.*

Please refer to the response for question 6.

9. *Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.*

The CAAT Pension Plan does not see any particular challenges in applying this approach.

10. *Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.*

CAAT Pension Plan has no comments on the question of revaluations. We do note a timing issue with the determination of the net defined benefit liability (asset). Current provisions allow for a difference between the time of determination of the net defined benefit liability (asset) and the date of the remainder of financial information. Such a provision appears absent in the exposure draft. As many public sector pension plans have different year ends than the governments who are sponsoring them, elimination of this provision will have a significant impact on the preparation of financial statements. The effect would be a second year end for the pension plan for the purposes of preparing government financial statements that would require close to a full audit. This would result in significant additional costs and delays in financial statement preparation, particularly with the level of disclosure required.

11. *PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.*

CAAT Pension Plan has no comments on this question.

12. *Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?*

It is recommended that it be made clear that early adoption of this section is not permitted. Early adoption by some entities participating in a multiemployer defined benefit pension plan, and not others, would lead to issues in financial statement comparability and potential confusion among readers.

13. *Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?*

A full sample of note disclosure for a hypothetical public sector entity using defined contribution accounting for a defined benefit plan would be beneficial. It would provide significant assistance to financial statement preparers in navigating the disclosure requirements. It would also showcase how excessive such disclosure requirements are, as there appears to be about 27 separate elements that require disclosure for a public sector entity participating in a defined benefit plan that shares risks between public sector entities. (refer to response to question 14)

14. *Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.*

CAAT Pension Plan finds that the level of disclosure required for public sector entities, particularly those permitted to use defined contribution accounting for participating in a defined benefit pension plan, to be excessive to the point of detracting from the understandability of the risks of participating in such a plan. In our opinion, only the following disclosures should be required, where applicable:

- Para .041 (a) and (b)
- Para .084 (b)(i)
- Para .157 (a)
- Para .161 (a)(i)
- Para .162
- Para .163 (a)
- Para .165, only for financial instruments
- Para .169 (a)
- Para .170 (a), (b), (c), (d)(i), (d)(ii), (d)(iv)
- Para .171 (b), (c), (d)
- Para .172 (a) and (b)

In particular, including the following disclosures would misrepresent the risks of a public sector entity eligible for using defined contribution accounting:

- Para .161 (b), (c), (d)
- Para .164 (b), (c)
- Para .167
- Para .170 (d)(iii), (d)(v)

In CAAT Pension Plan's opinion, Para .169(b) and .170 (d)(iii) do not make sense, given that a public sector entity is not required to disclose the expected salaries for the next reporting period upon which expected contributions are based. Special contributions – those above contributions based on salaries, could potentially be disclosed.

For government entities reporting defined benefit plans that share risks between public sector entities under common control, it is the opinion of CAAT Pension Plan that the disclosure requirements under Para .159, .164, .168 detract from the understandability of the financial position of a public sector entity by disclosing information that a government is not responsible for managing. If a reader has interest in the financial position of the public sector pension plan, in most instances, that information is publicly available in the financial statements of the pension plan itself.

There are some challenges in determining which category of pension plan CAAT Pension Plan would fall into. As a result, there is a chance that different participating public sector entities could come to different conclusions as to which category applies. The CAAT Pension Plan appears to meet all of the definitions of a multi-employer plan, a plan that shares risks between public sector entities under common control (a shared risk plan), and a joint defined benefit plan. The confusion results from the hierarchy of application of the definitions. For example, while there is guidance that a shared risk plan is not a multi-employer plan, guidance for joint defined benefit plans indicates accounting for a multi-employer plan is to be used. Clarifying the hierarchy of application of categories of pension plans would be helpful.

15. *Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.*

CAAT Pension Plan notes that for para .137 in measuring the fair value of plan assets, unpaid contributions from the public sector entity, as well as any non-transferable financial instruments issued by the public sector entity and held by the fund are excluded. This appears to be a flaw, as it would result in the double counting of liabilities in some circumstances. The public sector would have the liability to the pension plan on its books, but in consolidating the financial position of the plan, its asset would be excluded. Also, because the exclusion is for the individual public sector entity only, and not all the public sector entities participating in a multi-employer pension plan using defined benefit accounting, the measurement of plan assets would be different for each participating public sector entity, grossly complicating calculations. We note that for Province of Ontario recognizing the CAAT Pension Plan, that no

adjustment would be made, as it is not a participating employer and does not make contributions to the plan. The continued inclusion of this provision could lead to decision making changes for entities impacted by the double recognition of liabilities.

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Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – Employee Benefits, Proposed Section PS 3251

I am writing to provide comments in support of the Municipal Finance Officers Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on Employee Benefits, Proposed Section PS 3251.

As the Treasurer of the Regional Municipality of Peel, I believe it is important that public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. Financial reporting should promote transparency and understandability to the financial statement reader, while balancing the resources required to complete the financial statements in adherence with Public Sector Accounting Standards.

As identified in MFOA's submission to PSAB, the proposed changes within the Exposure Draft cause a significant burden on municipal staff due to the resources required to develop appropriate note disclosure and actuarial valuation calculations. Additionally, Ontario municipalities who are members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer defined benefit plan, will be required to include additional note disclosures well beyond what is currently reported. Some of the proposed note disclosure requirements relate to information that is not currently provided by OMERS, while the remaining multi-employer plan disclosures would be quite onerous for municipalities to develop.

As highlighted in the MFOA submission to PSAB, the Employee Benefits proposed standard is one of many accounting standard changes to be released within a few years, in which implementing these changes require increased staff resources, potentially additional costs for consultants or software changes, and may delay the completion of the audited financial statements. We encourage PSAB to take a more wholistic approach to establishing new or significantly revising standards, keeping in mind the broader impact to the public sector, from a resourcing and regulatory perspective.

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To successfully update the Employee Benefits, I support MFOA recommendations:

1. Clarify the application of the standard to specific defined benefit plans, such as OMERS
2. No further note disclosure requirements should be specified in relation to the net debt volatility, as this should be at the discretion of the public sector enterprise
3. Valuation changes resulting from retroactive application should be flowed through remeasurement provisions and not through a surplus or deficit account
4. Illustrative examples should represent a more practical application to assist financial statement preparers in determining the requirements of the standard

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed.

Should you wish to follow up on this letter, please contact Stephanie Nagel, CPA, CGA at stephanie.nagel@peelregion.ca.

Sincerely,

Stephanie Nagel
Treasurer & Director of Corporate Finance

McMaster University

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November 25, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael,

McMaster University is pleased to provide you with feedback on the **Exposure Draft: Proposed Section PS 3251** dated July 2021. McMaster is a not-for-profit organization operating in Hamilton, Ontario under the McMaster University Act. McMaster follows Part III of the CPA Canada Handbook, which falls within the Accounting Standards Board ("AcSB") oversight. McMaster reviews both Accounting Standards Board ("AcSB") and Public Sector Accounting Board ("PSAB") exposure drafts and consultation papers with an objective of providing a sectoral opinion or advice on practice evolution. McMaster also supports the Council of Ontario Financial Officers and the Canadian Association of University Business Officers in soliciting broader constituency comments and drafting its responses for representative voice across the Ontario and Canadian university sector.

The comments enclosed reflect consideration of universities who apply PSAB frameworks on basis of facts addressing whether a university is in a jurisdiction of government control or one of institutional autonomy. Across Canada four provincial jurisdictions apply Public Sector Accounting Standards ("PSAS"). The universities applying PSAS fit the definition of Government Not-for-Profit Organizations ("GNFPOs"). The remaining six provincial jurisdictions are Not-for-Profit Organizations ("NFPO") that have autonomy from government control and therefore apply AcSB, part III using either the restricted fund method or deferral method.

The proposed changes seek to better align Canadian PSAB rules with those institutions following similar international standards, whereby current experience gains and losses are reflected as surpluses of deficits. Further, the changes eliminate a long-standing practice in Canadian PSAB jurisdictions where revaluation measurements are deferred and amortized over an appropriate period. Overall, there is continued progressive work being undertaken by both the PSAB and AcSB to align Canadian accounting to that of international jurisdictions and while this might promote comparability beyond national borders there is very little understanding amongst the university sector practitioners if this alignment enhances any decision makers capability, whom are mainly within Canada.

It would be beneficial if future exposure drafts or consultation papers that focus on international alignment matters, issued by either Board, provide example international entities or sectors applying the proposed changes. Or, if not specific entities or sectors, provision of specific jurisdictions following the proposed practice changes would be beneficial. Canadian respondents need to be afforded an opportunity to review public financial statements of like-sector entities in those jurisdictions and potentially engage in dialogue on reporting benefits and issues. Without examples to draw on it is difficult to ascertain if the proposed changes enhance user understanding or further complicate matters, particularly as changes migrate away from deferral and amortization methods or defer and match to future expense methods. This is of particular concern for the university sector that must explain its financials in a clear manner to varying stakeholders (employees, donors, boards, rating agencies, and others).

Changes that introduce volatility by applying more immediate surplus or deficit recognition can often be misconstrued by various financial statement readers. The statement of operations bottom line results often drives stakeholder groups

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toward an opinion that the entity can translate results into employment compensation increases. Unfortunately, even with the effort to align practices internationally there is still a great deal of misunderstanding around what the financial statements mean in terms of free unencumbered cash flows. Thus, as more changes are proposed driving surplus or deficit volatility the work of educating readers of the financial statements grows.

Responses to the specific questions within the exposure draft follows.

Sincerely,

Deidre ("Dee") Henne, CPA, MBA, CA, Hons. B. Comm
AVP (Administration) & Chief Financial Officer
McMaster University

Cc: Planning and Resources Committee, McMaster University

McMaster University

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COMMENTS REQUESTED

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   Yes.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions[1] are necessary?**

   Yes, the definitions are helpful. Consideration might be given to adding a definition for **Provincial government bonds** as the selection of rate within this concept links to a duration concept. The content in paragraphs .118 (p.22) and 50 (p.62) might be better summarized in the glossary.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post- employment benefit plan? Please explain.**

   Not applicable.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   Yes. Increasingly as justifications and sectors develop larger multi-employer and jointly sponsored plans for ease of administration.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   Not applicable.

[1] As PSAB deliberates and develops future proposals for the employee benefits standard as part of its multi-phase approach to this project, amendments to existing definitions or additional definitions may be added to the Glossary. With each phase, stakeholders will have an opportunity to provide comments in accordance with the Board's due process.

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Post-employment benefits – defined benefit plans

Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post- employment benefit obligations? If not, why?**

   Yes. However, in reviewing the guidance and examples, it is difficult to ascertain how the funded status changes from one reporting period to the next due to discount rate changes particularly in a volatile market return environment (like Canada has experienced over the past decade). An example that covers both funded status changes and movements in market-based returns over a period of 5-10 years would be beneficial to practitioners. Finally, it remains difficult in practice to definitively conclude fully, partially, or unfunded status given the actuarial assumptions, employer assumptions (e.g. future wage inflation), changing demographics, and moving interest rates, **for these reasons it would be extremely useful to assess whether a simplified discount rate approach could be proposed that reduces computation complexity**. Ideally a simplified discount rate would be one that more closely aligns accounting to that of actuarial methods to ease understandability of financial statement readers and plan members.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   Fully funded. Yes. It is reflective of the going concern approach, which is easily understandable to financial statement readers and members of plans.

   Unfunded. No. It is not reflective of how the assets are invested. Regardless of funded status any rate that deviates from the underlying future market-based returns on those plan assets is difficult to explain to users. The reporting mismatch between accounting and pension valuation filings does not promote understandability for plan members; the actuarial valuations use the going concern approach based on the invested assets expected market-based returns. The proposed accounting method creates two sets of pension numbers (accounting and actuarial results) that generates misunderstanding and contributes to mistrust over the real figures and overall plan health. In a going concern organization, the accounting proposal should consider closer alignment to the going concern pension valuation approach used by actuaries. Effort should be made to close material gaps arising over actuarial and accounting approaches for pension plans.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

   No additional challenges identified with the application of PS 3251.105-.110 that is not already mentioned generally above in response 6. and 7., and as those concepts would be applied to a post-

employment benefit plan other than pensions.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

   Yes. Identified in the response 6. Above.

Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets[2] without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    Yes. Agreed.

11. **PSAB acknowledges the potential increased volatility in net debt[3] that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

    Uncertain. As mentioned in the cover letter to these comments, it would be extremely useful to identify international jurisdictions where the proposed changes to the Canadian principles already apply. Without review of other jurisdictions where these changes already apply it is often difficult to ascertain how reporting, particularly results volatility (often being introduced with internationalization), are managed for financial statement readers and/or stakeholder groups.

Transitional provisions

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

    Yes. However, consideration over the example addition noted in response 6. would be beneficial.

Illustrative examples

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

    Yes. Consider addition noted in response 6.

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[2] If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

[3] Through PSAB's ongoing Conceptual Framework and Reporting Model project, this is proposed to be renamed "net financial liabilities" under proposed Section PS 1202.

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Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

The understandability of accounting related to pensions and non-pension post retirement benefits is currently not strong across Canadian jurisdictions, particularly as it relates to plan members who often see two sets of results for these plans (accounting and actuarial). Consideration on how to align accounting closer to actuarial methods would enhance understandability across plan member stakeholder groups.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

No. The accounting methods do not typically drive the employee benefit plan design. The migration toward multi-employer and jointly sponsored plans is driven by plan sustainability and affordability as measured by actuarial methodologies that result in filed plans and payment requirements. However, any proposed changes that more closely aligned accounting and reporting to the actuarial results would help promote understandability of plan status.

POLICE ASSOCIATION OF ONTARIO

November 23, 2021

Michael Puskaric, MBA, CPA, CMA
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Sir,

Re: Exposure Draft – Employment Benefits, Proposed Section PS 3251

We are writing to provide comments on Exposure Draft: Employee Benefits, Proposed Section PS 3251 (the "ED") recently published by the Public Sector Accounting Board ("PSAB"). We note that while the ED lists fifteen questions for potential comment, we will primarily be confining our remarks to Question 5.

Founded in 1933, the Police Association of Ontario (PAO) is the official provincial representative body for over 28,000 sworn and civilian police personnel from 46 police associations across Ontario. A unifying voice for advocacy in policing, the PAO provides its member associations with representation, resource, and support. The PAO is a participating sponsor of the OMERS defined benefit pension plan and, as such, participates in the governance and administration of the plan by nominating qualified candidates to OMERS' governing bodies. Given this and the fact that one of the PAO's corporate objects is to monitor and participate on behalf of our membership in the OMERS pension plan and given the applicability of the ED to participating OMERS employers, we felt it appropriate to provide comment to PSAB at this time.

In our review of the ED, we have noted that issues around information sufficiency appear to have been accounted for. In our view, OMERS participating employers, such as the police service boards who employ our members, will not have sufficient information to perform the calculations laid out in the ED. In this case, it is our interpretation that such participating employers will therefore not be required to recognize a share of the net assets of the multi-employer pension plan in which they participate.

We base this interpretation on the language set out in new paragraphs .033 - .035. These paragraphs make clear that entities are not required to recognize such a proportionate share when sufficient information is not available. An employer may conclude that information is unavailable when a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not have access to sufficient information. Both conditions would apply to OMERS employers.

We look forward to the inclusion of paragraphs .035(a) and (b) in the final amended section. It is clear that the paragraphs are crucial to the overall feasibility of the section.

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POLICE ASSOCIATION OF ONTARIO

We would be happy to provide further comment in reply to future phases of the employee benefits standard project, including future consultations around the ED; we will continue to monitor the project for this purpose.

Sincerely,

Mark Baxter
President, Police Association of Ontario

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November 23, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Response to Exposure Draft: Employment Benefits, Proposed Section PS 3251

Dear Mr. Puskaric

We appreciate the opportunity to comment on the Public Sector Accounting Board's (PSAB) Exposure Draft: Employee Benefits, Proposed Section PS 3251 (the ED). While the ED lists 15 questions for comment, our response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans.

The Region of Waterloo is an upper tier municipality providing essential services to over 630,000 residents. We are a participating employer in the OMERS defined benefit pension plan, which is a multi-employer, jointly-sponsored pension plan with more than 1,000 participating employers.

As an employer in a multi-employer pension plan, we are pleased that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. We expect this will apply to the Region's participation in OMERS.

Our interpretation of the ED leads us to the conclusion that participating employers will not be required to recognize a proportionate share of the net assets of the multi-employer pension plan in which they participate. Our conclusion that the proposed rules will not apply to OMERS employers is based principally on the proposals set out in new paragraphs .033 - .035, which state that an entity would not be required to recognize a proportionate share when sufficient information is not available. The ED sets out that sufficient information would not be considered available if a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not have access to sufficient information. We believe both conditions will apply to OMERS employers such as the Region of Waterloo.

3880464

We reiterate that the inclusion of paragraphs .035(a) and (b), as drafted, is critical. We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB during future phases. We will continue to monitor the project's developments closely.

I would also like to take this opportunity to express support for the Municipal Finance Officers' Association (MFOA) of Ontario's submission relating to the ED. As Chief Financial Officer for the Regional Municipality of Waterloo, I believe it is important that public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. Financial reporting should promote transparency and understandability to the financial statement reader, while balancing the resources required to complete the financial statements in adherence with Public Sector Accounting Standards.

Should you have any questions regarding this submission, please feel free to contact me directly.

Regards,

DocuSigned by:
Craig Dyer
AA2D607B952E489...

Craig Dyer
Commissioner of Corporate Services and Chief Financial Officer
Regional Municipality of Waterloo

3880464

From: Bill Robson <w_robson@cdhowe.org>
Sent: November 23, 2021 3:47 PM
To: Riley Turnbull; Michael Puskaric
Subject: Bill Robson comments on exposure draft on employment benefits

Riley and Michael:

Thanks for your response to my email of 22 November 2021 about this exercise. I would be happy to take advantage of the extension for submissions if anything in what I am currently submitting seems odd or wrong. As I write, I am attempting to submit answers to the five questions at connect.frascanada.ca. (The website seems to be proofreading my submissions carefully!) For the sake of giving you something to work with before the deadline, here are my attempts to answer the questions posed in the exposure draft. The headings are in bold, the questions are in italics, and my answers are in ordinary type.

I hope this useful, and the format of my response does not pose challenges to you. I appreciate your including me in this exercise, and would be happy to follow up in whatever way works for you.

Sincerely, Bill

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Yes – subject to review of other responses.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

Although it is not critical to the application of the proposed standards, I note that the distinction between DB and DC pension plans – with DC plans identified with reference to the reporting entity's fixed contribution obligation, and DB plans being anything that is not DC – gives rise to some non-intuitive elements. A specific place in the draft where this matters are paragraphs .059-.061, which reference post-employment benefit obligations in a description of DC plans. Post-employment benefit obligations are peculiar to DB plans.

I didn't see anything in the definition of category-wide plans that helped me understand what features they have that would require special accounting treatment. If specific, named examples aren't appropriate, can the definition make this more concrete by mentioning the main features that make special treatment appropriate?

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

N/A – I am not in that category of reviewer.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

It is not clear how category-wide plans differ from other multiemployer DB or DC plans in ways that make special accounting treatment appropriate.

A live question in my mind is category-wide plans that establish add-ons. These add-ons could be voluntary benefits as part of the base plan or – what seems to be happening in Canada at the moment – additional plans that bring in new employers and participants. Do such add-ons change the status of a category-wide plan? Does the part of the category-wide plan offering them become a separate plan? This could matter if, for example, the voluntary benefits are not actuarially fair, which would have implications for the status of the existing benefits and plan.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

N/A in the sense that I am not in that category of reviewer. But I would urge attention to this section. The number of multiemployer plans in Canada in which participating entities use DC accounting seems to have grown recently, and if no controlling entity is reporting the resulting costs and obligations, those costs and obligations are not appearing anywhere in public-sector financial statements. When a benefit formula creates an obligation, DC accounting is wrong in principle. Paragraph .067 anticipates situations where approximations may be good enough. A pro-rated estimate, even one based only on a head-count, is preferable to nothing at all, in part because the existence of a number will alert a reader to the existence of the obligation. Paragraph .170, in discussing DC accounting by entities with DB plans, requires disclosure of information that would allow an estimate of the entity's share of a surplus or deficit. It is only a short step to requiring an estimate. Roughly right is usually better than precisely wrong, and showing a zero when there is an obligation (or asset) is precisely wrong.

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

Paragraph .088 says: "Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled." Yes, they should. Paragraph .103 says: "The rate used to discount post-employment benefit obligations should reflect the time value of money." Yes, it should, but I would argue that a discount rate based on an assumed return on assets meets this definition, and enlarge on that in my answer to the next question.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

I do not agree. It may be a rear-guard action at this stage, given the discussion in the "Basis for Conclusions", but I oppose using an assumed rate of return on assets as a discount rate. The time value of money and appropriate market-based estimates of the time value of money are not contingent on whether a plan contains plentiful assets, some assets, or no assets. A dollar promised in the future is a dollar promised in the future, whether ample assets back it or nothing backs it.

A more logically consistent approach to valuing these obligations starts with the premise that an obligation to pay is worth the same to the payor as it is to the payee. Using a higher discount rate for a funded (part of a) pension plan implies that the value of its promise to the payee is less than the value of a promise from an unfunded (part of a) pension plan – which makes no sense. The most transparent and straightforward approach is to use one market-related discount rate for all similar liabilities.

The illustration of an iterative technique for calculating a blended discount rate in the Appendix, paragraphs A36-A41, hides the illogic that considering the iterations step by step would expose. Going step by step shows how successive iterations cause liabilities previously treated as though they were backed by assets to be treated as though they were not (which has the perverse effect just noted of implying that they have become more valuable to the plan participant), or vice versa.

Paragraph .110 does not appear persuasive. It provides too much scope for management to exercise judgement, scope that may be deployed in a manner that flatters a government's financial position. Indeed, the fact that no public sector pension plan in the country currently uses a discount rate equal to or lower than the reporting entity's borrowing cost, and most use discount rates that are materially higher, leads me to expect this scope will usually be deployed to flatter governments' financial positions. Take the federal government's major plans, for example. The obligations in the formally unfunded and formally funded parts of the federal government's major plans are identical. Only the (unconvincing) logic of using a higher rate to discount the obligations in the formally funded plans produces financial statements in which those plans are (close to) fully funded. Citing their history of being fully funded in that sense as a justification for using the higher discount rate is circular. If a market-based discount rate had been used from the outset, the history of the formally funded plans would be one of chronic underfunding. It is not clear to me how the "Canadian public interest" justifies this departure from international standards. The Canadian public will continue to have an understated picture of their obligations as taxpayers if public sector plans continue to discount their liabilities at assumed rates of return that are higher than the borrowing costs they would incur to defease those liabilities.

Paragraph .111 codifies management's scope to adopt a discount rate that flatters the government's financial position. Assumed future returns are merely assumed future returns. Justifying assumptions about future returns with respect to past returns turns the standard warning to investors mandated by securities regulators on its head – rather than saying that past performance does not predict future performance, it says that past performance *does* predict future performance. There are other reasons to dislike using past returns on assets as predictors of the future: markets tend to be mean-reverting, so periods of high returns are likelier to be followed by periods of low returns and vice-versa. But the premise is wrong: the best backing for a future series of payments is an

asset that will yield a matching series of payments, and the yield on that asset is the appropriate one to use in valuing the obligation.

Paragraph .118 and what follows makes more sense than the preceding material on discount rates. Although conformity with international accounting standards is a worthy objective, it is worth asking, re paragraph .119, why the entity-specific credit risk is not relevant. The asset that typically resembles the pension obligation most closely would be a bond of the entity in question. In practice (we hope never to see this tested!), pensions may turn out to be senior to other debt obligations, but as a general principle, it is reasonable to assume that risk of non-payment or partial payment will apply to bondholders and pensioners alike. Why should federal pension plan participants discount their wealth at a provincial bond rate, resulting in a lower valuation, or should municipal plan participants should discount their wealth at a provincial bond rate, resulting in a higher valuation?

Paragraphs .116 and .117 would hide the recursive problem, but it lurks underneath the blended rate. Hiding the illogic does not make it go away!

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Using a single market-based discount rate for all liabilities would eliminate those challenges.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Using a single market-based discount rate for all liabilities would eliminate those challenges.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets [Footnote: 3 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.] without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

This proposal is troubling if it accompanies (continued) use of an assumed rate of return on assets as a discount rate. It will create scope for management to use an assumption-based discount rate that is higher than market-related yields on a comparable obligation to reduce reported employment costs in the statement of operations and reduce net pension obligations in the statement of financial position at a point in time. In subsequent periods, when the higher-than-market discount rate needs revising – at the limit, when the entity buys annuities, or funds the pension payments with newly issued debt – the resulting negative revaluation will show "below the line". That is misleading: it should have been shown as part of employment costs in previous periods. This is not a theoretical concern: the federal government's move to showing actuarial losses below an "operating balance" line in its budgets and public accounts buries a significant part of previously under-recorded employment costs in an entry that appears to represent circumstances out of the government's control. The same concern would not apply if pension obligations were recorded as they accrue using market-based discount rates.

11. PSAB acknowledges the potential increased volatility in net debt [or net financial liabilities] that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

I have no opinion on this question.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

I have no opinion on this question.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

I have no opinion on this question.

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

I have no opinion on this question.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

The ability to discount pension obligations using assumed rates of return will continue to bias compensation decisions. A dollar of pension paid in the future will look lower than a dollar of salary paid in the current period, because the future payment is being discounted at a rate that exceeds the time value of money.

The ability to use DC accounting for DB plans will have the same effect. It will allow employers to make pension promises that do not appear in their financial statements, notwithstanding that an equivalent value of current compensation would appear in their financial statements.

Other observations

These are my own notes, made in the order they came to mind while reading the document.

.048 Consider discussing the threshold for contributions or other shared-risk features that would warrant the "joint" designation. 50:50 seems obviously included. Would 90:10 or 10:90 also count?

.058 Minor drafting error: inconsistent use of singular and plural forms in mentions of plan(s).

.082 and .091 The provisions related to future salary increases in these two paragraphs seem inconsistent. If I'm reading them correctly, .082 says future salary increases should not affect the calculation and .091 says they should. The latter seems more sensible.

.143 - .150 If pension obligations are discounted at a made-up discount rate, I do not see how the concept of interest on plan liabilities and assets, as outlined here, adds to the usefulness or transparency of financial statements. The interest on obligations will involve multiplying two numbers that are based on assumptions, not market values and yields. The interest on plan assets may involve a market-based valuation of the assets themselves, but multiplying that by a made-up discount rate will yield a revenue number that does not match any actual income, and will therefore require reconciliation

.163 For clarity, I would recommend that the financial statements should break actuarial gains and losses down by cause. The list of examples in .152 contains relevant categories. However it is done, the impact of changes in discount rate must be clearly visible.

.167 If made-up discount rates are to continue to be used, sub (a) could usefully list discounting using the yield on a comparable obligation as a required item in the sensitivity analysis.

.170 As noted already, where a benefit formula creates an obligation, DC accounting is wrong in principle. A pro-rated estimate, even one based only on a head-count, is preferable to nothing at all, in part because the existence of a number is more effective for alerting a reader to the existence of the obligation than disclosure of relevant information. The required disclosures here take the reporting most of the way toward providing an estimate. It would be good to go all the way.

[End of reponses]

William B.P. Robson
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Québec, le 22 novembre 2021

Monsieur Michael Puskaric, MBA, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Objet: Exposé-sondage – Projet de chapitre SP 3251, « Avantages sociaux »

Monsieur le Directeur,

Nous vous remercions de nous donner l'opportunité de commenter l'exposé-sondage mentionné ci-haut. Vous trouverez ci-joint la réponse du Vérificateur général du Québec relativement à cet exposé-sondage.

Veuillez agréer, Monsieur le Directeur, l'expression de nos sentiments les meilleurs.

La vérificatrice générale du Québec,

Guylaine Leclerc, FCPA auditrice, FCA

p. j. Réponse

Réponses aux questions de l'exposé sondage

Objet et champ d'application

1. ***Trouvez-vous que le champ d'application (paragraphes SP 3251.004 à .008) de la norme proposée est clair? Dans la négative, veuillez décrire les situations pour lesquelles le champ d'application manque de clarté.***

   Selon nous, les paragraphes 3251.004 à .008 permettent de comprendre l'étendue de la norme. Toutefois, nous sommes d'avis qu'une précision devrait être apportée au paragraphe .005 afin de venir indiquer clairement que dans chacune des situations décrites aux points a), b) et c), les avantages sociaux sont octroyés à des salariés. À la lecture de .005 b) et .005 c) nous nous questionnons si un régime de rentes public destiné à l'ensemble de la population ayant un revenu d'emploi, tel que le Régime de rentes de base ou supplémentaire du Québec ou le Régime de pension du Canada entrerait dans le champ d'application de la norme étant donné la définition du glossaire de régimes généraux et obligatoires. À notre avis, le champ d'application de la norme devrait se limiter aux avantages sociaux accordés aux salariés de l'entité du secteur public. (voir les références aux points 2 et 4)

Glossaire

2. ***Les définitions qui figurent dans le glossaire facilitent-elles l'interprétation et l'application de la norme proposée dans le présent exposé-sondage? Dans la négative, quelles autres précisions ou définitions serait-il nécessaire d'ajouter?***

   Les définitions qui figurent au glossaire aident l'interprétation et l'application de la norme à l'exception, selon nous, de certains points :

   - Définition de « salarié »
     - Nous proposons d'ajouter la définition de salarié au glossaire plutôt que de le faire via 3251.008 car il est plus facile de s'y retrouver.

   - Définition de « Régime à prestations définies »
     - La définition de « Régime à prestations définies » nous semble plutôt large. En effet, auparavant un tel régime étant défini comme étant celui offrant des prestations déjà déterminées (par le calcul ou le montant). Nous proposons donc de revenir à la définition du 3250 pour clarifier la nature d'un tel régime.

   - Définition de « Actifs détenus par un fonds d'avantages à long terme »
     - La nouvelle définition semble uniquement considérer les fonds juridiquement distincts de l'entité et ne prévoit pas le cas où le gouvernement ne capitalise pas sa part dans une caisse de retraite, mais place plutôt l'argent dans un actif constitué par ce dernier en vue de pourvoir au paiement d'une partie ou de l'ensemble des prestations des régimes de retraite afin de bénéficier d'un effet de levier comme c'est le cas au Québec. Auparavant, il y avait une notion « d'habituellement détenus par une fiducie ou par une autre entité juridique distincte du gouvernement qui publie les comptes ».

Cela offrait une certaine marge de manœuvre dans l'exercice du jugement en fonction de la version française actuelle de la définition d'actifs du régime.

Nous sommes d'avis que la substance devrait primer sur la forme légale du fonds. D'ailleurs les futurs fondements conceptuels remettent de l'emphase sur ce concept.

Nous recommandons de modifier la nouvelle définition d'actifs détenus par un fonds d'avantages à long terme afin de ramener la notion de « habituellement (…) entité juridique distincte » et laisser plus de place à la substance du fonds plutôt qu'à sa forme.

- Définition de « Régime général et obligatoire »
  - Nous souhaiterions avoir des précisions sur la nature d'un « régime général » tel qu'inscrit à la question 1 et 4. Nous recommandons donc de préciser ces définitions afin de clarifier si l'on vise ou non les régimes publics qui touchent l'entièreté de la population ayant des revenus d'emploi. Nous développerons sur ce point à la question 4.

- Ordre des définitions
  - Le classement en ordre alphabétique de ces définitions aiderait à s'y retrouver.

Avantages postérieurs à l'emploi – Distinction entre les régimes à cotisations définies et les régimes à prestations définies

3. ***L'application des indications relatives à la comptabilisation du coût net des prestations des régimes à prestations définies dont les risques sont partagés par des entités du secteur public soumises à un contrôle commun (paragraphes SP 3251.039 à .042) aurait-elle une incidence sur le traitement comptable de votre participation à un régime d'avantages postérieurs à l'emploi? Veuillez préciser.***

Aucun impact selon notre connaissance au niveau du gouvernement du Québec puisque selon nous les régimes touchant plusieurs employeurs, mais dont le contrôle appartient au gouvernement sont des régimes sous contrôle commun. Toutefois, nous recommandons de préciser le paragraphe .039, car nous jugeons qu'il pourrait y avoir place à interprétation à savoir si nous répondons à la définition d'employeurs multiples (en raison de toutes les entités) ou sous contrôle commun. Actuellement les entités ne comptabilisent que leurs cotisations et nous jugeons cette pratique adéquate.

Par ailleurs, nous sommes d'avis qu'il pourrait être intéressant d'avoir des exemples concrets des différents types de régimes décrits dans la norme, soit :

- Régimes à prestations définis dont les risques sont partagés par des entités du secteur public soumises à un contrôle commun
- Régimes généraux et obligatoires

- Régimes multi-employeurs
- Régimes conjoints à prestations définis

Bien que chacun des régimes soit décrit, il pourrait être difficile de bien les distinguer les uns des autres et cela pourrait causer un mauvais traitement comptable.

4. ***Les indications relatives aux régimes généraux et obligatoires (paragraphes SP 3251.043 à .046) sont-elles utiles dans le secteur public canadien? Dans la négative, pourquoi?***

Nous avons de la difficulté à statuer afin de savoir si les régimes publics répondent à la définition de régimes généraux tel qu'énoncé aux questions 1 et 2. Il nous est donc difficile de conclure si ces éléments sont utiles. Est-ce qu'un programme de rentes publiques comme le Régime de rentes du Québec ou le Régime de pension du Canada est considéré comme un régime général? C'est-à-dire un programme qui prévoit le versement de certaines pensions lorsque certains critères sont acquis en échange de contributions monétaires. Ces régimes ne prévoient pas la possibilité de retirer ces contributions ou de remboursement de cotisations en cas de décès avant d'être admissible à l'instar d'un régime de retraite standard. Dans sa forme actuelle, l'exposé-sondage ne nous permet pas de conclure si les régimes publics (comme le RRQ et le RPC) sont visés par le SP 3251. Si l'intention du CCSP est de se positionner sur le traitement comptable de ces régimes publics, il est impératif de clarifier que ces régimes sont visés par la norme. Une autre possibilité est que la norme SP 3251 se limite seulement aux salariés du gouvernement et la nature des régimes publics pourrait être plutôt couverte via l'IPSAS42, mais cela devrait être précisé. Dans tous les cas, des démarches devraient être entreprises afin de clarifier le traitement comptable applicable à de tels régimes (régimes comme le RRQ et le RPC) car les normes actuelles ne permettent pas de conclure avec certitude sur la manière dont ceux-ci doivent être comptabilisés.

5. ***Dans le chapitre SP 3250, le paragraphe .109 indique que « les employeurs participants autres que le gouvernement-parraineur ne disposent pas normalement de suffisamment d'informations pour se conformer aux normes relatives aux régimes à prestations déterminées » et qu'« en conséquence, chaque gouvernement participant rend compte du régime interemployeurs [appelé «régime multi-employeurs» dans le présent exposé-sondage] en se conformant aux normes applicables aux régimes à cotisations déterminées ». Dans le présent exposé-sondage, le paragraphe .033 indique aussi que si l'entité du secteur public ne dispose pas d'informations suffisantes pour appliquer les dispositions comptables relatives aux régimes à prestations définies, elle doit traiter le régime comme s'il s'agissait d'un régime à cotisations définies. L'application des dispositions des paragraphes SP 3251.033 et .035 du présent exposé-sondage aurait-elle une incidence sur le traitement comptable de votre participation à un régime multi-employeurs? Veuillez préciser.***

Selon notre compréhension actuelle de ce projet de norme, le traitement resterait le même pour les entités qui manquent d'information pour comptabiliser les régimes à prestations définis. C'est-à-dire qu'il continuerait de comptabiliser leur cotisation ainsi que les montants qu'ils doivent verser pour couvrir ces avantages sociaux plutôt que leur quote-part de l'obligation de

prestations constituées. Nous serions d'accord avec ce principe. Les informations seront globalement disponibles dans les états financiers consolidés des gouvernements.

Avantages postérieurs à l'emploi – Régimes à prestations définies

6. **Les indications à suivre pour l'appréciation de la situation de capitalisation d'un régime afin de déterminer le taux qu'il convient d'appliquer pour actualiser les obligations au titre des avantages postérieurs à l'emploi (paragraphes SP 3251.105 à .110) sont-elles suffisamment claires et détaillées? Dans la négative, pourquoi?**

Les indications sont claires afin d'évaluer la situation de capitalisation. Toutefois, les nuances apportées dans la définition d'un « Actif détenu par un fonds d'avantages à long terme » de cette nouvelle norme nous semblent trop « rigides ». Nous jugeons que la nouvelle définition met davantage l'emphase sur la forme juridique plutôt que la substance du fonds. Voir notre réponse à la question 2.

Nous avons également une préoccupation concernant l'application de l'approche pour les régimes partiellement capitalisés. Voir notre réponse à la question 8 à cet effet.

7. **Les approches proposées en ce qui concerne le taux d'actualisation à appliquer aux régimes entièrement capitalisés (paragraphes SP 3251.111 à .114), aux régimes partiellement capitalisés (paragraphes SP 3251.115 à .117) et aux régimes non capitalisés (paragraphes SP 3251.118 à .120) vous conviennent-elles? Dans la négative, veuillez préciser l'approche qui vous pose problème, avec motifs à l'appui.**

Les approches proposées en ce qui concerne le taux d'actualisation à appliquer selon la situation nous conviennent.

8. **Entrevoyez-vous des difficultés relativement à l'approche proposée (paragraphes SP 3251.105 à .110) pour l'appréciation de la situation de capitalisation du régime aux fins de détermination du taux qu'il convient d'appliquer pour actualiser l'obligation au titre des avantages postérieurs à l'emploi? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées aux indications proposées pour atténuer ou éliminer ces difficultés.**

Nous nous questionnons sur la nécessité de refaire les calculs exigés au paragraphe .107 chaque année lorsqu'il est évident que le régime est très près d'une situation de pleine capitalisation. L'utilisation du taux des obligations provinciales pour actualiser une partie de l'obligation entraînerait dans ces situations une augmentation de l'obligation au titre des avantages postérieurs à l'emploi alors qu'il est peu probable que l'entité du secteur public, en particulier les gouvernements, devra emprunter une portion des fonds pour faire face à son obligation.

Nous sommes d'avis que les critères qualitatifs énoncés au paragraphe .110 devraient être considérés avant d'effectuer le calcul exigé au paragraphe .107 lorsqu'un régime a une situation de capitalisation très près de 100 %. Afin d'assurer une certaine uniformité dans l'application de

cette approche et éviter des débats entre préparateurs et auditeurs quant à la notion de déficits de capitalisation temporaires, nous suggérons de mettre un seuil. Par exemple, un régime serait considéré comme étant capitalisé s'il est au moins à 90 %, au-delà duquel il ne serait pas nécessaire d'effectuer le calcul si les critères qualitatifs sont respectés.

9. **Entrevoyez-vous des difficultés relativement à l'approche proposée aux paragraphes SP 3251.115 à .117, qui consisterait à appliquer un taux d'actualisation unique dans le cas des régimes partiellement capitalisés? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées pour atténuer ou éliminer ces difficultés.**

Ces calculs sont effectués par des actuaires qui ont en main les logiciels nécessaires permettant selon nous de réaliser de tels calculs. Aucune difficulté n'est donc envisagée.

Réévaluations du passif (de l'actif) net au titre des prestations définies

10. **Êtes-vous d'accord que les réévaluations du passif (de l'actif) net au titre des prestations définies devraient être comptabilisées dans l'actif net sans être ultérieurement reclassées dans l'excédent ou le déficit (alinéa SP 3251.064 d) et paragraphe SP 3251.144)? Dans la négative, veuillez expliquer pourquoi et indiquer comment, selon vous, ces réévaluations devraient être comptabilisées.**

Nous sommes d'accord avec ce principe et croyons que cela offre une meilleure compréhension et une image plus fidèle de la situation à l'utilisateur. Nous comprenons qu'il s'agira d'une nouvelle composante de l'excédent ou du déficit cumulé. Nous recommandons d'ajouter un exemple afin de clarifier la présentation de ce nouvel élément. Il serait également pertinent d'ajouter un exemple qui présente l'impact sur l'état de l'évolution de l'actif net (du passif net) ainsi que sur la dette nette.

11. **Le CCSP est conscient que, comparativement à la méthode du chapitre SP 3250, la comptabilisation de l'incidence des gains ou pertes actuariels immédiatement dans le passif (l'actif) net au titre des prestations définies pourrait accroître la volatilité de la dette nette. Cela étant, est-ce qu'offrir d'autres possibilités en matière de présentation dans les états financiers ou par voie de notes répondrait aux préoccupations à l'égard de la volatilité de la dette nette? Dans l'affirmative, veuillez préciser quelles options le CCSP devrait envisager en ce sens et en quoi elles amenuiseraient les préoccupations à l'égard de la volatilité accrue de la dette nette.**

Nous n'avons pas de suggestion.

Dispositions transitoires

12. **Êtes-vous favorable aux dispositions transitoires proposées (paragraphes SP 3251.200 à .202)? Dans la négative, quels changements apporteriez-vous à ces dispositions et pourquoi les apporteriez-vous?**

Nous sommes favorables aux dispositions transitoires proposées.

Exemples illustratifs

13. **Les exemples illustratifs (Annexe) vous aident-ils à interpréter et à appliquer la norme? Dans la négative, quels autres exemples faudrait-il ajouter?**

Les exemples aident à interpréter. Nous aimerions avoir un exemple pour le traitement comptable de la réévaluation du passif à la suite de l'adoption du nouveau modèle. (Alinéa SP 3251.064 d), voir réponse à la question 10.

Points divers

14. **Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage aurait une incidence importante sur la compréhensibilité de l'information financière relative aux avantages sociaux? Dans l'affirmative, veuillez expliquer quelle serait cette incidence.**

Nous croyons que les changements améliorent la compréhension des utilisateurs via l'abolition des gains/pertes non amortis.

15. **Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage pourrait entraîner un changement dans la prise de décisions à l'égard des avantages sociaux? Dans l'affirmative, veuillez expliquer ce qui causerait ce changement. Par exemple, serait-ce en raison de politiques déjà en place dans votre organisation? De dispositions législatives?**

Nous croyons que la nouvelle norme pourrait engendrer des débats importants dans sa forme actuelle et recommandons donc de revoir certains passages. Nous croyons que nos suggestions permettent de diminuer les zones grises et les divergences d'opinions notamment à l'égard de la définition d'actifs détenus par un fonds d'avantages à long terme, etc.

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November 24, 2021

Re: PSAB Exposure Draft – PS 3251, Employee Benefits

Dear Michael,

We have read the Exposure Draft and are pleased to have the opportunity to respond to your specific question as outlined below. We have attended webinars related to the exposure draft and heard from stakeholders within BDO on this exposure draft. In general, we are supportive of the direction the Board is taking with this project, however we have concerns with the proposals on discount rate and the guidance on multi-employer plans. We believe the guidance on discount rates is overly complex and the cost of this complexity would exceed the benefits. For multi-employer plans, while the communications in the webinar on proposals indicated that the accounting treatment will not change from PS 3250, Employee Benefits, there are several inclusions within the new standard that we feel have the potential to change the accounting for these plans once the details of the plans, the information available and related contracts are scrutinized. We believe further analysis is needed to ensure the application of changes in consistent with the Board's intentions.

Our responses to your specific questions are outlined below.

1. *Do you find the scope of this standard (paragraphs PS 3251.004-0.008) to be clear? If not, please describe the situations for which the scope is unclear*

   We find the scope of the standard to be clear, as outlined in the Consultation Paper.

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarification or additional definitions are necessary?*

   We find that the definitions currently contained in the Glossary help readers interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft. However, we would also recommend the inclusion of the definition of "constructive liability" within the standard. This term is defined with examples at various points in the standard, including 0.005(c) and 0.028(c). It would be more helpful to readers to define the term within the Glossary with examples contained therein rather than throughout the standard.

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039 – 0.42) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

   These plans are quite common, and this guidance will be applicable to many government organizations, such as hospitals, colleges and school boards that are part of provincial pension plans. As stated above, we do believe that there is a risk that this language has the potential to change the accounting treatment once contractual agreements, information available and binding arrangements or stated policies of government reporting entities under common control are reviewed. Therefore, our view is that the Board may need to do further analysis of the potential impact on these entities. If the intention, was for there to be minimal change in the accounting for such plans by government organizations and for these to continue to accounted for as defined contribution plans, field testing should be performed to confirm the outcome is consistent with the Board's intentions.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-0.46) relevant for the Canadian public sector? If not, why?*

   We agree that the guidance on category-wide plans is relevant to the Canadian public sector.

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to used defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

   As stated above, while the intention seems to be that, especially for multi-employer plans, the recognition, measurement and disclosure of these plans will not change from PS 3250, Employee Benefits, there are several inclusions within the new standard that we feel have the potential to change the accounting for these plans once the details of the plans, information available and related contracts are scrutinized. If the intention, was for there to be minimal change in the accounting for such plans by government organizations and for these to continue to accounted for as defined contribution plans, field testing should be performed to confirm the outcome is consistent with the Board's intentions.

   We also believe the Board should clarify what would constitute "sufficient information to follow the standards for defined benefit plans". Illustrative examples could be very useful in providing clarity.

6. *Is the guidance on assessing the funding status of the plan (paragraphs PS 3251.105-110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

   In general, we believe that the guidance on discount rates is overly complex and the benefits from applying this guidance will not exceed the costs. In addition, we disagree with the proposed discount rate approaches for fully funded, partially funded, and unfunded plans. No other Canadian accounting standard requires a multiple discount rate approach to its defined benefit plans. Under both IFRS and ASPE, the same discount rate is applied for both funded and unfunded schemes, determined by market yields on high-quality corporate bonds. Therefore, we believe that the provincial bond rate should be used for all defined benefit plans under Canadian public sector accounting standards.

   If the Board decides to proceed with this multiple discount rate approach, we believe the guidance on determining which discount rate to use in a particular circumstance is clear and sufficient.

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-114), partially funded (paragraphs PS 3251.115-117) and unfunded plans (paragraphs PS 3251.118-1200? If not, please specify which approach you disagree with and why.*

   As stated in our response to question 6, we do not agree with proposed multiple rate approach. We believe that the provincial bond rate should be used for all defined benefit plans under Canadian public sector accounting standards.

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-110) to assessing the funding status of a post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.*

   We foresee challenges for all reporting entities in determining their funded status under this new standard. We believe that the exercise in determining the projected plan assets balance, including projected cash flows related to current plan members as of the funding assessment date, will be challenging for entities to quantify. This role will ultimately be done by actuaries, which will increase the related costs. In addition, we do not believe this approach will improve the understandability of the financial statements as it will make an already complex area of accounting more complicated. Therefore, we recommend that the board eliminate the proposed approach to assessing funding status and its differing discount rate requirements from this standard. We believe that the provincial bond rate should be used for all defined benefit plans under Canadian public sector accounting standards.

9. *Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans at outlined in paragraphs PS 3251.115-117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.*

   As stated above, we believe that the exercise to determine a single discount rate for partially funded status will increase actuarial costs significantly and these costs will exceed the benefit of the changes to users. Therefore, we recommend that the provincial bond

rate be used for all defined benefit plans under Canadian public sector accounting standards.

10. *Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.*

    We agree that revaluations of the net defined benefit liability (asset) should be recognized in the net assets without subsequent recognition in surplus or deficit.

11. *PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered and how such options would assist in addressing concerns regarding increased volatility.*

    We believe that the volatility in net debt that will arise from this change in recognition will be adequately presented on the Statement of Changes in Net Debt and the required employee benefits disclosures. Therefore, additional presentation or disclosure is not required.

12. *Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions and why?*

    We agree with the proposed transitional provisions.

13. *Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?*

    We believe that the illustrative examples on discount rates are complex and confusing, even in this simplified example, highlighting that this process would be onerous to entities. We also believe that the examples do not express the true complexities of determining the plan's funding status.

    In addition, as stated in our response to question 5 an illustrative example of what would constitute "sufficient information to follow the standards for defined benefit plans" would be useful.

14. Do you think that applying the proposals outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

    In general, we believe the proposed changes will improve financial reporting and users will have a better understanding of an organization pension obligations. However, as outlined in our responses to previous questions we believe that the changes noted regarding the plans' funding status and the changes to discount rates will not improve understandability and therefore create unnecessary complexities to the standard.

15. *Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.*

    We do not believe that applying the proposals as outlined in this Exposure Draft would change decision-making for employee benefits.

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Lauren Vail, Senior Manager National Accounting Standards (782-355-0227 or email lvail@bdo.ca).

Yours sincerely,

Armand Capisciolto, FCPA, FCA
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416-369-6937

23 November 2021

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Response to PSAB Exposure Draft,
Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Please find attached our responses to the questions outlined in the Employee Benefits, Proposed Section PS 3251 Exposure Draft.

Thank you for the opportunity to comment.

Yours truly,

Paul Martin, FCPA, FCA
Comptroller
Office of the Comptroller, Finance and Treasury Board

Enclosure

Exposure Draft – Employee Benefits, Proposed Section 3251

Purpose and Scope

Question:

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Response:

The scope of the standard is silent on its applicability to non-traditional pension plans such as the shared risk pension plans used in New Brunswick. We disagree with such non-traditional pension plans not being specifically considered and addressed within the scope of this proposed new section. The accounting treatment of such plans will change significantly under the proposed standard, then may be subject to considerable additional changes when they are subsequently addressed. We recommend addressing the accounting treatment of these non-traditional plans prior to the effective date of PS 3251.

We disagree that a joint defined benefit plan should be limited to a legislated / formal arrangement, (PS 3251.040 and PS 3251.047) and instead suggest it should be based on the substance of the arrangement.

Glossary

Question:

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

Response:

We suggest adding a definition to the glossary for the “constructive obligation” terms used in PS 3251.005(c) to clarify the obligations the standard is intended to capture. We note that other accounting frameworks, such as IFRS and IPSAS, define the term “constructive obligation” under their Contingent Liabilities standards and no similar definition is provided within existing public sector accounting standards.

“Defined benefit plans” in the glossary are defined as “plans other than defined contribution plans”. Defined benefit plans should have their own definition, and not be reliant on another defined term.

The “asset ceiling” definition does not provide the level of detail provided in the existing standard, PS 3250. Specifically, the guidance in the glossary of PS 3250 for determining an “expected future benefit” provides a formula for calculating this value, which does not solely result from the ability to decrease contributions. We feel that similar guidance should be included in the definition of “asset ceiling” to ensure consistency of application.

We recommend that a definition for a “liability ceiling” be added to the glossary and standard.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

Question:

3. Would applying the guidance for recognizing a public sector entity’s net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

Response:

We anticipate no changes to our accounting as a result of this guidance.

Question:

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

Response:

It is not apparent to us that this is a relevant section, as it appears to be addressed under the guidance for multi-employer plans. If this guidance is intended to capture something different, we suggest providing a practical example and explaining how this is different than a multi-employer plan.

Question:

5. Paragraph PS 3250.109 states that “sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans.” Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Response:

For our Province, our only multi-employer plan is a shared risk, non-traditional pension plan. Current guidance issued under this Exposure Draft does not address these types of pensions. We do not have any instances where we treat a plan as a Defined Contribution because of lack of information. This would not change how we account for our plans. However, it may change the treatment by certain of our consolidated entities, and therefore our accounting for them. We do agree there is an issue under the existing standard where all employers can indicate lack of information and record as a defined contribution plan, resulting in no entity recording a liability for a deficit in the pension plan. We believe someone should record such a liability.

Post-employment benefits – defined benefit plans - Discount rate guidance

Questions:

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?
7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.
8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.
9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Response:

We agree in concept with the approach to use different discount rates based on the funding status of the plans. We agree the rates for funded and unfunded plans are appropriate and that a blending of these rates for the partially funded plans is also appropriate.

We strongly disagree with the complex calculation provided in the standard to determine if a plan is partially funded vs. fully funded. We do not think the guidance is sufficient to complete the complex calculations required to make this determination. As a funding valuation is already being completed for each plan, we do not see any value in having such a complex method to assess funding status. We recommend using the funding valuation to determine the funding status of a plan, including the percentage funded for partially funded plans, and that the blended discount rate for partially funded plans be calculated based on this percentage.

We do not agree with the approach to calculating the partially funded plan's discount rate. This method is very complex, which increases reliance on actuarial experts, resulting in increased costs for actuarial services. Actuarial assumptions are defined to be management's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. The complexity resulting from the new guidance regarding discount rates for partially funded plans means significantly increased reliance on the public sector entity's actuaries, as the entity will not be in a position to replicate the calculation. This will make it more difficult to provide evidence to the auditor that management is challenging the actuaries appropriately and that the actuarial assumptions are management's best estimates.

The examples provided in Exhibits 1-3 are incomplete. Therefore, they do not clarify the situation and we are unable to recreate the calculation to aid in our understanding of the

proposed approach. We believe having to complete this exercise annually is unreasonable, due to the variability, cost, and time required.

Our actuary has indicated that more clarity is needed to determine the funded status and identify the appropriate discount rates.

The guidance may not be suitable for non-traditional plans, where both funding and benefits are determined by formal funding valuations that are unique to these plans. The proposed calculation may not provide an assessment that is consistent with the funding valuation. It is unclear to us why an alternate assessment using the proposed calculation should take precedence over the funding valuations.

Revaluations on the net defined benefit liability (asset)

Question:

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

Response:

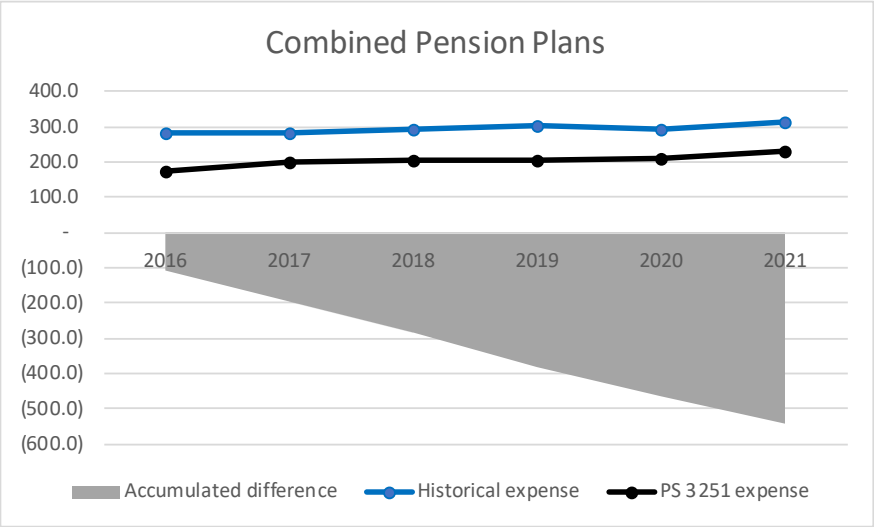
We completely disagree that revaluations of the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit. We believe this removes a level of accountability from governments. Our modeling of the proposed standard shows that there will be a significant balance to remain in net assets without ever being reflected through the Statement of Operations. We believe there should be an amortization of the revaluation amounts to reflect the long-term nature of pension plans. Large swings due to market volatility in the short term will not be reversed.

While volatility on pension assets due to market conditions may level out in the long term, the same may not apply to other actuarial gains or losses. Where items do not self-correct over time, gains and losses may remain indefinitely in the accumulated other component of net assets.

The Province has analysed the impact of applying the recognition guidance under this exposure draft to its significant pension plans over the period of 2016 to 2021. The graphs below illustrate the impacts on the annual surplus (deficit), accumulated surplus (deficit) and net debt. Over this six-year period, pension expense would have been more than $500 million lower than was reported under the existing PS 3250. Over this same period, the pension liability recorded each year could have varied by up to $450 million, whereas it remained within a $65 million range under PS 3250. These results indicate that pension expense would have been significantly under-reported, and that net debt would have been unduly impacted.

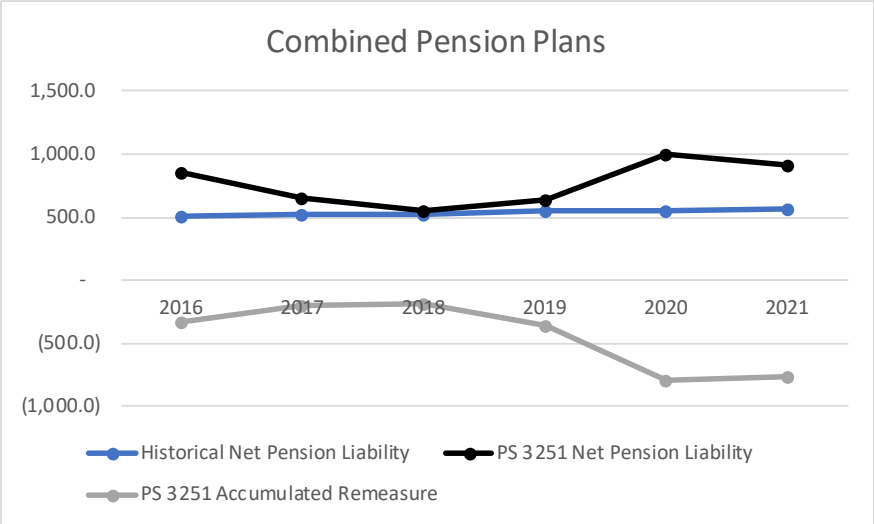
Impacts to Annual and Accumulated Surplus/Deficit

	2016	2017	2018	2019	2020	2021
Historical expense	282.0	285.9	296.0	304.2	293.5	311.9
PS 3251 expense	176.2	198.6	205.8	204.7	211.3	233.8
Accumulated difference	(105.8)	(193.1)	(283.2)	(382.7)	(464.9)	(543.1)



Impact to Net Debt

	2016	2017	2018	2019	2020	2021
Historical Net Pension Liability	508.5	528.8	530.2	545.6	553.2	573.3
PS 3251 Net Pension Liability	862.1	656.7	553.7	644.4	1,005.4	920.2
PS 3251 Accumulated Remeasure	(336.4)	(198.4)	(184.5)	(359.8)	(796.0)	(769.3)



Question:

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

Response:

We agree that alternative presentation or disclosure would be required to assist in addressing concerns regarding net debt volatility. Net Debt is already a very difficult concept for many stakeholders to understand. In the new conceptual framework, it will be even more difficult to explain and understand the impacts.

If actuarial gains and losses are to be recorded in the accumulated other component of net assets, there should be a mechanism to bring these balances back into the Statement of Operations, in a similar manner to the deferral and amortization approach under PS 3250.

Transitional provisions

Question:

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Response:

We disagree with the proposed transitional provisions. We recommend that these standards not be applicable to non-traditional pension plans until such plans are specifically addressed by the standard. Changing the accounting treatment of these plans twice in a short period of time is detrimental to the understandability of financial reporting on employee benefits.

Illustrative examples

Question:

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Response:

As previously discussed, we do not feel that the illustrative examples provide sufficient help with the interpretation and application of the standard. They are unable to be replicated, and therefore followed and applied to our particular scenarios. They do not show the whole picture.

Other

Question:

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Response:

We think understandability would be negatively impacted. Employee benefits is already a complicated area of accounting, and this standard is not making it clearer, or more understandable. The proposals add significant volatility to the measurement of employee benefits, which will decrease understandability of the financial reporting.

Question:

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Response:

Yes, we think this will result in changes in decision making. Based on our analysis it will reduce pension expense below the amount of cash contributions required by the Province, thereby increasing annual surplus and leading decision makers to think they have additional funds available for other spending. This also creates challenges to the appropriations process, as the government will need to authorize cash contributions to the plans which exceed the pension expense by significant amounts.

It may cause decision making in other areas to be impacted as well, as major fluctuations in surpluses make it difficult to budget, and for stakeholders to plan for results. It is a very difficult concept to explain to stakeholders.

CITY OF Thunder Bay
Superior by Nature

CORPORATE SERVICES & LONG TERM CARE

500 East Donald Street
Thunder Bay ON P7E 5V3

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

November 22, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – Employee Benefits, Proposed Section PS 3251

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on Employee Benefits, Proposed Section PS 3251.

As the General Manager Corporate Services & Long Term Care & City Treasurer, I agree with MFOA in supporting the proposed standard with the view that it will improve the reporting of potential liabilities and risk; however, also believe there are concerns with respect to resource requirements to develop appropriate note disclosure and actuarial valuation calculations.

As identified in MFOA's submission to PSAB, in the Ontario context where most municipalities are members of the Ontario Municipal Employees Retirement System (OMERS), a significant portion of the proposed standard will not be applicable. OMERS in a multi-employer plan with control and risk entirely born by the administering body and not by the employers or employees. OMERS employers will likely account for the pension plan similarly to current practice, using the defined contribution plan methodology, recognizing this will increase note disclosure requirements for said OMERS employers.

Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, the disclosure requirements set out in s. 170 are well beyond what Ontario municipalities currently report on pensions and include significant information requirements.

In addition, the proposed standard may add complexity for users of financial statements. In the Ontario context, I support MFOA's position that applying this proposed standard will not improve the understandability of employee benefits as there are no future obligations or benefits for OMERS employers. Furthermore, very few users of the statements explore the financial statements to this level of depth. Budget documents,

along with variance reporting on overall results are relied on far more heavily than the audited financial statements.

Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Trish Malmborg at Trish.Malmborg@thunderbay.ca

Sincerely,

Linda Evans
GM Corporate Services & Long Term Care, City Treasurer
City of Thunder Bay
Linda.evans@thunderbay.ca

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

Auditor General
MANITOBA

November 24, 2021

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on the Exposure Draft – Employee Benefits, Proposed Section PS 3251. I am responding on behalf of the Office of the Auditor General of Manitoba.

We agree with the majority of the exposure draft. Our response below focuses on our areas of concern.

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   We find the scope of this standard to be clear.

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   For the most part, the definitions contained in the glossary are suitable, in terms of scope and content, to interpret and apply the proposed standard.

   However, we have a few points for your consideration:

   - Category-wide plans are defined in two locations in the exposure draft, and the definitions vary somewhat.
     - Section 3251.044: "Category-wide plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, provincial/ territorial or local government or by another body (e.g., an agency created specifically for this purpose)."
     - Glossary: "Category-wide plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation." It's unclear what is meant by "by economic categories" and some guidance would be beneficial.

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- We think clarification is required where there is a plan that shares risk between entities under common control:

  In our jurisdiction, there is a multi-employer pension plan where the majority of the entities in the plan are under common control of the province but the plan also includes a few entities that are outside the government reporting entity (GRE). Based on the definitions in the proposed standard the classification of this plan would be unclear. This plan could be considered a defined benefit plan because it shares risk between public sector entities under common control given that the majority of the participating entities are under the control of the province. The plan could also be considered a multi-employer defined benefit plan given the plan includes entities not under common control of the province. We propose that PSAB clarify either the definition of a multi-employer plan or a defined benefit plan that shares risks between entities under common control as described in 3251.039 to allow for an appropriate classification that portrays the substance of the plan. Without additional clarification the accounting for these plans could be subject to manipulation by adding employers outside the GRE to the plan in order to avoid accounting for the plan as a defined benefit plan.

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   Proposed changes in PS 3251.039-.042 may change the accounting treatment for certain entities that we audit based on the proposed definitions as mentioned in our response to question 2 above.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   We are unsure if the guidance on category-wide plans is relevant to the Canadian Public Sector. Based on the information included in the Exposure Draft, this type of plan is not found in our jurisdiction.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   Applying the guidance provided would not likely result in a change in the accounting treatment in our jurisdiction. However, we feel the standard should provide some guidance around what is considered "sufficient information" as the current wording could result in different interpretations, which could result in different accounting for similar situations and ultimately may allow for inaccurate accounting by pubic sector entities for post-employment benefits. This additional guidance could include examples of what would constitute sufficient information.

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why**

   The guidance on assessing the funding status of a plan is generally clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations. However, the calculation is complex and may require the engagement of an expert.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   We agree with the proposed discount rate approaches for fully funded and unfunded plans. However, we have the following concerns with the proposed discount rate approach for partially funded plans:

   - The Exposure Draft requires that the discount rate for unfunded plans would be based on rates of provincial bonds with cash flows consistent with the timing of benefit payments. We believe provincial bonds is open to interpretation and requires further clarification. For example, would this be a basket of provincial bonds or if the debt is for a specific provincial government would you use their specific rate. Perhaps amending the wording and providing guidance on what this represents would be helpful to preparers and users of this information.
   - The calculated rate for partially funded plans will be more difficult to apply as the entity must determine the rate of return for that plan as outlined in .116 and .117. This seems overly complex, and it will be onerous to prepare on an annual basis and could result in discount rates changing frequently. Also, assessing the funding status on an annual basis results in significant effort for both the preparers and the auditors, and it's unclear if the benefit provided in terms of accuracy of the valuation of the liability would outweigh the cost and effort required on an annual basis.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges**

We foresee potential challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation. These challenges are described below:

Determination of the discount rate used in funding status assessment
We believe that the calculations required to determine the discount rate may require entities to engage an actuarial expert. We encourage the development of guidance for use by actuaries, and others, in their calculations for determining the discount rate for partially funded plans in order to ensure a consistent approach.

Determination of the expected market-based return on plan assets
Using an expected market rate as outlined in PS Section 3251.111 would be appropriate for fully funded plans. Many plans have a significant portion of their assets with unobservable inputs. We think that PSAB should include guidance on inputs that would be expected to be tied to the market as well as for those assets with unobservable inputs leading to a more subjective valuation. Where there are significant unobservable inputs guidance is required on how this would be addressed in the calculation of the expected market return.

Performance of an annual funding assessment
The completion of an annual funding assessment will significantly increase the effort of the preparers and their auditors in determining the post-employment benefit calculation. It is unclear if the benefit would outweigh the cost to prepare this valuation. We ask PSAB to consider the following alternatives:

- Include a requirement for this assessment to be performed every 3 years such as currently required by 3250.118.
- The establishment of criteria which would necessitate an updated funding assessment.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

   We see implementation challenges in the proposed approach to apply a single discount rate to partially funded plans. See our comments included in question 7, and 8 for details related to these challenges.

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized. 3 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.**

    We agree with the proposed change related to revaluations on the net defined liability (asset) because it addresses the need for a more accurate employee benefits amount on the statement of financial position, and the effect of the changes in the net defined benefits will be highlighted in the accumulated other components of net assets and not comingled with other post-employment benefits on the statement of operations.

    Currently a reader has to look through the detailed disclosure to determine the amount of the benefit change due to amortization of actuarial gains/losses and market changes in pension assets as well as to determine the amortization period for these adjustments. This information is currently comingled with other post-employment benefits information on the statement of operations. With the proposed presentation these changes will be recognized immediately providing a more accurate statement of financial position and will enable decision makers to quickly locate the results of these remeasurement changes in the accumulated other component of net assets.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

    We believe that the presentation and disclosure requirements outlined in the Exposure Draft are sufficient to address concerns regarding increased volatility.

    Removing the previous treatment which allowed for both the amortization of actuarial gains/losses and adjusting assets to market related rates over a period in time may result in increased volatility to net debt under the proposed method, however this change will result in a more transparent and accurate representation of the benefit liability (asset) which results in financial statements that are easier to understand.

    The current method, although less volatile, is a compromise on accuracy and is less straightforward to users of the financial statements as they have to read through detailed disclosure to determine the effect of the actuarial and market related adjustments and perform their own calculations to determine amounts without consideration for these smoothing effects.

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

    We agree with the proposed transitional provisions as the implementation date is far enough in the future to allow governments to determine the information required to implement the proposed standard. Retroactive application will result in better information for users of financial statements.

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

    The illustrative examples provided in the Appendix were helpful in the interpretation and application of the proposed section.

14. **Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.**

    We think that the application of the Exposure Draft proposals would increase the understandability related to employee benefits in the following ways:

    - Removal of the smoothing effect related to actuarial gains and losses, as well as the adjustment to market value for plan assets (over a period not to exceed 5 years) results in a more accurate balance on the statement of financial position which is useful to decision makers.
    - Recognition of actuarial gains and losses and other valuation adjustments in net assets removes the volatility of these items from the statement of operations.

15. **Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.**

    With any accounting policy change, there is the potential for unintended changes in decision making, however, we don't note any significant concerns at this time.

Sincerely,

Phil Torchia, CPA, CA
Assistant Auditor General, Professional Practices and Quality Assurance

Maureen Buckley CPA, CA

Assistant Deputy Minister and Provincial Controller

Office of the Provincial Controller Division|Office of the Treasury Board|Office of the Comptroller General|Treasury Board Secretariat

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Maureen.Buckley@ontario.ca

Following is the Province of Ontario's response to PSAB's Exposure Draft on Employee Benefits, Proposed Section PS 3251

Responses to the questions are provided below:

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

Ontario understands the scope of this proposed standard which is consistent with IPSAS 39. While paragraph .005 (c) is consistent in wording with IPSAS 39, we would encourage further guidance be provided regarding what is considered to be "unacceptable damage to its relationship with employees" in relation to constructive obligations.

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

Ontario recommends additional clarification be included in Section PS 3251 regarding:

- whether Section PS 3251 would continue to allow valuations for pension plans to be performed in advance of the date of the Province's financial statements as is allowed under Section PS 3250. Currently valuations are performed for all Ontario's major pension plans as at December 31 while the Province has a March 31 fiscal year-end. This is consistent with paragraph .039 of Section PS 3250 which indicates "*For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date*". Furthermore, paragraph .118 of Section PS 3250 states that actuarial valuations *".. would be done as close to the related financial statement date as is practical*". These provisions have worked very well for Ontario and its pension plans. In proposed Section PS 3251, the paragraphs relevant to early

measurement in PS 3250 have been removed. In Section PS 3251 paragraph .066 has been included that states "*For practical reasons, a public sector entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the result of that valuation are updated for any material transactions and other material changes in circumstances …. up to the end of the reporting period*". Ontario would like to confirm with PSAB and understand the impact of paragraph .066 specifically, whether it continues to permit early measurement of pension assets and obligations for purposes of Ontario's public accounts. Given the size and sophistication of Ontario's pension plans, performing a valuation is a significant undertaking. Furthermore, it's important to note the nature of the portfolios of these pension plans which include large allocations to private assets. The asset valuation process is extremely robust, time consuming and costly. Being required to value private assets at both December 31 and again at March 31 would be prohibitive. In addition, some pension plans are issuers of medium-term notes and confidentiality of information that is intended to be non-public would become an issue and barrier to March 31 results being disclosed in the public accounts. These considerations would likely preclude Ontario from being able to collect such data on a date other than December 31, the fiscal year end of plans. Current practice of earlier valuation has resulted in tremendous cost and operational efficiency. As well, it has enabled Ontario to collect pension data in a timely manner for required reporting as at March 31 for public accounts purposes. This practice has served Ontario and concerned pension plans well and is accepted by the Office of the Auditor General of Ontario. Changes would have significant implications on the year-end public accounts process and result in additional costs and efforts if valuations in advance of the year-end of the Province are not allowed to be continued. Ontario strongly recommends including in Section PS 3251 language similar to PS 3250 paragraph .039, that explicitly permits early measurement.

- paragraph .137 of Section PS 3251 where it indicates "*Plan assets exclude unpaid contributions due from the public sector entity to the fund, as well as any non-transferable financial instruments issued by the public sector entity and held by the fund*". Pension benefits are accrued as services are provided. Once benefits are accrued, employers/persons on behalf of employers, are required to make contributions to the plan accordingly. However, for practical reasons, pension legislation permits contributions from employers/persons on behalf of employers, a grace period to remit these contributions. Paragraph .137 creates a framework that would recognize pension obligations on an accrual basis but would only recognize contributions due on a cash basis. This is not in compliance with the accrual principles in PSAS. Ontario therefore recommends allowing unpaid contributions due, to be classified as "contributions owed", and to be recognized in the market value of plan assets.

- the term “expected market-based return” included in paragraph .111 in relation to the discount rate for fully funded plans. Clarification should be provided regarding how this term is calculated and how this differs from plan asset earnings included in Section PS 3250 paragraph .044. This is a deviation from IPSAS 39 so clarification should be provided in Section PS 3251. Similarly, the term “market yields on provincial government bonds” in paragraph .116 should be clarified including how it differs from cost of borrowing included in Section PS 3250 paragraph .044.

- the “future economic benefits” described in the asset ceiling test in Section PS 3251, paragraph .073. It is described as “the present value of future benefits”. Currently, Section PS 3250 paragraphs .052 to .056 provide more prescriptive definitions for future economic benefits. Ontario recommends including language consistent with Section PS 3250 paragraphs .052 to .056 in Section PS 3251.

3. **Would applying the guidance for recognizing a public sector entity’s net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

Ontario is unable to currently indicate the consequences of PSAB’s proposals on its current pension accounting. Ontario is the sole sponsor of the Public Service Pension Plan (PSPP) and the Provincial Judges’ Pension Plan (PJPP), and joint sponsor of the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers’ Pension Plan (OTPP) . These four plans are currently accounted for as defined benefit plans, OPSEUPP and OTPP specifically as joint defined benefit plans. In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP) respectively and are included in the Province’s financial statements. Both plans are accounted for as multi-employer defined benefit plans. Ontario also has several smaller pension plans.

A detailed analysis of the legal documentation of each of these plans will need to be performed in relation to the requirements being proposed in Section PS 3251. For example, Ontario needs to evaluate the implications of removal of the term “sponsor” in relation to joint defined benefit plans. This analysis will take considerable time and effort. Due to the limited time provided by PSAB to respond to this Exposure Draft and the extensive review that will need to be performed, Ontario is unable to comment at this time.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

Ontario is not clear as to the need for this type of pension plan as paragraph .043 of Section PS 3251 requires accounting consistent with multi-employer plans. Category-wide pension plans appear to be a type of multi-employer plan and therefore should be included as such in Section PS 3251. We note category-wide pension plans are not a separate type of pension plan in IPSAS 39.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

Ontario has significant concerns regarding the requirements being proposed in PS 3251.033 and the resulting implications on many public sector entities. Currently PS 3250.110 is clear that a multiemployer plan is accounted for by each entity participating in the plan, other than the sponsoring government, using defined contribution accounting. Proposed paragraphs .032 and .033 of PS 3251 would require a participating entity to demonstrate that sufficient information for defined benefit accounting is not available to follow defined contribution accounting.

This is a significant change as participating plan employers will now have to justify why the information is not available. The onus will be on each plan employer to justify to their auditor why sufficient information is not available. This will only lead to preparer – auditor debate as to when sufficient information is not available and to what extent the public sector entity needs to go to inquire and obtain the information. Documentation of this effort to obtain sufficient information will be subjective. Many public sector entities participating in multi-employer plans are smaller in size with limited employees. There are many practical application challenges to applying these requirements. Each entity will have a challenge in estimating their proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan. Having these entities follow defined benefit accounting and the associated additional reporting and disclosure requirements provides little value to financial statement users and will only reduce understandability.

Comparability in reporting and disclosure amongst participating plan employers will be reduced as some employers may use defined benefit accounting while others defined contribution accounting. The difference in accounting by participating employers will also greatly increase the complexity of consolidation of the multiemployer plans by the Province.

It would most likely require analysis of each individual entities' method of accounting for the plan (about 150 plus entities) and tracking the method for these entities to consolidate on a common basis at the Provincial level.

Ontario therefore strongly recommends that for practical application reasons, comparability reasons, considering the incremental costs associated with defined benefit reporting, and because of the limited reporting benefits that result from defined benefit accounting, PS 3251 include as the default for participating members in multi-employer plans, defined contribution accounting.

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

Ontario does not support the guidance for determining the funding status of a pension plan nor the resulting implications of the funding status on the discount rate to be used (please refer to our response to question 7). Under PS 3250, the discount rate is determined considering the current funding status of a pension plan. The guidance being proposed requires estimating the balance of plan assets and benefit payments expected for <u>all</u> subsequent reporting periods to determine whether a plan is fully, partially, or unfunded. Pension plans are long-term in nature. Pension plans evolve and change over time based on industry changes, market conditions, retirement trends, etc. All pension plans registered under pension legislations, either provincially or federally, are required by the respective legislations to be fully funded. Ontario considers the requirement to assess the funding status for all future periods, rather than the current funding status, to be a very subjective, costly exercise with little associated benefit. Financial statements are at a point in time and the current funding status should be the indictor of the discount rate to be used at that reporting date.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

Ontario does not agree with the proposed guidance regarding discount rates to be used for fully funded, partially funded, and unfunded plans. Ontario supports the guidance in PS 3250.044 which mentions using plan asset earnings or the cost of borrowing. Public sector entities including Ontario currently are using plan assets earnings as the discount rate for the portion of plans which are funded, and its cost of borrowing for the portion of plans not funded. This represents the most specific cost of funding of pension plans for Ontario. It reflects both entity and pension plan specific considerations and therefore is the best estimate to be used to calculate obligations for the Province, as compared to using more general discount rates.

Our specific concerns with the requirements being proposed by PSAB regarding discount rates include:

- Ontario does not agree with using the expected market-based return on plan assets for periods where the balance of plans assets is greater than the projected benefit payments. While Ontario agrees with PSAB's movement away from the guidance in IPSAS 39 for funded pension plans, it is unclear how a more general, less entity specific market-based return on plan assets is more appropriate to value a funded plan than is the specific return on plan assets currently being used by Ontario and other public sector entities. The more specific return on plan assets is based on past history and best reflect the cost of funding the future pension obligation. While using a similar discount rate (such as the general expected market-based return on plan assets) across pension plans in the public sector is more comparable it does not reflect entity specific factors that should be reflected in the accounting for specific pension plans. It will not result in a better estimation of pension obligations for the Province. Furthermore, no guidance is provided in Section PS 3251 regarding how the expected market-based return is calculated.

- Ontario also does not agree with using the market yield of provincial government bonds as the discount rate for periods where the balance of plans assets is not greater than the projected benefit payments.

    - Consistent with the prior discussion for fully funded plans it is unclear how the more general, less entity specific market yield of provincial government bonds is more appropriate to value the portion of a pension plan that is unfunded rather than the cost of borrowing currently being used by Ontario and other public sector entities. The more specific cost of borrowing is based on actual borrowing costs of Ontario and best reflect the cost of funding the future pension obligation. While using a similar discount rate across pension plans in the public sector is more comparable it does not reflect entity specific factors that should be reflected in the accounting for specific pension plans. Furthermore, no guidance is provided in Section PS 3251 regarding how the market yield of provincial government bonds is calculated for example should it be an annual average, or spot rate.

    - It is also not clear why using the same discount rate for a partially funded plan (in the years the balance of plans assets is not greater than the projected benefit payments) as for an unfunded plan is appropriate. Even though a plan may be 60% funded, the guidance is proposing using the market yield of provincial bonds as if the plan was completely unfunded. This does not represent the true cost of funding the pension obligation. It does not consider the pension assets being held currently as a source of funding for the obligation. It provides no accounting benefit of funding the pension plan. Again, it is not reflecting pension plan specific factors in determining the discount rate and in valuing the pension obligation. Some pension

plans are close to fully funded but not 100%. How is it appropriate to discount the pension plan obligation using the market yield of provincial government bonds, while another plan slightly more funded would use the expected market-based return on plan assets. Consistent with current practice, Ontario supports using a weighted average discount rate based on the portion of the pension plan funded at period end.

Therefore, Ontario would encourage PSAB to include guidance in PS 3251 consistent with PS 3250 and the current practice followed by public sector entities in Canada. The current guidance best reflects the true cost of funding the Province's pension plans based on each plan current funding status. Additionally, given all registered plans in Canada are required to be fully funded by legislation, Ontario suggests PSAB consider simplify the language in PS 3251 so that all registered plans that are required to be fully funded by legislation are considered fully funded for purposes of the discount rate to be used.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

As addressed in response to question 6, Ontario considers the requirement to assess the funding status for all subsequent reporting periods, rather than just the current funding status, to be a very subjective, costly exercise with little associated benefit recognizing that pension plans are long-term in nature and evolve and change over time. Some of Ontario's pension plans are close to fully funded. Paragraph .110 indicates in some circumstances there may persuasive evidence to rebut a partially funded status. This will only lead to preparer – auditor debate as to what is persuasive evidence. Financial statements are at a point in time and the current funding status should determine the discount rate to be used at that reporting date. Consistent with our response to question 7, a weighted average discount rate should be used for partially funded pension plans consistent with current practice thereby removing the very different discount rates being proposed to be used between a fully and a substantially funded pension plan.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

As indicated in response to question 7 and consistent with our response to question 8 Ontario has significant concerns regarding the proposals for the discount rate for partially funded plans. The guidance is proposing using the market yield of provincial bonds as if the

plan was completely unfunded. This does not represent the true cost of funding the pension obligation. It does not consider at all the pension assets as a source of funding for the obligation. It provides no accounting benefit of funding the pension plan. It does not reflect the true cost of the pension obligation to the public sector entity. Ontario considers the requirement to assess the funding status for all subsequent reporting periods, rather than just the current funding status, to be a very subjective, costly exercise with little associated benefit recognizing that pension plans are long-term in nature and evolve and change over time. Furthermore, Ontario foresees challenges in determining a single blended rate for partially funded plans. Ontario would want to see further illustrations of the method in which the single blended rate is derived with formula's embedded in the illustration. Ontario recommends continuing to use a weighted average discount rate (based on the portion funded and not funded) considering only the funding status at the financial statement date as is current practice.

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

Ontario does not agree with recognition of revaluations of the net defined benefit liability (asset) including actuarial gains and losses immediately in "accumulated other" without recycling the amounts to surplus or deficit. Creation of the "accumulated other" category has not even been approved by PSAB through its conceptual framework project.

The Statement of Operations is key for public sector entities in demonstrating accountability. Budgets in the public sector are a key reporting document used by stakeholders. On the Statement of Operations, a public sector entity demonstrates how it performed relative to its budget. All revenues and expenses in the past have been recorded on the Statement of Operations and similarly budgeted for. PSAB is now proposing certain revenues and expenses need not be recorded on the Statement of Operations and not even recycled. This will result in a significant reduction in the accountability provided by the budget versus actual comparisons. It is not appropriate to think that a decision made by an accounting board makes the Province not need to include its pension gains and losses in its overall performance measure. Similarly, a change in pension accounting standards would not make the Province no longer need to include these gains and losses in its budget. The Province is still equally accountable for its pension gains and losses.

There are consequences of the proposals of PSAB which include:

- The need to start preparing budgets of the Province on a non-PSAB, more comprehensive basis to capture all the revenues and expenses of the Province, not only those recorded on the Statement of Operations. Regardless of where PSAB plans to record these gains/losses, these amounts are part of the performance of the Province and

should be budgeted for. Removing the deferral provisions will make budgeting for these amounts more difficult and create unnecessary challenges in explaining the annual volatility to politicians and the public. We have addressed our concern regarding the resulting volatility in response to question 11.

- Uncertainty and confusion will be created by recording some gains and losses to net assets regarding what is the bottom line for the Province amongst financial statement users such as the public and elected representatives. Is it surplus/deficit or surplus/deficit plus these other revenues and expenses that are flowing through the Statement of Remeasurement Gains/Losses and now through "accumulated other"? Typically, only ownership transactions in the private sector would flow through a component of equity such as net assets. How are these ownership transactions? The changes are reducing the understandability of financial statements prepared under the PSA Handbook.

Ontario therefore continues to recommend the deferral provisions in Section PS 3250 be retained so pension gains and losses can be recognized in surplus and deficit, and similarly included in the budget. The deferral provisions are recognition of the long-term nature of pension plans and flowing the gains and losses through surplus/deficit allow for long-term accountability by the Province.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

Ontario does not support fair valuing of plan assets in determining the cumulative plan deficit or surplus which results in volatility in the net debt indicator. Currently under PS 3250.035, Ontario uses market-related values for plan assets.

Ontario does not consider fair valuing of pension assets to be appropriate as:

- Pension assets are acquired and invested to meet long-term obligations. Stakeholders of government financial statements want to know whether the government is expected to be able to fund its long-term obligations. Unlike investment funds, stakeholders do not make decisions based on mark-to-market values at a point of time. In the private sector, there is a greater focus on mark-to-market even in relation to pension plans because of the potential uncertainty surrounding going concern. This is not an issue in relation to governments in Canada. The accounting standards for pension plans in Canada in the public sector should therefore consider their long-term nature.

- Fair valuing of pension asset results in misleading short-term fluctuations. Unlike investment funds, stakeholders of government financial statements do not make decisions based on mark-to-market values. Using March 31, 2020 as an example, the market values of many publicly traded investments were down significantly due to Covid-19 but have subsequently rebounded. Using March 31, 2020 market values for plan assets does not consider that these assets are being held for the long-term and a temporary decline in value is not relevant to the ability of the Province to meet its long-term pension obligations.

- PSAB appears to be placing a focus on fair valuing the Statement of Financial Position. Again, this is a focus in the private sector where liquidation and going concern are an issue and the price of companies in many industries are measured relative to their book value. In the public sector, an equal focus is placed on the Statement of Operations (and other statements of performance) because of accountability, the importance of the budget, and balanced budget legislation. It is one of the reasons deferred capital contribution balances are recorded in the public sector. Recording pension gains and losses in net assets (rather than on the Statement of Operations) does not remove these gains and losses from the overall performance of the Province. It only creates confusion regarding measurement of financial performance. PSAB should place greater emphasis on whether its proposals are resulting in appropriate results on the Statement of Operations (and other statements of performance), not just on the Statement of Financial Position.

There are consequences of the proposals of PSAB which include:

- As PSAB has identified, fair valuing plan assets and removing the deferral provisions will result in greater volatility in the net debt indicator from year to year. This is a key financial measure of governments. The resulting fluctuations in net debt will be difficult to explain to stakeholders including the public. It is not an accurate and fair measure of the long-term financial needs of the Province. It will be very difficult to budget for net debt.

- It may result in the decision by sponsors to not hold risky investments to minimize volatility. Not investing in risky investments may negatively impact investment returns which is not desirable for the sponsors, pension plan members, the public, and all. Consequences of the removal of the deferral provisions and the fair valuing of pension assets on the management of pension assets needs to be explored and considered by PSAB.

If the market value of plan assets is important to stakeholders, this amount should be disclosed in the notes to the financial statements and the deferral provisions should be retained. As a reminder, PS 3250.035 allows choice as to whether to value plan assets at market value or market-related value. Governments can currently value plan assets at market

value on the Statement of Financial Position if they choose under current PSAS. Ontario supports retaining this choice.

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Ontario does not consider the transitional provisions to be appropriate nor sufficient. PSAB is proposing a three-year retroactive transition.

As mentioned, Ontario is the sole sponsor of the Public Service Pension Plan (PSPP) and the Provincial Judges' Pension Plan (PJPP), and joint sponsor of the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP). These four plans are currently accounted for as defined benefit plans, OPSEUPP and OTPP specifically as joint defined benefit plans. In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP) respectively and are included in the Province's financial statements. Both plans are accounted for as multi-employer defined benefit plans. Ontario also has several smaller pension plans.

A detailed analysis of the legal documentation for each of these plans will need to be performed in relation to the requirements in Section PS 3251. This analysis will take considerable time and effort. Implementation of a new accounting standard is an onerous process for public sector entities involving significant education, process changes, system changes, policy updates, opening balance adjustments, reporting changes, etc. Implementation of PS 3251 will not be the sole focus of Ontario over the next 3 years. In the next two fiscal years, the following standards will come into effect for senior governments: 2022-23 (PS 3450 on financial instruments, and PS 3280 on asset retirement obligations) and 2023-24 (PS 3400 on revenues, PSG-8 on purchased intangibles, and PS 3160 on public private partnerships). Additionally, the conceptual framework chapters 1 to 10 are proposed to be effective immediately on approval. PSAB in determining an effective date needs to have a better understanding of the work involved for financial statement preparers. They need to understand the other demands facing the Province.

A three-year transition is too short given the complexity of pension accounting. The proposed changes to pension accounting will result in financial reporting that is not appropriate and will not be well understood. Ontario prepared a preliminary comparison of the disclosures required under Section PS 3250 versus Section PS 3251 and noted a substantial increase in requirements that will involve significant time and effort and only increase complexity at the expense of understandability. PSAB should develop pension accounting standards that are reflective of the needs of public sector financial statement users and understandability is essential. Including private sector standards in the PSA Handbook does not accomplish this.

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Ontario recommends including more examples for partially funded plans with clear distinctions between the funding classification periods and the prescribed rate derivation to better understand the mechanics for developing discount rates for partially funded plans under the proposed guidance in paragraphs PS 3251.105 to .110. The current iterative process for determining a single blended rate is not clear based on the example provided, as it uses a trial and error method with no formulas provided to show how the blended rate was calculated. Providing additional details such as the iterative formula used to back into the blended rate would be helpful as opposed to manually calculating. Additionally, an example of applying the discount rate would be helpful to understand if the blended rate is applied in each period, or if it is combination the funded and unfunded rate that alternates depending on the period.

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Ontario has concerns with the adoption in the public sector of pension accounting standards based on private sector standards. Remembering the primary users of financial statements are the public and elected representatives, and the primary objective of public sector entity financial statements is long-term accountability, Ontario considers the proposals in PS 3251 to be regrettable. Ontario does not consider understandability to be improved through these proposals.

Private sector standards are developed to meet the financial reporting needs of shareholders and debtholders, focusing on short-term profitability. Alternatively, financial reporting by governments (and therefore other public sector entities) should demonstrate long-term accountability focusing on their ability to provide good and services to the public over the long-term, and their ability to fund long-term obligations. Short-term fluctuations in asset and liability values are not as relevant in the public sector as they are in the private sector.

Ontario therefore considers the following proposed changes to pension accounting in the public sector to be inappropriate as they do not enhance understandability:

- Fair valuing of pension assets and removal of the deferral provisions does not reflect the long-term nature of pension plans. It suggests short-term changes are relevant and important to decision making which they are not.

- Recording pension gains and losses directly to net assets confuses the overall performance of the public sector entity. It suggests pension gains and losses are not part of the overall performance of the Province which they are.

- Changes to the discount rates for partially funded plans do not reflect the true cost to the Province of funding its pension obligation. It suggests that the cost to the Province of funding an unfunded and partially funded pension obligation are the same which they are not.

The proposed changes to pension accounting will result in financial reporting that is not appropriate and will not be well understood. Ontario prepared a preliminary comparison of the disclosures required under Section PS 3250 versus Section PS 3251 and noted a substantial increase in requirements that will involve significant time and effort and only increase complexity at the expense of understandability. PSAB should develop pension accounting standards that are reflective of the needs of public sector financial statement users and understandability is essential. Including private sector standards in the PSA Handbook does not accomplish this.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur because of legislative requirements.

Ontario has concerns with the implications on decision making from the proposed changes in pension accounting. The changes which are based on private sector standards, will result in increased volatility in net debt and overall performance of the Province. It will result in uncertainty and confusion regarding the financial performance of the Province.

There are consequences in decision making of the proposals of PSAB which include:

- The requirement to report mark-to-market changes for pension assets on the Statement of Financial Position may result in the decision by sponsors to not hold risky investments to minimize volatility. Not investing in risky investments may negatively impact investment returns which is not desirable for the sponsors, pension plan members, the public, and all.

- Confusion over financial performance and volatility in net debt and overall performance will provide the incentive for governments to move to defined contribution accounting. This is not a desirable consequence because of the adoption of private sector pension accounting requirements.

PSAB should develop pension accounting standards that are reflective of the needs of public sector financial statement users

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Ontario appreciates the opportunity to respond to PSAB to assist in their deliberations on this matter. I would be pleased to elaborate on any of the above comments. Thank you for your consideration.

Ministère des
Affaires municipales
et de l'Habitation
Québec

Direction de la normalisation, de l'information financière
et du financement

PAR COURRIEL

Québec, le 24 novembre 2021

Monsieur Michael Puskaric, MBA, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
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Objet : Commentaires sur l'exposé-sondage *Projet de chapitre SP 3251, « Avantages sociaux »*

1) Non-reclassement des réévaluations du passif (de l'actif)

Le paragraphe SP 3251.144 de l'exposé-sondage énonce ceci :

« Les réévaluations du passif (de l'actif) net au titre des prestations définies comptabilisées dans l'actif net ne doivent pas être reclassées dans l'excédent ou le déficit d'un exercice ultérieur. »

Ce non-reclassement causerait aux organismes municipaux[1] (ci-après « municipalités »), promoteurs de régimes de retraite à prestations déterminées, un problème de désarrimage important entre les résultats prévus dans leur budget, si celui-ci devait être établi sur la base des normes comptables pour le secteur public[2], et leurs besoins de trésorerie pour le paiement des cotisations d'équilibre exigibles sur base de financement.

En vertu de la *Loi sur les régimes complémentaires de retraite* et ses règlements, les promoteurs des régimes de retraite à prestations déterminées du Québec doivent financer tout déficit actuariel constaté lors d'une évaluation actuarielle aux fins de financement par le versement de cotisations d'équilibre sur une période maximale de 15 ans. Une nouvelle évaluation actuarielle aux fins de financement doit avoir lieu au moins tous les trois ans. Une nouvelle cédule[3] de cotisations d'équilibre est donc établie tous les trois ans pour les 15 années qui suivent. Le non-reclassement aura pour conséquence d'engendrer des écarts permanents croissants entre les résultats établis sur la base des PCGR et la réalité du financement sur base de caisse.

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[1] Au Québec, les organismes municipaux incluent les municipalités locales, les municipalités régionales de comté, les communautés métropolitaines, les régies intermunicipales et les organismes publics de transport dont les sociétés de transport en commun.

[2] L'acronyme PCGR, pour « principes comptables généralement reconnus », est utilisé dans le restant des présents commentaires en référence aux normes comptables pour le secteur public.

[3] Il s'agit d'une cédule unique, qui remplace toute cédule antérieure (sauf exception particulière).

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Les gouvernements fédéral et provinciaux peuvent budgétiser en déficit et emprunter librement pour leurs besoins de trésorerie[4], alors que les municipalités du Québec (et de partout au Canada) doivent adopter un budget équilibré sur base essentiellement de caisse[5]. Sauf pour les emprunts temporaires en attendant l'encaissement de revenus, le produit des emprunts à long terme contractés par les municipalités constitue une source de crédits budgétaires. Inversement, le remboursement en capital sur ces emprunts constitue une dépense fiscale devant être pourvue par des revenus autonomes au cours de la durée des emprunts.

En ce qui concerne les immobilisations corporelles, les municipalités taxent le remboursement en capital des emprunts ayant servi à financer à long terme l'acquisition d'immobilisations corporelles ainsi que l'acquisition d'immobilisations corporelles payées comptant. Elles ne taxent pas l'amortissement des immobilisations corporelles.

Par conséquent, afin de dresser le budget comparatif sur la base des PCGR, qu'elles doivent présenter dans leurs états financiers, les municipalités doivent apporter des ajustements importants au budget équilibré qu'elles ont adopté sur une base essentiellement de caisse. L'excédent (déficit) ajusté prévu selon leur budget comparatif s'éloigne, et souvent de façon importante (voir l'annexe A), de la réalité du budget équilibré qu'elles ont adopté.

Le fait que les réévaluations du passif (de l'actif) ne soient pas reclassées aux résultats va donc accentuer le problème de désarrimage entre les résultats prévus sur la base des PCGR et la réalité fiscale et économique des municipalités. Les lecteurs des états financiers des municipalités sont susceptibles de remettre encore davantage en question la pertinence et la compréhensibilité de l'information financière présentée selon les PCGR. La pertinence et la compréhensibilité font partie des caractéristiques qualitatives des informations présentées dans les états financiers, selon l'exposé-sondage récent *Le cadre conceptuel de l'information financière dans le secteur public*.

Nous sommes d'avis que le CCSP devrait prévoir une méthode de reclassement entre les autres éléments cumulés et les résultats afin de s'aligner ou tendre à l'alignement avec les règles de financement et donc avec la réalité économique. Il y a lieu que cette méthode soit la moins compliquée et coûteuse d'application possible (équilibre avantages-coûts).

La méthode la plus simple et efficace serait de reclasser à chaque exercice un montant correspondant aux cotisations d'équilibre à verser dans l'exercice. Il en résulterait une information plus utile pour les élus municipaux, lesquels doivent adopter des budgets équilibrés sur base de caisse, et pour les contribuables qui sont taxés sur cette même base. Les participants aux régimes de retraite à prestations déterminées seraient mieux informés de l'impact fiscal et économique réel des régimes sur les finances de la municipalité à chaque exercice. En bref, l'information financière qui serait présentée serait beaucoup plus pertinente et compréhensible pour tous les lecteurs des états financiers.

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[4] Les gouvernements d'ordre supérieur ont à prendre en compte uniquement la charge d'intérêts sur leurs emprunts aux fins budgétaires.

[5] En tenant compte des courus à payer ou à recevoir en fin d'exercice selon la comptabilité d'exercice.

Comme expliqué précédemment, les municipalités opèrent dans un environnement budgétaire différent de celui des gouvernements d'ordre supérieur. Advenant que le principe de non-reclassement soit jugé acceptable par ceux-ci, n'y aurait-il pas lieu d'adopter à tout le moins une règle particulière pour le secteur municipal en prévoyant un mécanisme de reclassement de façon à ce que les municipalités puissent arrimer leurs résultats sur la base des PCGR avec leurs besoins de trésorerie dont elles ont l'obligation de tenir compte sur le plan budgétaire?

2) Redressement aux exercices antérieurs lors du début d'application de la norme

Dans l'exercice au cours duquel la nouvelle norme commencera à être appliquée, la réévaluation initiale du passif (de l'actif) net au titre des prestations définies devra faire l'objet d'un redressement aux exercices antérieurs en date de début de l'exercice comparatif, en vertu du chapitre SP 2120, « Modifications comptables ». Est-ce que ce redressement devra se faire :

A) en imputant entièrement le redressement dans les « autres éléments cumulés »;

B) ou en imputant :

- une partie du redressement dans les « excédents et déficits cumulés » afin de tenir compte de l'effet historique de la modification de traitement comptable amenée par la nouvelle norme en matière d'évaluation des actifs (valeur de marché obligatoire), de non amortissement des gains/pertes actuariels, de fixation du taux d'actualisation et de calcul de la charge d'intérêts nets, comme si la norme avait été appliquée rétroactivement aux cours de chacun des exercices antérieurs,
- et la partie excédentaire du redressement dans les « autres éléments cumulés »?

Il y aurait lieu que des précisions soient apportées à cet égard.

Évidemment, il serait préférable et grandement souhaitable que ce soit l'alternative A) qui s'applique, car, avec l'alternative B), la reconstitution de la situation de chaque année antérieure en fonction des principes sous-jacents à la nouvelle norme exigerait des efforts considérables, à un coût faramineux, pour très peu de plus-value informationnelle.

3) Application anticipée?

Dans les incidences des propositions, présentées en introduction à l'exposé-sondage, il est mentionné que l'application anticipée de la nouvelle norme serait permise. Toutefois, ce n'est pas mentionné dans les dispositions transitoires du projet de chapitre SP 3251. Il y aurait lieu que ce soit précisé dans la norme elle-même afin d'éviter tout malentendu à cet égard.

Cependant, nous sommes d'avis que permettre l'application anticipée poserait un risque de non-comparabilité de la situation du passif (de l'actif) net au titre des prestations définies et de l'indicateur de l'actif financier net (passif financier net) entre les municipalités concernées, si celles-ci ne commencent pas à appliquer la norme en même temps. Rappelons que la comparabilité est l'une des autres caractéristiques qualitatives des informations présentées dans les états financiers, selon l'exposé-sondage récent *Le cadre conceptuel de l'information financière dans le secteur public*.

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Bien que l'exposé-sondage sur le *Projet de chapitre SP 1202, « Présentation des états financiers »* indiquait que l'application anticipée serait permise, il serait impossible pour les municipalités du Québec d'en faire une application anticipée, et par ricochet d'appliquer également le nouveau chapitre SP 3251 de façon anticipée, même si cela était permis.

En effet, au Québec, les états financiers à usage général font partie d'une reddition de comptes financière standardisée intégrée dans une prestation électronique de service. Les formulaires servant à cette fin sont prescrits par la ministre des Affaires municipales et de l'Habitation. De plus, les données transmises au moyen de ces formulaires servent à alimenter les bases de données du Ministère et la banque des données ouvertes accessibles par le grand public. Il serait donc impossible de maintenir, pendant quelques années, deux ensembles de formulaires différents avec leur interface respective aux bases de données[6]. Ainsi, la conversion des formulaires et des systèmes ne pourrait se faire qu'en visant la date d'application prévue par le CCSP, soit pour les exercices ouverts à compter du 1er avril 2026, donc l'exercice 2027 des municipalités.

En souhaitant que ces commentaires puissent être utiles au CCSP pour la poursuite du projet de révision des normes en matière d'avantages sociaux, nous vous prions d'accepter, Monsieur, l'expression de nos sentiments distingués.

Lucie Chrétien, CPA, CGA, M.Sc.
Directrice de la normalisation, de l'information financière
et du financement

CC : M. Yvon Bouchard, FCPA, FCA
Conseiller émérite en comptabilité municipale, chef d'équipe

Pièce jointe : Annexe A

[6] À noter que la même problématique se poserait dans d'autres provinces où les municipalités doivent transmettre un ensemble de données financières dans une prestation électronique de service, même si elles n'ont pas à produire et transmettre leurs états financiers selon un formulaire standardisé dans le cadre d'une prestation électronique de service. Par exemple, c'est le cas en Ontario avec leur *Rapport d'information financière* (https://data.ontario.ca/dataset/financial-information-return-fir-for-municipalities).

Exemples d'excédent (déficit) de l'exercice prévu sur la base des PCGR selon le budget comparatif présenté aux états financiers consolidés de municipalités au Canada :

Villes	États financiers pour l'exercice clos au	Excédent (déficit) prévu sur la base des PCGR en M$
Montréal	2020-12-31	1 558 $
Calgary	2020-12-31	1 524 $
Edmonton	2020-12-31	800 $
Ottawa	2020-12-31	636 $
Québec	2020-12-31	474 $
Toronto	2020-12-31	237 $
Winnipeg	2020-12-31	202 $
Saskatoon	2020-12-31	200 $
Vancouver	2020-12-31	168 $
Victoria	2020-12-31	42 $
Charlottetown	2021-03-31	17 $
Fredericton	2019-12-31	6 $
Saint-John	2020-12-31	(2 $)
Halifax	2021-03-31	(18 $)
Mississauga	2020-12-31	(30 $)

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November 25, 2021

Michael Puskaric, MBA, CPA, CMA
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Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric,

Subject: Public Sector Accounting Board (PSAB) – Exposure Draft – Employee Benefits, Proposed Section PS 3251

We have read the Exposure Draft (ED) issued in July 2021 titled 'Employee Benefits, Proposed Section PS 3251' and we are grateful for the opportunity to respond with our comments. We support PSAB's project to review Sections PS 3250, *Retirement Benefits* and PS 3255, *Post- employment Benefits, Compensated Absences and Termination Benefits* and we agree that these sections need to be updated to reflect the current state of public pension plans.

HOOPP has three key concerns, as follows:

Public sector entities should not account for private, independent pension plans unless they are sponsors or co-sponsors - As previously communicated, our overriding concern is that Public Sector Accounting Standards (PSAS) relating to post-employment benefits plans, namely jointly sponsored defined benefit plans[1] and multi-employer defined benefit plans[2], require changes to prevent the result whereby the Province of Ontario (the Province) accounts for the Healthcare of Ontario Pension Plan (HOOPP or the Plan)[3] on a defined benefit basis as if the Province is a HOOPP sponsor, when it is clearly not. This creates a moral hazard[4] and is not in the best interest of the public.

Public sector entities that participate in a private, independent pension plan should only account for their set contributions to the plan – Also as previously communicated, HOOPP's participating employers should not be required to record their share of the risk and ultimate cost of HOOPP's pension obligation on a defined benefit basis. The participating employers do not have a legal obligation to HOOPP with respect to any underfunding of the Plan. Their sole obligation is to remit monthly contributions, which are a percentage of employees' pensionable earnings (exactly like a defined contribution pension plan). For this reason, defined contribution accounting is appropriate

[1] A JSPP is a special type of pension plan in which decision making and funding of the benefits is shared jointly by both employees and their employer(s). A JSPP provides defined benefits to plan members and contributions are always made by both plan members and their employers. (This is known as a contributory plan.) *(FSRA Glossary of Pension Term: http://www.fsco.gov.on.ca/en/pensions/pension-plan-guide/pages/glossary.html)*
[2] A pension plan in which two or more unrelated employers participate and contribute to the same pension plan. Often, MEPPs are sponsored by the union that represents the employees of unrelated employers in a specific industry. It can be a defined benefit plan or defined contribution plan — or a combination of both types of plans. *(FSRA Glossary of Pension Term: http://www.fsco.gov.on.ca/en/pensions/pension-plan-guide/pages/glossary.html)*
[3] The Plan and the Fund, as defined below, are collectively referred to as 'HOOPP' or the 'Plan'.
[4] 'Moral hazard' occurs when one party (i.e., the government) is taking on the downside risks with no control or influence over the risk itself.

for the participating employers and to reflect anything other than their obligation to pay contributions would be misleading and, would not be an accurate representation of the participating employers' obligations.

PSAS should support Canada's defined benefit pension plan industry - Accounting for employee benefits, including pension plans, correctly is critical for the continuation of a strong defined benefit pension industry in Canada and, to achieving the best outcomes for providing retirement security to society. Changes to accounting standards that add more complexity, costs and burden on entities to account for defined benefit pension plan obligations, with no additional value or transparency to users of financial statements, contribute to the difficulties faced by employers in the management of defined benefit plans. This ultimately may lead to the termination of defined benefit plans by many employers and, undermines the purpose of defined benefit plans, which is to provide retirement security to employees. This may also drive a significant shift of risk from private funds to the public purse via more social programs to pay for the retirement security of Canadians. As a result, significant and careful consideration is required, considering perspectives of the pension industry, to ensure the strong and world-leading Canadian public pension plan model endures.

Our letter elaborates on these three concerns and includes commentary regarding proposals in the ED related to types of plans, discount rates, disclosure requirements and the glossary. HOOPP welcomes the opportunity to meet with PSAB to discuss the ED, this letter and any other issues related to the Employee Benefits project. Participating in this public consultation is a priority for HOOPP.

HOOPP and HOOPP's Governance Structure

HOOPP is a jointly sponsored, multi- employer, defined benefit pension plan (the 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 was established in 1960 by the Ontario Hospital Association (the OHA). In 1993, HOOPP became jointly governed. At that time the Plan and its fund (the Fund) were continued under an Agreement and Declaration of Trust (ADT) between the OHA (an employer association), four different employee unions (unions), and the individuals who served as the first trustees. The ADT established HOOPP's current governance structure, whereby a Board of Trustees (the Board) serve as the trustees of the Fund and the sponsor and administrator of the Plan. Since 1993, the Plan has been governed and has defined itself as an independent entity with a clear mission – to deliver on the pension promise. This has helped focus the board and management team on a single objective. The Plan's structure as a private trust requires board members to bring a fiduciary perspective, rather than a labour or management-side outlook, to their HOOPP work.

The Board, consisting of 16 voting members, governs HOOPP and is the decision-making body for the Plan. Five settlor organizations have the right to appoint and remove members to the Board. The OHA, representing employers, appoints eight Trustees, while four unions, representing employees,

namely the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees Union (OPSEU) and the Service Employees International Union (SEIU), each appoint two Trustees. Each Trustee has a legal obligation to administer the Plan in the best interests of all its members, regardless of their union or other affiliation.

Accordingly, the sole purpose of the Board is the proper administration of the Plan and the Fund. The Board's duties include:

- Approving changes to the Plan and benefits;
- Setting contribution levels;
- Establishing investment policy;
- Monitoring investment performance; and
- Appointing a Plan Manager who is responsible for the day-to-day administration of the Plan and management and investment of the Fund. The present Plan Manager is Jeff Wendling, HOOPP's President & CEO.

HOOPP is now one of Canada's largest pension plans. There are at present over 400,000 active, deferred and retired members, over 600 participating employers, both private and public sector entities, and HOOPP's net assets available for benefits as at December 31, 2020, were $104 billion.

HOOPP is an independent pension service provider to hospitals as well as many private sector employers. Membership in the Plan is voluntary, and the Plan receives contributions from employers, including private sector employers. Once received, these funds are no longer held by the employer and are the responsibility of the Board.

Satisfying HOOPP's Pension Promise

Unlike a traditional defined benefit plan, in which one or more employers bear the full risks and costs of funding shortfalls, and members have little or no say in plan decisions, HOOPP is a multi-employer, jointly sponsored defined benefit pension plan (JSPP), as defined by the Ontario Pension Benefits Act, where plan governance, costs and risks are shared equally between employers and members. As a JSPP, where its participating employers and plan members through the HOOPP board structure share responsibility for the Plan's governance and funding, the Plan has the following risk sharing characteristics:

- Though accrued benefits cannot be reduced while the Plan is ongoing[5], HOOPP member accrued benefits may be reduced on a wind-up if the Plan is underfunded; and

[5] If HOOPP were to reduce accrued benefits and thereby no longer maintain its JSPP status, as a MEPP, HOOPP would still not be covered by the Pension Benefits Guarantee Fund (PBGF).

- As with other JSPPs, HOOPP is not covered by the Ontario Pension Benefits Guarantee Fund (PBGF)[6].

This means that the participating employers, the Government of Ontario and Ontario taxpayers have no legal obligation with respect to any underfunding of the HOOPP Plan.

Accounting Treatment Under Current Accounting Standards

HOOPP's Accounting

HOOPP prepares its financial statements in accordance with Part IV – Accounting Standards for Pension Plans, specifically Section 4600, *Pension* Plans, of the CPA Canada Handbook – Accounting. HOOPP does not follow PSAS; however, HOOPP is reflected in the consolidated financial statements of the Province and those statements are prepared in accordance with PSAS. Also, HOOPP's public sector participating employers prepare their financial statements in accordance with PSAS.

Participating HOOPP Employers' Accounting

Ontario hospitals and other publicly funded health care organizations that are participating HOOPP employers prepare their financial statements in accordance with PSAS, applying defined contribution accounting for their participation in HOOPP, as required by paragraph PS 3250.110.

HOOPP's view: HOOPP fully supports this accounting treatment and believes that participating HOOPP employers should continue to apply defined contribution accounting.

The Province of Ontario's Accounting

The Province's consolidated financial statements are prepared in accordance with PSAS. The assets, liabilities, revenues and expenses of the consolidated broader public-sector organizations, including hospitals and other publicly funded health care organizations, are consolidated with those of the Province on a line-by- line basis in the consolidated financial statements. In other words, for Ontario hospitals and other publicly funded, participating health care organizations, expenses related to contributions made or required to be made to HOOPP and liabilities related to contributions due and not yet paid to HOOPP are consolidated in the Province's financial statements.

The Province is currently replacing the defined contribution consolidation accounting (described above) with defined benefit accounting for the Province's consolidated share of HOOPP's net

[6] A special fund that was established by the Government of Ontario (under the Pension Benefits Act) to cover pension benefits up to a specific amount, for certain defined benefit pension plans when they are wound up and there is a funding shortage. *(FSRA Glossary of Pension Term: http://www.fsco.gov.on.ca/en/pensions/pension-plan-guide/pages/glossary.html)*

pension asset / liability based on the ratio of employer to employee contributions and excludes those employers not consolidated by the Province. As a result of applying defined benefit accounting based on their interpretation and application of existing PSAS, the Province is accounting for HOOPP as if it is a HOOPP sponsor.

In addition, the Province applies a full valuation adjustment to essentially 'reverse out' its share of any HOOPP surplus. This treatment is in line with the fact that the Province legally does not have access to, influence or control over the decisions of the Board regarding contribution levels or benefit changes related to how HOOPP manages its surplus.

HOOPP's view: HOOPP disagrees with the Province's use of defined benefit accounting to account for HOOPP because the Province is not a sponsor of or participating employer in the Plan, it does not direct or control HOOPP or its sponsoring entities, it does not directly contribute to the Plan, is not exposed to the actuarial risks of the Plan and it does not have an ongoing legal obligation with respect to any underfunding of the Plan.

The Province applies a full valuation adjustment where there is a surplus, as described above; however, if there is a deficit, it is reported as a deficit (i.e., there is no adjustment to 'reverse out' the deficit; the accounting is asymmetrical). In the event that the Board determines that increased contributions are required in order to address a net pension plan deficit, participating employers would incur a greater monthly contribution expense, as long as they continue to participate in the Plan. In this case, by recording a share of HOOPP's net pension liability in its financial statements rather than the contribution expense only, the Province is presenting a greater assumed risk than it is obligated to take on and this creates a 'moral hazard'. The Province's accounting treatment of HOOPP could give the appearance that the government is spending more on healthcare than it actually is. This may have unintended consequences to the budget and funding activities of the Province and influence government decision making with respect to risks that the Province is not actually exposed to. In addition, this creates the incorrect perception to the public that the Province has control and influence over HOOPP, its Board and its management. Further, this may have adverse downstream implications to HOOPP and its members with respect to the Auditor General of Ontario's audit of the Province's financial statements. In fact, over the past two years, HOOPP has already experienced these downstream implications, at a cost to its members.

In our view, the current approach threatens the integrity of the governance structure whereby HOOPP and its sponsors are accountable and responsible for the Plan's obligations both now and in the future. It is the sole fiduciary responsibility of HOOPP to resolve a funding shortfall, which could include reducing benefits, increasing contributions, or a combination of both. However, unlike most public sector plans, the Plan has the option of not indexing future benefits to deal with funding pressures. In fact, the Plan is funded for long-term sustainability.

For these reasons, there needs to be more clarity included in the accounting standards as to when a public sector entity, like the Province, should use defined benefit accounting for a jointly sponsored, multi-employer plan like HOOPP. We continue to advocate that defined benefit accounting should only be used for those pension plans which are themselves controlled by the

public sector entity, as is the case where they are the sponsor of the plan and the accounting standards should clearly convey this to public sector entities. This is in the best interest of the public and does not create a moral hazard where such plans are perceived to be backstopped by taxpayers when they are not.

Scope and the term 'Sponsor' *(in reference to ED question #1; PS 3251.004 - .008)*

The word 'sponsor' has been removed from the ED and has been replaced by the term 'participating entities'. Paragraph 56 of the Basis of Conclusion indicates that this change was made to move from legal terminology to accounting terminology.

For HOOPP, and other plans with similar independent governance structures, it is not clear if the Province is considered to be a 'participating entity', as the Province is neither an employer, direct contributor nor a sponsor of the Plan. Also, it is not clear if HOOPP employers are considered to be 'participating entities' in this context.

We recommend that the term 'participating entities' be defined within the standard. Without a definition, the term is ambiguous, subject to interpretation, and may be applied inconsistently in the industry. We recommend that PSAB consider aligning the definition with existing Canadian regulatory language, for example the term 'participating employer'[7], which is included in the *Pension Benefits Act* (Ontario).

With an appropriate definition of 'participating entities', or alternatively 'participating employers', the scope of the standard will begin to become clearer to preparers of financial statements. However, the scope also requires further clarification with respect to a pension plan sponsor in Canada. A clear definition of 'sponsor', which is in line with Section 4600, *Pension* Plans of the CPA Canada Handbook – Accounting (Part IV), could be included[8]. Alternatively, a definition corresponding with Canadian law, for example, could be considered. While 'sponsor' is not defined in legislation, the Financial Services Regulatory Authority of Ontario's (FSRA) pension plan guide glossary includes the term 'plan sponsor'[9].

It is imperative that the proposed standard include a definition of 'sponsor' because a sponsor and a participating employer in a JSPP and / or a multi-employer defined benefit pension plan (MEPP) in Canada have very different roles and responsibilities. The standard needs to be clear on how it applies to these stakeholders individually.

In addition to defining 'sponsor', there should be clear guidance with respect to the role of a public sector entity that is a 'sponsor', as is included in PS 3250.107, which states that "when a government sponsors a defined benefit multi-employer retirement benefit plan, it has the responsibility to ensure that the defined

[7] 'Participating employer' in relation to a jointly sponsored pension plan or a multi-employer pension plan, means an employer required to make contributions to the pension fund. (*Pension Benefits Act* (Ontario), s. 1(1))
[8] 'Sponsor' in the case of a single employer pension plan, is the employer and in the case of a multi-employer pension plan, the sponsor is the association, committee, board of trustees, or other group representatives of the employees and employers or other parties who have established the pension plan. *(CPA Canada Handbook – Accounting, Part IV, Section* 4600.05(aa))
[9] 'Plan sponsor'- the individual, entity or entities that are responsible for designing the pension plan, setting the benefit structure, and for establishing, amending and/or ending the pension plan. The plan sponsor is often the employer, but other parties may take on this role (e.g., the corporate parent or a union). *(FSRA Glossary of Pension Term: http://www.fsco.gov.on.ca/en/pensions/pension-plan-guide/pages/glossary.html)*

benefits promised to employees are met. In that circumstance the sponsoring government is at risk for future experience gains or losses and would account for its related obligation for the entire multi-employer plan as a defined benefit plan".

Public sector entities that are neither sponsors nor participating entities in a JSPP and / or a MEPP should not account for the plan using defined benefit accounting because they do not contribute to the plan, do not have control or decision making authority over the plan, do not have representation on the plan's governing board, and do not have a legal or contractual obligation with respect to any underfunding of the plan. This will ensure consistency in application of the standard across all public sector entities where the facts and circumstances are the same and to reflect the true obligations of these entities.

Employer Accounting in Multi-employer pension plans *(in reference to ED questions #5, #14, #15; PS 3251.033 - .035)*

The ED replaces paragraph PS 3250.109, which states that "*sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating employer following the standards for defined contribution plans",* with proposed paragraph PS 3251.033, which states that "*when sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, a public sector entity should account for the plan in accordance with paragraphs PS 3251.056 – .057 as if it were a defined contribution plan*".

The issue of defined benefit accounting for MEPPs was addressed previously in the Invitation to Comment #3 – Employment Benefits: Non-traditional Pension Plans. Almost all Canadian stakeholders, including HOOPP, communicated that application of defined benefit accounting for MEPPs would not be in the best interest of the public or pension plans in Canada, and would be onerous, costly and would not add value to stakeholders. As a result, HOOPP was surprised to note the proposals in PS 3251.033 - .035. HOOPP believes that participating employers in MEPPs should continue to apply defined contribution accounting.

Applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 *may* result in a change to the accounting treatment for participating entities in a multi-employer plan like HOOPP. At a minimum, it places a greater onus on public sector entities to determine and demonstrate that sufficient information is not available. This will inevitably lead to interpretation, the application of judgement and inconsistent application across entities with similar facts and circumstances. This will result in discussions and debate with auditors and other stakeholders, which is costly.

Multi-employer defined benefit plan participants and defined contribution accounting
PS 3251.035 indicates "*a public sector entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:*

(a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or
(b) the public sector entity does not have access to sufficient information about the plan that satisfies

the requirements of this Section.

In those cases, a public sector entity accounts for the plan as if it were a defined contribution plan".

In Canada, while overall plan information may be available for a MEPP, an allocation of such a plan's assets, costs and benefit obligations would be arbitrary. This is due to the fact that MEPPs, by definition, do not have their assets and liabilities segregated by each of its participating employers and a MEPP in most, if not all cases in Canada, exposes entities to actuarial risks associated with the current and former employees of other entities.

In considering this fact pattern above, whereby the factors to be considered by a public sector entity to account for a MEPP in Canada would reasonably lead to defined contribution accounting in most, if not all cases, to remove the element of inconsistency in application of the guidance in Canada, we recommend that PSAB amend this guidance to allow MEPPs to use defined contribution accounting, except in cases where these factors do not exist. This will remove the heavy burden on public sector entities to demonstrate sufficient information is not available, and in cases where sufficient information is available, proving that the two factors noted above in PS 3251.035 exist. This is as we expect, only a very small percentage of the population of MEPPs in Canada would have sufficient information readily available and accessible in addition to a formalized contractual agreement in place which sets out how that MEPP's assets and liabilities can be *reliability allocated* to its participating entities at any point in time.

Proportionate share of defined benefit obligation
If HOOPP's participating entities are required to follow defined benefit accounting based on their interpretation and application of this standard, HOOPP may be asked to calculate each participating employer's proportionate share of HOOPP's defined benefit obligation and this would be a significant burden. HOOPP does not have the data required to perform the calculations for each participating employer. Although it may be acceptable to make estimates in performing an allocation, they may not be reliable or meaningful. HOOPP would need to consider whether it is obligated to perform this additional work, given its mandate. In addition, HOOPP does not have sufficient human resources to support this requirement, as complex calculations would be required for hundreds of participating employers that report under PSAS. As a result, HOOPP would incur additional costs to acquire specialized resources.

HOOPP may have new obligations with respect to the audit of the participating employers' financial statements vis-à-vis the audit of the proportionate share of the defined benefit obligation and it would be practically impossible for HOOPP to deal with the auditors for hundreds of participating employers.

Alternatively, HOOPP may be required to supply data to each participating employer to allow each employer to calculate their share of HOOPP's defined benefit obligation. As above, HOOPP does not have the member and or employer level data required. With individual calculations or estimates, a variety of methods and assumptions may be used leading to inconsistency and challenges with reliability and usefulness of financial statements. In this case, as noted above, HOOPP may also have new obligations with respect to supporting the participating employers' financial statement audits.

Currently, the Ontario Ministry of Finance requests and HOOPP provides year-end information / scenarios (e.g., assets, liabilities, service costs, etc.) at an overall Plan level and this allows the Province to calculate

their annual pension expense and other financial information, based on PSAB requirements. To do these calculations precisely for each participating employer would be a significant undertaking (and may not be possible, even with significant guidance on the allocation approach). Presumably, the PSAB pension expense calculations (which HOOPP does not perform) for each participating employer would need to be performed by the Province. To provide this information precisely by employer would also be a significant undertaking (and may not even be possible).

We further note that in providing the above-mentioned information for participating employers or the Province, the year-end date of these entities may not be co-terminus with HOOPP's year end. This may result in additional work, costs and burden to plans and further complications to provide sufficient and relevant information for the calculation of the defined benefit obligation, if they require off calendar year information to be provided. With this may also come additional requests by the auditors of plan participants to verify estimates made on their books in complying with PS 3251.066. HOOPP is not currently able to provide this information based on its own internal processes and reporting requirements. HOOPP also views this as additional unnecessary costs to plan members with no added value.

Ownership of the liability
The defined benefit pension obligation that is recorded on HOOPP's financial statements would also be recorded on the participating employers' financial statements (and consolidated on the Province's financial statements), albeit calculated according to different accounting guidance. Given that the participating employers are not subsidiaries of HOOPP, or vice versa, this result seems both inappropriate and incongruous. It begs the question; how can more than one entity own the same liability?

Participating employers in HOOPP do not have an ongoing legal obligation with respect to any underfunding of the Plan. In the event that the Board determines that increased contributions are required, participating employers would incur greater monthly contribution expenses which are a percentage of employees' pensionable earnings, as long as they continue to participate in the Plan. Apportioning assets and liabilities among participating employers of a JSPP calls into question the central tenet of MEPPs and JSPPs, which are collectively funded arrangements among many participating employers with no employer liability beyond fixed required contributions while the plan remains ongoing and no terminal funding obligations if the plan was to ever windup.

By recording its share of the net pension asset/liability of the Plan in its financial statements, each participating employer would record a lower net asset position or a higher deficit, depending on the assumptions used. Also, this accounting approach may create volatility that the participating employers do not currently experience with defined contribution accounting. It would appear that they are assuming greater risks than they are obligated to assume, and this would create 'moral hazard'. The defined benefit accounting treatment may deter public entities from having defined benefit plans and may have unintended consequences to budget and funding activities at the employer and / or the Province level.

Constructive obligation and definition of a liability
Further, the scope of the proposed standard includes employment benefits provided by those informal practices that give rise to a liability resulting from a constructive obligation *(in reference to PS 3251.005)*.

While informal practices may give rise to a liability resulting from a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits, this is not the case in a multi-employer plan whereby there is no legal liability or constructive obligation based on the factors discussed below. The standard acknowledges that determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with Section PS 3200, *Liabilities*. PS 3251.068 - .070 indicates that a public sector entity should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any liability resulting from a constructive obligation that arises from the public sector entity's informal practices. The example provided in the ED is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees. This begs the question, can a constructive obligation exist if a public sector entity is not a sponsor of the plan, has no legal obligation, no direct relationship with the employees in the plan and is not a participating entity in the plan? The standard needs to address this clearly.

We recommend that the wording in the proposed standard be clear with respect to when an entity should assess for the existence of a constructive obligation. This will ensure that public sector entities are applying the proposed standard consistently. A key example of inconsistency exists today in that the Province reflects HOOPP in its Public Accounts, but it does not reflect other pension plans, public and private, with similar fact patterns for which it may also arguably have a similar relationship with.

Looking further to the assessment of a constructive obligation and applying the criteria in PS 3200.05, the section itself states "liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. **Liabilities** have three essential characteristics:

(a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;
(b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
(c) the transactions or events obligating the government have already occurred."

HOOPP's participating employers and the Province have neither a *present legal obligation,* the settlement of which *is expected* to result in future payment / sacrifice, nor *little or no discretion to avoid settlement.* HOOPP records the pension obligation on its financial statements and there is absolutely no evidence to suggest that HOOPP will not settle all its future obligations in accordance with its mandate. The Plan is currently over 110% funded and has been more than 100% funded for more than a decade.

Defined Benefit Pension Accounting & the Canadian Pension Model
One of the main issues that has contributed to the termination of defined benefit plans by companies in the private sector for example, has been the difficulty in accounting for, managing and controlling their defined pension obligation liability recorded on their books. This has been to the detriment of employees everywhere and to the retirement security of the workers in Canada and beyond. To help employers

manage these obligations and ensure the retirement benefits for employees are maintained, we have seen the rise of more and more non-traditional defined benefit pension plans like MEPPs/JSPPs in Canada. These plans have successfully allowed for employers to transfer risks associated with the liability of offering a defined benefit pension plan to its employees by choosing to have their defined benefit pension offering done through these independently governed and managed entities with strong governance structures in place to protect employees' retirement interests. This has been more beneficial to employees and society at large than the alternative for employers to move to a defined contribution pension plan. The proposed change to the employer accounting discussed in the ED and in the arguments above threatens to now bring this issue back to employers. This could result in employers reassessing their obligations under these arrangements and cause an exodus of the defined benefit pension model through MEPPs/JSPPs to a defined contribution plan to manage this liability. This would be to the extreme detriment of employees' retirement benefits.

Other Comments Regarding the ED, Proposed Section 3251

As stated in this letter, our position is that the proposed standard needs to be changed to prevent the result whereby the Province accounts for HOOPP on a defined benefit basis as if the Province is a HOOPP sponsor. Nonetheless, we have included our comments regarding other aspects of the ED.

- **Types of Plans**

  Joint defined benefit plans and multi-employer plans *(in reference to ED questions #14, #15; PS 3251.047 - .050)*

  HOOPP is a jointly sponsored, multi-employer defined benefit pension plan, as defined in the Pension Benefits Act (Ontario) where Plan governance, costs, and risks are shared among its employers and members. It is not clear if HOOPP could be classified as more than one type of plan per the ED, and it is not clear if there is an order of operation in determining the appropriate classification. While we appreciate that the proposed standard cannot cover every scenario, it should clarify which criterion should be applied and, in what order, for non-traditional plans like HOOPP in Canada.

  Public sector entities under common control *(in reference to ED question #3; PS 3251.039 - .041)*

  According to paragraph PS 3251.039, defined benefit plans that share risks among various public sector entities under common control are not multi-employer plans. This section refers to *Government reporting entity, Section PS 1300*. It is not clear if HOOPP and HOOPP's participating employers are under common control according to the proposed paragraph PS 3251.039. HOOPP's participating employers are Ontario hospitals and other health care organizations, both public and private. The public entities receive some funding from the Province, but they are separately incorporated organizations with their own boards of directors or trustees. Many have considerable autonomy in raising revenue from non-government sources and in authorizing expenses. Different plans in the healthcare sector often provide coverage to different categories of workers – healthcare providers, for example, may participate in different plans than the support workers in the same institution. The fact that the government funds some of the participating employers does not mean the Province controls

all aspects of their operations as per paragraph PS 1300.24, *Government reporting entity*:

"An organization's financial dependence on the government, in and of itself, does not constitute control. While financial dependence would usually give rise to a relationship based on influence, it is unlikely that financial dependence alone would enable the government to control an organization. The governing body of that organization may make independent decisions on its financial and operating policies. A government may require the organization to submit reports to demonstrate compliance with the terms and conditions of funding. These reports are not considered evidence of control because the government's interest in the organization extends only to the funding aspects of operations." [10]

Given that HOOPP is an independent pension plan trust (as discussed above), it follows that HOOPP is not controlled by the Province and therefore, is not a government reporting entity. Without control, it does not make sense that the Province would share in the risks and costs associated with the Plan. To further this argument, HOOPP is a pension investment and pension administration service provider to its participating employers. In other words, HOOPP's participating employers are not responsible for managing the Plan – e.g., for collecting and investing contributions, paying the pension payroll or managing the funding and other risks of the Plan. The participating employers' only obligation is to pay their share of contributions as long as they remain in the Plan. It is our judgement that HOOPP's participating employers are not under common control as outlined in paragraphs PS 1300.18-.24. We recommend that additional guidance be added with respect to common control in consideration of non-traditional plans like HOOPP.

- **Discount Rate** *(in reference to ED questions #6 - #9; PS 3251.103 - .120)*

  HOOPP supports the use of the expected market-based return on plan assets as the discount rate for determining the pension obligations for fully funded pension plans.

  From a plan administrator's point of view, in practice, the discount rate is used to answer the question "given a set of realistic actuarial assumptions, do we have enough assets on hand and is the contribution rate sufficient to meet the pension obligations promised to plan members?". For decision making purposes, the best estimate of the return on assets is the only discount rate that can be used to provide plan administrators with an appropriate and accurate estimate of the current financial position of the plan. The use of other discount rates, such as government bond yields, would lead to significant misstatements of the financial position of the plan by either overstating or understating the present value of the plan liabilities. This misstatement of the financial position of pension plans can lead to inappropriate decisions which can negatively affect the retirement outcomes of millions of Canadians. We have witnessed inappropriate decisions negatively impacting pensioners in plans from other jurisdictions that have utilized these types of artificial discount rates to value their liabilities and determine their financial positions.

  A lower discount rate would considerably increase the pension obligation related to HOOPP on the Province's consolidated financial statements. This in turn could result in unintended political and

[10] *CPA Canada Public Sector Accounting Handbook, Section 1300, Government reporting entity, paragraph 24*

social consequences by placing pressure on the Province to address pension shortfalls created by reduced discount rates.

The discount rate guidance in PS 3251 should align with the guidance in Section 4600, *Pension Plans* of the CPA Canada Handbook – Accounting (Part IV). It does not have to align with international accounting standards. Canadian public pension plans are unique and regarded as among the best in the world for their strong independent governance, risk mitigation strategies and record of delivering value over the course of their existence. The discount rate used to determine the pension obligations should reflect this.

The ED indicates that a detailed annual funding status assessment based on paragraph PS 3251.110 is required. Following which, this paragraph allows the plan to rebut the assessment if the plan is required by regulation to be fully funded and have appropriate funding policies in place to meet those regulations. This begs the question whether the determination from paragraph 110 should be considered the starting point of this overall assessment? It would seem more efficient if this regulatory determination was made up front and if fully funded, the detailed calculation process would no longer be required. This would avoid a significant amount of unnecessary work for public sector entities, plans like HOOPP, and auditors.

We recommend that if a pension plan is required to be fully funded and has a funding policy in place in line with that requirement, the requirement to perform this funding status calculation be removed.

- **Disclosure Requirements** *(in reference to ED questions #14, #15; PS 3251.058 - .061, .157 - .174)*

  Additional disclosure requirements have been added for all types of plans within the ED. The disclosure requirements per PS 3251.058-.061 and .157-.174 are quite onerous and will require additional work to be performed by participating entities with, in HOOPP's opinion, limited added value. In many cases, the disclosure requirements noted within this ED are excessive and, in fact much more detailed than what a pension plan in Canada is required to disclose in accordance with Section 4600, *Pension* Plans and provincial regulators, such as FSRA. In our opinion sufficient information is already publicly available in financial statements such as HOOPP's and should not be duplicative in efforts for little added value to the pension plan members.

  We expect that participating employers will look to HOOPP to provide these disclosures, since some of the information may not be publicly available. We expect this will come with operational and financial burdens not only for participating entities but for plans such as HOOPP. In cases where HOOPP's participating employers, like hospitals, have to manage budget constraints and other competing priorities for funding, the cost versus the benefit of these disclosures needs to be considered. HOOPP, for instance, has hundreds of employers, and we estimate having to provide additional disclosure information to ensure consistency across all employers would require considerable effort at a cost to our members.

  Two examples of required disclosures that raise concerns are:
  - Risks of the defined benefit obligation *(in reference to PS 3250.159 and .160); and*

- Amount, timing, and uncertainty of future cash flows *(in reference to PS 3250.167 to .169).*

We ask PSAB to revisit these disclosures requirements and, consider if they meet the disclosure objectives it is trying to achieve and the value add to the readers of participating employer's financial statements, along with the practicality and the cost benefit of implementing these disclosure requirements for non-traditional plans like MEPPs.

- **Glossary** *(reference to ED question #2)*

  The Glossary contained within the ED is helpful in providing clear definitions. We recommend that the following terms be added to the glossary, as discussed above:
  - Constructive obligation
  - Participating entities
  - Sponsor

Summary

According to the ED, "the intent of the proposals is to improve understandability of the financial reporting of employee benefits and provide financial statement users with better information for accountability purposes"[11]. Given that the ED does not currently address the issues we have noted above and in earlier communications, we are concerned that the ED does not meet these objectives.

In summary, the accounting treatment implications of the ED do not address HOOPP's overriding concern that the Province should not include HOOPP in its Public Accounts. HOOPP believes that the use of defined contribution accounting should be maintained for participating employers and the Province should consolidate the contribution accounting results without further adjustment (i.e., defined benefit accounting should not be followed by the Province to account for HOOPP).

We look forward to the opportunity to comment on the future phases of the Employee Benefits project related to specific guidance on accounting for risk-sharing provisions in public sector pension plans in Canada and other types of non-traditional plans. We strongly support the mission of PSAB to contribute to 'supporting informed decision-making and accountability by maintaining a framework that provides a basis for high-quality information about organizational performance reported by Canadian public sector entities'[12].

[11] *Public Sector Accounting Board (PSAB) – Exposure Draft – Employee Benefits, Proposed Section PS 3251*
[12] Public Sector Accounting Board Terms of Reference, 2017 - http://www.frascanada.ca/public-sector-accounting-board/what-we-do/terms-of-reference/index.aspx

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

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November 25, 2021

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RE: Response to Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

Dear Mr. Puskaric,

We appreciate the opportunity to comment on the Public Sector Accounting Board's (PSAB) Exposure Draft: *Employee Benefits, Proposed Section PS 3251* (the ED). While the ED lists fifteen questions for comment, our response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans. We also provide comments on the ED's impact on financial statement understandability, which is the concern of Question 14.

About OMERS

OMERS is a multi-employer, jointly sponsored, defined benefit pension plan with 1,000 participating employers ranging from large cities to local agencies and over half a million 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. Contributions to the Plan are funded equally by members and employers.

Over 65% of OMERS participating employers have fewer than 100 employees.

In preparing our financial statements we are required to follow the requirements of the CPA Canada Handbook Section 4600 – Pension Plans. However, many of our 1,000 participating employers prepare their respective financial statements in accordance with PSAB's standards, and therefore the ED is relevant to them – and, by extension, relevant to OMERS.

OMERS previous engagement on this matter

We believe that accounting standards should result in financial reporting that is relevant, reliable, and comparable, with due consideration of how practical it is to meet those standards. This is especially true in the public sector where resourcing is scarce, and funding is provided by taxpayers.

We support PSAB's project to review the existing standards *PS 3250, Retirement Benefits* and *PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits*, because these standards were last reviewed more than two decades ago.

We have previously submitted comments in response to PSAB's *Invitation to Comment – Employee Benefits: Non-traditional Pension Plans*, in 2019. In that response letter, we expressed our disagreement with proposals that would require public sector issuers to report their share of a multi-employer pension plan's accrued benefit obligation on their financial statements. We expressed concerns over the ability of preparers to produce relevant and reliable information to meet such requirements, as employers have neither the information nor the resources required to do so.

We are glad to see that the ED takes into consideration the availability of sufficient information to financial statement preparers participating in multi-employer pension plans (para 033). Our comments below gratefully acknowledge that inclusion, set out why we believe that concept would apply to OMERS employers, and explain our overall support for the disclosure changes, with some recommendations for improvement.

Our comments on Questions 5 and 14

We appreciate the ED's descriptions of when "sufficient reliability for accounting purposes" may not occur, as outlined in paragraph .035. We consider this paragraph to be critical. We believe that its application will ensure that financial statements remain understandable for the following reasons:

Multi-employer pension plans share actuarial risks by design (PS 3251.035(a))

Paragraph .035(a) states that a reporting entity "may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability … if the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan."

We expect this will be the case for any employer that participates in any multi-employer pension plan. It will certainly be the case for our employers: the OMERS plan does not track actuarial gains and losses by participating employer, because that is contrary to the nature of a multi-employer pension plan, where risks are intentionally pooled.

We therefore consider paragraph 035(a) to be a critical inclusion.

Most employers are unlikely to have access to sufficient information (PS 3251.035(b))

Paragraph .035(b) states that a reporting entity "may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability … if the public sector entity does not have access to sufficient information about the plan."

We believe this will be the case for many employers participating in a multi-employer pension plan that is administered separately. This will be the case for OMERS employers: they have neither the information nor the resources to produce the financial information otherwise required by the ED for defined benefit accounting. As administrator, the effort required for OMERS to develop, maintain and provide this information to our 1,000 employers would increase the plan's administration costs – while providing little benefit for our plan members, to whom we owe a fiduciary duty.

We therefore consider paragraph 035(b) to also be a critical inclusion.

Defined benefit accounting for participating employers reduces financial statement understandability

Even if an employer were able to reliably calculate and record a proportionate share of the multi-employer pension plan's assets and liabilities, we believe the presentation of the net funding surplus or deficit on the financial statements would reduce understandability. Recognition suggests that the employer has some level of control over and responsibility for those amounts.

Instead, for multi-employer jointly sponsored plans such as OMERS, the funding surplus or deficit is shared amongst all participating employers *and members*, through adjustments to future contribution levels, benefit rates, or both (as well as through investment earnings on the assets managed by the plan's trustee). More importantly, the liability to pay post-retirement benefits has been transferred away from the participating employer to reside with the separate pension plan entity, so disclosing a balance on the employer's financial statements for this amount may lead a reader to an incorrect understanding.

Clarifying the ED's definition of "common control" will enhance understandability

We encourage PSAB to clarify paragraph .039, which addresses participating employers under common control. We believe that this paragraph intends to capture "defined benefit plans that share risks among various public sector entities, <u>all of which are</u> under common control …". We strongly recommend this underlined addition. Without this clarity, the paragraph could be interpreted to apply to those pension plans which have only two or three entities under common control, amongst hundreds. This latter interpretation clearly contradicts the concepts of paragraphs .033 and .035.

Considerations for the disclosure requirements

When an employer adopts defined contribution accounting under PS 3250.33, the ED would require incremental disclosures relative to the existing standard (PS 3251.170). Overall we support the disclosure changes, and we offer the following comments on the proposed requirements:

The minimum funding requirement is less relevant than the actual contribution rate

Proposed 3521.170(a) requires the public sector entity to disclose "a description of the funding arrangements, including the method used to determine the public sector entity's rate of contributions and any minimum funding requirements". OMERS minimum funding requirement (MFR) is established following the requirements set out in Ontario's *Pension Benefits Act* and is reported by the Plan's actuary in a report filed with the regulator at least once every three years.
Please clarify whether the disclosure requirement, as proposed, is requiring disclosure of the method used to determine any MFR, or the MFR itself. We recommend the former: the MFR differs from the actual contribution rate, is not publicly available, changes annually based on a variety of factors, and does not actually impact the entity's cash flows, so we believe it is of limited relevance to financial statement readers, relative to the contribution rate.

Allow participating employers to refer to the separate pension plan's financial statements, if publicly available

Proposed 3251.170(d)(iv) requires disclosure of "information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications … for the public sector entity". As discussed above, any deficit or surplus is the concern of the separate pension plan entity, and is managed through investment earnings, contribution rates and benefit changes (the latter, for jointly-sponsored plans). The basis for determining the deficit or surplus is not the responsibility of the participating employer, and would require a significant amount of disclosure to fully describe (e.g. how the assets are valued; how the liabilities are valued; how the discount rate is determined; etc.).

As an alternative, we recommend that the ED could require participating employers to identify the name of the separate pension plan, and the date of the plan's last published financial statements (those financial statements would reasonably include the desired disclosures).

Remove "compared with other participating entities"

Proposed 3251.170(d)(v) requires the disclosure of "an indication of the level of participation of the public sector entity in the plan compared with other participating entities." We have some concern that the disclosure requires comparison to other participating entities, since that implies disclosing other employers' participation in an entity's financial statements. We also believe that this disclosure would not be meaningful to the users of smaller employers (e.g. those OMERS employers with fewer than 100 employees) and it assumes close coordination and timeliness between the employer and the pension plan administrator. In OMERS case, it is likely that this information could be available only after a minimum one year lag and could be further complicated by differing year ends.

We therefore suggest modifying the requirement to read "an indication of the level of participation of the public sector entity in the plan, ~~compared with other participating entities,~~ if significant, based on the most recent information reasonably available from the administrator of the pension plan."

Summary

We are glad that the prerequisite for having sufficient information is included in the ED, and we reiterate that the inclusion of paragraphs .035(a) and (b), as drafted, is critical. We intend to direct our participating employers to these paragraphs when they assess the impact of this ED on their financial statements. We also request that the ED clarify the intent and definition for the standards that apply to defined benefit plans that share risks between public sector entities under "common control" (paragraph .039).

These inclusions will serve to ensure continued financial statement understandability.

Because we expect OMERS employers to continue to apply defined contribution accounting under the new proposed standard, we have not commented on the other ED's questions about discount rate guidance and revaluations.

Next steps

We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB during future phases. We will continue to monitor the project's developments closely.

We would be pleased to discuss the foregoing comments further with you as the final standard is drafted. 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

Senior Vice President, Corporate Finance

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Via email: mpuskaric@psabcanada.ca

November 25, 2021

Re: PSAB Invitation to Comment – Employment Benefits: PS 3251 Exposure Draft (to replace PS 3250)

Dear Mr. Puskaric,

This letter is in response to PSAB's invitation to comment on the PS 3251 Exposure Draft.

The Ontario Teachers' Pension Plan (OTPP) is Canada's largest single-profession pension plan, managing $221.2 billion on behalf of 331,000 active members and pensioners. We are a Jointly-Sponsored Pension Plan (JSPP), as defined in Ontario's *Pension Benefits Act*, meaning risk is shared between the plan's two sponsors – the Province of Ontario (Minister of Education) and Ontario Teachers' Federation.

OTPP's financial statements follow Section 4600 of the Chartered Professional Accountants Canada Handbook for pension plan financial statements. OTPP is not subject to Section PS 3250; however, because of our sponsorship, we are represented on provincial financial statements that fall under the Exposure Draft.

There are three issues in the Exposure Draft that we have comments on as follows:

Early Measurement Date

We are strongly supportive of the ability to use an early measurement date. The plan year end for OTPP is December 31 whereas the fiscal year end of the Province is March 31. For accounting purposes, the Province uses an early measurement date of December 31 with confirmation being provided by late April whether there were any events in the first quarter of the year that would materially affect the valuation results. Use of an early measurement date is practical, cost efficient and provides the Province with year-end results earlier which greatly facilitates the budgeting process.

Furthermore, it's important to note the nature OTPP's portfolio (and other similar pension plans) which include significant allocations to private assets. The asset valuation process is extremely robust, time consuming and costly. As such, having to value private assets as at December 31 and again as at March 31 would

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be prohibitive. In addition, OTPP and other pension plans are issuers of medium-term notes and confidentiality of information that is intended to be non-public would become an issue and barrier to March 31 results being disclosed in the Province's financial statements.

We understand from the round table that took place on November 5, 2021 that the new standard was intended to allow for continued use of an early measurement date and that Paragraphs 65 and 66 of PS 3251 are intended to address this issue. We note that Paragraph 66 could be read to simply address the practice of rolling forward liabilities (which must continue to be allowed for practical purposes).

For transparency and clarity, we recommend that the concept of an early measurement date be explicitly included in the new standard and suggest maintaining Paragraph 39 of PS 3250.

> *.039 "For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date."*

Discount Rate

As per our March 9, 2018 submission (copy attached), we agree in the merits of the discount rate for fully funded plans being approximated by the expected market-based return on plan assets.

We note that Paragraph 110 of PS 3251 recognizes that "*A fully funded post-employment benefit plan may not consistently have 100 percent of the benefit obligation funded. Given the long-term nature of benefit obligations, temporary funding shortfalls may imply a short-term change in a plan's funding status or in the proportion of projected benefit payments to be satisfied by plan assets. In such circumstances, persuasive evidence may exist to rebut a presumptive partially funded status...*"

We believe the approach outlined in the Exposure Draft to determine if a plan is "fully funded" is complex, costly and time consuming and question the value of a formal assessment that would subsequently be "rebutted" for plans such as OTPP.

We recommend that the definition of "fully funded" be simplified to reflect that if the pension plan being accounted for is subject to regulatory or other legal requirements whereby deficits must be addressed over a discrete time horizon, the plan is considered fully funded.

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Outstanding Contributions

Paragraph 137 of PS 3251 states that *"Plan assets exclude unpaid contributions due from the public sector entity to the fund"*. This appears to be contrary to accrual accounting. For any given December 31 financial statement valuation of OTPP, there are two years of outstanding contributions due from the Province[1]. These contributions are in respect of pension accruals prior to the valuation date and therefore should be recognized in the fair value of plan assets. Furthermore, excluding receivable contributions from the assets under PSAB 3251 that the Province would disclose in their financial statements would create a disconnect from the information disclosed in OTPP's Annual Reports and funding valuation reports filed with Canada Revenue Agency and the Financial Services Regulatory Authority.

We recommend that contributions in respect of pensions accrued prior to the valuation date be included in the fair value of plan assets.

We thank you for the opportunity to provide comments.

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[1] Please see Note 3., Page 96 of OTPP's 2020 Annual Report for further details.

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November 25, 2021

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Re: Subject: Public Sector Accounting Board (PSAB) – Exposure Draft – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

The Ontario Hospital Association (OHA) would like to thank the Public Sector Accounting Board (PSAB) for the opportunity to once again comment on important issues and considerations related to the Employee Benefits Project.

As you know, the OHA has been the voice of Ontario's public hospitals for nearly 100 years. Founded in 1924, the OHA uses advocacy, evidence, and partnerships to build a strong, innovative, and sustainable health care system for all Ontarians.

Throughout its history, the OHA has also created many different organizations that have gone on to successfully fulfil mandates as independent entities. The OHA has performed an important leadership role with respect to pensions since 1960 when it created the Hospitals of Ontario Pension Plan – now the Healthcare of Ontario Pension Plan (HOOPP). In 1993, the OHA was a settlor party to the creation of HOOPP as a separate entity with its own independent Board and jointly sponsored by the OHA, the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees Union (OPSEU), and the Service Employees International Union (SEIU).

Today, HOOPP is one of Canada's largest defined benefit pension plans and is fully committed to delivering on its pension promise to over 400,000 active, deferred, and retired members. HOOPP is also an industry leader among multi-employer plans with over 600 private and public sector participating employers, including nearly every one of Ontario's 140 hospitals.

As with most participating employers in HOOPP, Ontario's hospitals operate as legally independent, not-for-profit corporations. Unlike in other provinces where hospitals are owned and managed by government through regional or provincial health authorities, hospitals in Ontario are governed locally by independent boards.

The legal agency of hospitals contributes to the unique and distinct nature of Ontario's health system and is exercised by hospitals in several ways. This includes collective bargaining where compensation decisions such as wages, benefits, and pensions, are all determined by the hospital sector and unions independent of the Province of Ontario

(the Province). The Province, accordingly, does not sit at the bargaining table nor directly funds the outcomes of these negotiations which set the compensation and benefit entitlements for the hospital workforce. This is an important distinction for Ontario's hospitals, HOOPP and the OHA. There are examples of other pension plans where a province is the sponsor or joint sponsor. In these cases, the province is either the employer or has a direct responsibility to fund the outcome of compensation decisions impacting the members of these different plans.

The OHA has reviewed the Exposure Draft and broadly supports PSAB's efforts to review and update Sections PS 3250 and PS 3255 to reflect the current state of public pension plans. With that said, we have several key concerns regarding the context of the Exposure Draft and its impact on HOOPP's independence.

Discount rate guidance
The OHA first responded to the PSAB's Invitation to Comment (ITC) on its Employee Benefits Project in March 2018. We thanked PSAB for conducting an open and transparent consultation and availed ourselves of the opportunity to clearly state the concerns we and the other Settlors of HOOPP had regarding the potential impact and consequences a decision on discount rates might produce. We strongly supported HOOPP's position on this issue and their recommendation to use the expected return on plan assets as the discount rate assumption used to calculate pension obligations.

The OHA also clearly stated that in its view, the issue of discount rate guidance was more than an accounting policy issue. It remains the OHA's opinion that the decision regarding the discount rate assumption is inherently connected to the continued, independent governance of HOOPP. Furthermore, the OHA is concerned that, under the Public Sector Accounting Standards (PSAS), the Province has accounted for HOOPP on its consolidated financial statements as if it was a sponsor of HOOPP, which from a regulatory, legal, and operating perspective, it is clearly not.

The OHA, along with the other Settlors of HOOPP, have long understood that the success of the Plan is underpinned by its independence. The Settlors expressed this opinion to you earlier this year in a joint letter dated February 12, 2021. We remain in complete agreement with HOOPP that changes are required to prevent the Province from including the pension obligation of HOOPP – or any other independent pension plan – on its consolidated financial statements.

New terminology
The Exposure Draft introduces new terminology that is not defined in the glossary and risks adding more confusion to areas that are in serious need of clarity and direction.

The OHA understands that the accounting term 'participating entity' is used in the International Public Sector Accounting Standards (IPSAS). Its use, however, in the Exposure Draft as a replacement for the term 'sponsor' opens the door to broad interpretation. For example, questions may be asked as to whether an entity such as the Province would be considered a 'participating entity' as it is neither an employer, direct contributor, nor sponsor of the Plan.

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The OHA is concerned that the use of 'participating entity,' which is not defined in the glossary, risks evading the important issue of sponsorship altogether. The OHA agrees with HOOPP that it is imperative for PSAB to define the term 'sponsor' and apply it effectively in the new standards. Similarly, the OHA is also deeply concerned about how a 'constructive obligation' by a public sector entity that is not a sponsor of a private plan and has no legal obligation nor direct relationship with plan members may be interpreted under the Exposure Draft.

Disclosure requirements
The Exposure Draft introduces significantly heavier disclosure requirements with which individual employers (e.g., hospitals), with varying levels of resources and capacity, would have to comply. The benefits of additional disclosure requirements are unclear from reading the Exposure Draft. The OHA is of the view that this change would enhance the burden on finance teams within hospital and other employers, and disproportionately impact smaller hospitals/organizations. Overall, the OHA believes these requirements would require significant effort and introduce additional costs in exchange for no discernable value.

Expectations for employer accounting
The proposed changes to employer accounting in multi-employer pension plans would create expectations that employers apply defined benefit accounting instead of defined contribution accounting if they had access to "sufficient information". This is problematic as it shifts the onus to employers like hospitals to constantly prove that they do not have the information required to apply defined benefit accounting. The OHA is concerned about the burden this change will place on hospitals and the inevitable inconsistency of interpretation and application this will lead to across similar entities.

The OHA has long agreed with HOOPP that it is completely inappropriate for hospitals and other participating employers to record their share of the risk and ultimate cost of HOOPP's pension obligation on a defined benefit basis. These organizations do not have a legal obligation to HOOPP with respect to any underfunding of the Plan and are only obligated to remit monthly contributions. A departure from this approach would be grossly misleading and should be avoided.

Joint defined benefit plans and multi-employer plans
There is an attempt in the Exposure Draft to define different kinds of Plans based on factors such as governance, costs, and risk. This approach, however, does not provide sufficient clarity for plans such as HOOPP. As a jointly sponsored, multi- employer, defined benefit pension plan, HOOPP can be classified as more than one type of plan. The Exposure Draft does not provide direction on how to resolve this conundrum, and while we understand that HOOPP is in a unique situation, we also feel that it is important to settle this matter as these definitions could influence accounting disclosure requirements.

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Office of the President

In conclusion, the OHA fully acknowledges that PSAB's Employee Benefits Project was a significant undertaking including three ITCs on issues related to deferral provisions, discount rate guidance and non-traditional pension plans. We also understood that PSAB intended to use IPSAS principles only as a starting point on which to base future standards. That OHA has long felt that this was a prudent position for PSAB, one which we would expect to recognize Canada's unique and highly regarded public sector pension plans.

Upon review of the Exposure Draft, the OHA is concerned that PSAB's commitment to international standards has not sufficiently made the necessary adjustments to the Canadian – and Ontario – context. The changes proposed in the Exposure Draft do not address the significant issues we have raised throughout all stages of the Employee Benefits Project regarding Ontario's unique health care environment and the Province's accounting treatment of HOOPP.

Given that this important matter remains not yet resolved, HOOPP and its participating employers face growing uncertainty about the future. This comes at a critical time as health care workers and employers continue efforts to move Ontario out of the most serious civil emergency in our history. Maintaining confidence in HOOPP is critical given its central importance to the financial future of hundreds of thousands of health care workers and their families in Ontario. Unfortunately, the Exposure Draft as written risks undermining the future independence of HOOPP and other pension plans in its position.

The OHA is as committed as ever to exercising its duties and obligations to ensure effective stewardship of HOOPP. We feel strongly that decisions made on this accounting matter impact the continued effective governance of this independent plan. To that end, the OHA will be monitoring this situation closely and making future submissions on the next phases of the Employee Benefits Project.

The OHA would be pleased to work with PSAB on these matters directly and invites the Board to reach out to us at any time.

Sincerely,

Anthony Dale
President and CEO

November 25, 2021

Michael Puskaric
Director, Public Sector Accounting Board
mpuskaric@psabcanada.ca

Subject: Employee Benefits, Proposed Section PS 3251

The Canadian Institute of Actuaries (CIA) is pleased to submit the following response to the "Exposure Draft – Employee Benefits, Proposed Section 3251." We have responded to the questions posed at the start of the draft, although for some questions we have not formulated a response.

As a preface to our responses, the CIA would like to reiterate our position on the discount rate. We acknowledge that PSAB addressed this issue in its 2018 discount rate invitation to comment, however, we feel strongly on this critical issue and would like to share again our views from our comments dated March 9, 2018:

> The CIA believes that the discount rate should be established in a manner that meets the needs of the users of the financial statements; we acknowledge that those needs may differ from the needs of the underlying entity itself (i.e., the government and/or plan sponsor). Also, the CIA acknowledges that the actuarial standards and guidance that exist to determine a best estimate discount rate assumption for a going concern funding valuation for a pension plan may not be directly applicable to the development of a discount rate for the calculation of the accrued benefit obligation for accounting purposes.
>
> … It is our belief that users of the financial statements may be better served if the discount rate is determined using a market yield (high-quality debt or risk-free debt) basis, and using a current rate view approach (as opposed to an average rate view or projected rate view approach). Based on the various pros and cons of each of the discount rate bases and discount rate views discussed in the invitation to comment, it is our belief that using a market yield basis, along with a current rate view, will provide users with an estimate of the accrued benefit obligation that is more reliable (i.e., complete, neutral, and verifiable), comparable, and understandable.
>
> Perceptibly, and consistent with the trend in many other accounting standards, we believe that users of the financial statements may be better served if the entity has less discretion in establishing the discount rate.

The views expressed above relate to pure defined benefit plans. Further effort is necessary to determine an appropriate accounting treatment for plans with significant risk-sharing and cost-

sharing elements. We understand that PSAB intends to consider this issue in future phases of the project.

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

The scope of the standard is clear; however, we note that self-insured workers' compensation plans, which we believe would be covered under this standard, are not specifically referenced in the document.

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

Under the definition of a joint defined benefit plan, subparagraph (d) we suggest the words "on an equitable basis" could be removed, as not all risks may be shared equitably.

Although it's not included in the glossary, more clarification is needed around the definition of the partially funded plan. The definition outlined in paragraph PS 3251.115 is not consistent with the partially funded plan criteria outlined in the funding assessment described in PS 3251.107. We note that paragraph PS 3251.105 already defines a partially funded plan, resulting in paragraph PS 3251.115 being unnecessary.

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

No response.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

No response.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

The appropriate accounting treatment for the participating employer should be based on the nature of the risks to which they are exposed. If their risks are the same as they would be if they participated in a pure defined benefit plan, they should account for their participation on a

defined benefit basis. Similarly, if their risk exposure is similar to a defined contribution plan, they should account on a defined contribution basis.

Most Canadian multi-employer public sector pension plans are neither pure defined benefit plans nor pure defined contribution plans. Most involve forms of risk-sharing and/or cost-sharing. Consequently, the participating employers in such plans are not exposed to the same risks as they would be if they participated in a pure defined benefit plan – and hence a pure defined benefit accounting treatment may not be appropriate. We believe that further effort is necessary to determine an appropriate accounting treatment for these types of plans and understand that PSAB intends to consider this issue in future phases of the project.

Deciding whether to account for participation in a multi-employer defined benefit plan on a defined benefit basis or a defined contribution basis is a critically important decision. The choice could have a material impact on the financial statements of the employer. As noted above, we believe that the appropriate accounting treatment should be based on the nature of the risks to which the participating employer is exposed.

The current draft standards allow wide latitude for participating employers to choose the approach that they prefer. As has been the case historically, the vast majority of employers are likely to follow the standards for defined contribution plans if they are given the choice (since defined contribution accounting is simpler to apply, avoids the need to disclose pension liabilities, and produces less volatile results). In order to narrow the range of practice and improve comparability of financial statements, there should be specific guidance as to what constitutes "sufficient information" to follow the standards for defined benefit accounting.

Employers participating in large multi-employer defined benefit pension plans are unlikely to ever have complete data necessary to develop precise estimates of their pension liabilities. This is particularly true if there is a large number of participating employers and there is significant movement between those employers. Tracking the movement of members as they terminate from one employer and/or potentially merge their membership from previous employment is likely to become very complicated very quickly. Most participating employers are unlikely to have the data or in-house expertise to perform these calculations. Consequently, it is likely that the pension plans themselves or their external advisors would need to do the calculations. We expect that this would result in significant effort and resources to perform this tracking.

Notwithstanding these complications and the resulting administrative costs and efforts, it should be possible for multi-employer defined benefit plans to develop reasonable estimates of the pension liabilities for the participating employers.

If the risks to which the participating employer is exposed are similar to those to which they would be exposed in a pure defined benefit plan, the default approach should be defined benefit accounting. Participating employers who wish to use defined contribution accounting should need to demonstrate why the results of defined benefit accounting would be inferior to defined contribution accounting in their particular situation. As noted in the C.D. Howe commentary, "Gaps, Quirks and Fixes: Accounting for Broader Public-Sector Pension Plans in Canada," "It is better to be roughly right than precisely wrong in financial reporting. Employers

who are incurring and/or already bear material risk and show nothing on their statements of operations and financial position are being precise – zero is a precise number – and wrong."

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

As noted at the outset of this letter, the CIA's view is that users of financial statements would be better served if a discount rate based on high-quality or risk-free bond yields were used to measure liabilities and costs for pure defined benefit plans. The appropriate measure of defined benefit liabilities for financial reporting purposes should not be dependent on how the benefits are funded. Consequently, we believe that determination of the appropriate discount rate should be independent of whether the plan is fully funded, partially funded, or unfunded. Our preference is that the proposed approach be discarded in favour of a bond yield approach for all plans. This is consistent with the approach used for both international private sector and public sector standards.

With that being said, we offer the following additional comments if PSAB decides to maintain the proposed approach.

The guidance is not straightforward and has some technical issues.

Specifically, including cash flows (benefit payments and contributions) for service accruing after the balance sheet date would be inappropriate. Accounting obligations for employee benefits are based on benefits attributed for service rendered to the balance sheet date, and this should apply to partially funded plans, as well. It could be appropriate to include contributions that are associated with past service, e.g., deficit funding.

Further, from a practical standpoint, we suggest that the order in which the funding status of a plan is determined be revised – the concepts of paragraph PS 3251.110 should be placed between paragraphs PS 3251.106 and PS 3251.107. This would avoid needless complicated calculations from being required if a plan is deemed to be a fully funded plan.

An example of a technical issue is that the "normal cost" used in the future contributions is based on the existing demographics. In a future projection, the "normal cost" would have to be projected and adjusted to reflect the expected future population. In addition, future contributions would not be clear and obvious at the balance sheet date. For plans with existing or potential future special payment contributions due to deficiency, it's also not clear if the existing or potential future special payments should be reflected in the funding assessment.

Also see comments in response to question 8. Even after some of these technical issues are resolved, we expect this type of projection would only be accessible to the larger and more sophisticated organizations.

We would encourage a much simpler and appropriate approach of comparing accrued assets to accrued benefits for the existing employee group – and while there are technical issues for this calculation, we believe it is much simpler than the one proposed. In this calculation, it could be appropriate to include contributions that are associated with past service, e.g., deficit funding.

PS 3251.110 will allow significant "professional judgment." It's not clear who would be in a position to opine on this "professional judgment." If a qualified actuary is required to opine, the CIA would likely need to create some additional professional standards.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

As noted at the outset of this letter, the CIA's view is that users of financial statements would be better served if a discount rate based on high-quality or risk-free bond yields were used to measure liabilities and costs for pure defined benefit plans. The appropriate discount rate used to measure defined benefit liabilities for financial reporting purposes should not be dependent on how the benefits are funded. Consequently, we believe that determination of the appropriate discount rate should be independent of whether the plan is fully funded, partially funded, or unfunded. Our preference is that the proposed approach be discarded in favour of a bond yield approach for all plans. This is consistent with the approach used for both international private sector and public sector standards.

With that being said, we offer the following additional comments if PSAB decides to maintain the proposed approach.

For fully funded plans, ultimately, it will be the entity's responsibility to determine the discount rate assumption. Nevertheless, when actuaries are asked for input on this assumption, or to assist with the preparation of the financial statement calculations, the CIA *Standards of Practice* requires that actuaries consider relevant standards of practice and published CIA educational notes.

Typically, the actuary's discount rate recommendation would be determined as the estimated returns for each major asset class set out in the statement of investment policies and procedures, reflecting market conditions on the measurement date and the expected time horizon over which benefits are expected to be paid. Adjustments for additional returns expected due to active management of plan assets, and fees expected to be payable from the plan assets may or may not be implicitly reflected in such a rate.

For unfunded plans, we support using an external benchmark such as provincial borrowing rates. This is particularly relevant for entities that do not have debt or are unable to borrow.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

The CIA believes that the discount rate should be established in a manner that meets the needs of the users of the financial statements; we acknowledge that those needs may differ from the needs of the underlying entity itself (i.e., the government and/or plan sponsor). Also, the CIA acknowledges that the actuarial standards and guidance that exist to determine a best estimate

discount rate assumption for a going concern funding valuation for a pension plan may not be directly applicable to the development of a discount rate for the calculation of the accrued benefit obligation for accounting purposes.

While the CIA is an advocate for the actuarial profession with governments and the public in the development of public policy, we recognize that we may not be best suited to confirm to PSAB what the needs of the users of the financial statements are. Nevertheless, and for your consideration, we offer the following commentary on determining which discount rate basis and discount rate view is most appropriate for estimating the accrued benefit obligation.

It is our belief that users of the financial statements may be better served if the discount rate for pure defined benefit plans is determined using a market yield (high-quality debt or risk-free debt) basis and using a current rate view approach (as opposed to an average rate view or projected rate view approach). It is our belief that using a market yield basis, along with a current rate view, will provide users with an estimate of the accrued benefit obligation that is more reliable (i.e., complete, neutral, and verifiable), comparable, and understandable.

Please also see our response to question 6, as it identifies some of the challenges and flaws in the proposed approach.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

A single discount rate makes the financials more understandable and, as such, we would not be opposed as long as the single discount rate would not materially impact the answer versus separate discount rates.

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

We believe that immediate recognition of revaluations in net assets/debts without subsequent recognition in the statement of operations will improve understandability of the financial reporting. It will result in greater balance sheet volatility but a more stable income statement.

We believe that revaluations should be recognized through a mechanism like other comprehensive income under Canadian generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS) standards and be excluded from net income of the income statement.

Under the current version of the exposure draft, revaluations appear to be part of the defined benefit cost (see PS 3251.143(c)) as the approval of PS 1202 is still pending. If the revaluations of the net defined benefit liability (asset) are to be recognized in the accumulated other comprehensive income component of net assets, modifications to the exposure draft will be required.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

We agree with the proposed presentation. The proposed presentation provides more transparency to the reader, and it's very similar to the presentation adopted by the Canadian GAAP and IFRS standards. It also better reflects the nature of the underlying pension and benefit obligations.

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

Considering the magnitude of the changes that could be faced by organizations, including impacts on measurement, timing, attribution, disclosure, and balance sheets, having a number of years to prepare for these changes is appropriate.

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

The examples will assist in interpreting and applying the proposed section. However, we have concerns about the inclusion of cash flows associated with future service, which are contrary to the fundamental concept that balance sheets should reflect benefits attributed for service rendered to the balance sheet date and not beyond. We have expressed concerns about this and other technical issues in our response to question 6. An updated example to align with any revisions made to PS 3251.107 would be helpful.

A bit more nuanced of a concern is that we note in example 13 there are periods where the plan has partial assets – e.g., in years 26 onward, but all benefit payments are treated as unfunded starting at year 26. This illustration could cause confusion, as we anticipate most individuals would interpret the fractional portion of the benefits for which there are plan assets to be discounted by the expected return on assets (EROA) and the fractional portion of the unfunded benefits to be discounted by the provincial bond yield. The example should be clarified.

14. **Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.**

The removal of deferred recognition of gains and losses, and the introduction of aspects of mark-to-market accounting should improve understandability. The discount rate determination for partially funded plans could be confusing, whereas, having a pan-Canadian provincial yield curve as the basis for the discount rate for unfunded plans should improve comparability and hopefully, understanding.

The use of an EROA, that only has investment expenses reflected, as the discount rate for fully funded plans could lead to confusion amongst employee groups and funders of the benefit plans. Many funding discount rates include provisions for administrative expenses along with margins for adverse deviation.

15. **Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.**

No response.

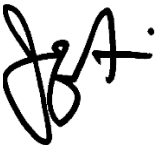
Other comments

We believe that the exposure draft could be enhanced to clarify the treatment of administrative expenses. While IAS19, and IPSAS39 do not do explicitly address this either, the basis for conclusions for IAS19 makes it clear that administrative expenses are recognized in the income statement as they are incurred.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

Sincerely,



Jacqueline Friedland, FCIA
President, Canadian Institute of Actuaries

The Canadian Institute of Actuaries (CIA) is the qualifying and governing body of the actuarial profession in Canada. We develop and uphold rigorous standards, share our risk management expertise, and advance actuarial science for the financial well-being of society. Our more than 6,000 members apply their knowledge of math, statistics, data analytics, and business in providing services and advice of the highest quality to help ensure the financial security of all Canadians.

November 24, 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2
info@psabcanada.ca

Re: PSAB Exposure Draft - Employee Benefits Proposed Section PS 3251

Dear Mr. Puskaric,

We have read the above-mentioned Exposure Draft that was issued in July 2021 and are pleased to have the opportunity to provide responses to PSAB's specific questions.

Please find our response to the proposed question attached following this letter. This response was prepared by the Colleges Ontario Finance Officers (COFO) organization in conjunction with Administrative Services Coordinating Committee (ASCC), on behalf of the 24 Colleges of Applied Arts and Technology in Ontario.

Thank you for your consideration of our response.

Sincerely,

Dan McKerrall, CPA, CMA (on behalf of COFO)
Chair of Financial Reporting Subcommittee, Colleges Ontario Financial Officers
Associate Vice-President Finance
Sheridan College
Daniel.mckerrall@sheridancollege.ca

Colleges Ontario Financial Officers – Financial Reporting Subcommittee

RESPONSE TO EMPLOYEE BENEFITS PROPOSED SECTION PS 3251

Purpose and scope

1. *Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.*

   The purpose and scope as written in paragraphs .004 to .008 is clear.

Glossary

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?*

   COFO feels that it may be beneficial to emphasize that the standard applies to all forms of consideration, namely salary or wages. Benefits are commonly known as pensions, health plans, sick leave, vacation pay, etc… This definition in the glossary is a change from what a layperson would currently understand an employment benefit to be.

   There is also significant ambiguity between the definition of joint plan vs multi-employer plan. The CAAT Pension plan is currently considered to be a multi-employer plan. We believe it meets definition in the exposure draft and the remainder to this response to the exposure draft is based on this assumption. If this assumption is incorrect, it would change the response to this exposure draft.

   Finally, the exposure draft does not define public sector entity under common control (paragraphs 39 to 42). It is not clear to COFO whether this part of the standard would apply.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

   As discussed in the response to question 2, COFO interprets the standard that colleges are part of a multi-employer plan and therefore paragraphs 0.039 to 0.042 are not relevant to us.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?*

   COFO has no comment on these paragraphs as they do not apply to the Ontario public college sector's current post-employment benefit plans.

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

   Generally, colleges are likely to rely on paragraph .035 (b) whereby we do not have sufficient information about the plan in order to account for our proportionate share of the defined benefit obligation, plan assets and post employment benefit costs and accordingly apply the provisions of Section .103 and account for the plan as a defined contribution plan. COFO has no concerns with accounting for the plan as if it were a defined contribution plan as outlined in paragraphs .056, .057 and .170(d) and this would not result in a change in the account treatment for our involvement in a multi-employer plan from the current Standard.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. *Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

   COFO finds the guidance for determining the funding status of a plan to be onerous for individual public sector entities, and may be unreliable given to requirements to base the assessment on uncertain projected cash flows. Instead, the funding status should be based on the stated objective of the plan.

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.*

   COFO generally agrees with the discount rate approaches as defined in paragraphs .111 to .120, however, notes that increasing volatility in the government bond market may lead to unexpected challenges in the future. PSAB should consider providing alternative measures or rely on cost of borrowing as a measure that would provide individual public sector entities more flexibility to adopt discount rates that are more meaningful and relevant.

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.*

   Please see our response to question 6. The proposed approach will be onerous to determine the discount rate to use if the plan is partially funded. The determination of

funding status should be based on the plan's objective rather than on an assessment of projected cash flows.

9. *Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.*

   COFO does not have a concern with these paragraphs, however, please see our response to question 7 regarding the concern with using government bond yields in a time of increasing volatility in the government bond market.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

COFO agrees that revaluations should be recognized in net assets without recognition in surplus or deficit.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

COFO believes that the presentation and disclosure requirements that are provided for post employment benefits will be adequate and no alternative presentation or disclosure is required.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

COFO agrees with the proposed transitional provisions however, notes that it will result in a significant adjustment to liabilities and net assets upon adoption (as of March 31, 2021 there were approximately $25 million in unamortized losses across the college sector).

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

COFO is concerned that the disclosure requirements included throughout the standard seem excessive. It would be helpful to see illustrative examples of all the disclosure requirements to determine the impact on individual colleges.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

COFO is concerned with the disclosure requirements required throughout the standard and particularly those in paragraph .170 for multi-employer plans. For paragraph .170, COFO believes that sections (a), (b), (dii), (diii) and (div) will simply create additional financial reporting workload without necessarily improving the understandability of the financial statements.

For other disclosure requirements, we do not agree that amounts should be disclosed by function within the financial statements and then by object within the note. There are many differences in how individual colleges operate and it would be difficult to adopt functions that are consistent across the college sector in order to allow comparability of financial statements. Also, the requirement to disclose termination benefits on a functional level in the financial statements and then at an object level on the notes may create privacy or confidentiality concerns at a smaller public sector entity. The proposed disclosure requirements would significantly increase the complexity and workload for financial reporting without increasing understandability of the statements.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

COFO does not anticipate that the proposals provided would result in any change to decision making.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 25 novembre 2021

Monsieur Michael Puskaric, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Monsieur,

Vous trouverez ci-joint les commentaires du Groupe de travail technique Secteur public – Comptabilité dans le secteur public de l'Ordre des comptables professionnels agréés du Québec, concernant l'exposé-sondage intitulé *« Projet de chapitre SP 3251, « Avantages sociaux » ».*

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez prendre note que ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Monsieur Puskaric, mes salutations distinguées.

Annie Smargiassi, CPA auditrice, CA
Représentante du groupe de travail technique Secteur public – Comptabilité dans le secteur public

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

Les documents préparés par les groupes de travail de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître leur opinion sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil sur la gestion des risques et la gouvernance et d'autres organismes.

Les commentaires fournis ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail de l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via le Groupe de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL

Les groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux, dans l'industrie et dans l'enseignement ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires ont fait l'objet d'un consensus parmi les membres des groupes de travail ayant participé à cette analyse.

Les commentaires formulés ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

COMMENTAIRES GÉNÉRAUX

Les membres accueillent favorablement cet exposé-sondage et ils se sont montrés d'accord avec les démarches entreprises par le CCSP pour moderniser la norme sur les avantages sociaux.

QUESTION SPÉCIFIQUE DU CCSP

Objet et champ d'application

1. Trouvez-vous que le champ d'application (paragraphes SP 3251.004 à .008) de la norme proposée est clair? Dans la négative, veuillez décrire les situations pour lesquelles le champ d'application manque de clarté.

Pour la majorité des membres, le champ d'application proposé est clair. Des membres ont toutefois soulevé des commentaires et interrogations à propos de certains paragraphes.

En effet, des membres aimeraient que les alinéas .006 c) i et ii) soient clarifiés par des exemples. Plus précisément, ils se sont demandé à quoi le CCSP fait spécifiquement référence à propos des congés et autres avantages liés à l'ancienneté. Les membres ne semblent pas connaitre ce type d'avantages, car ils n'ont pas été témoin de tels éléments en pratique.

De plus, pour certains, le fait d'inclure les salaires et cotisations de sécurité sociale à l'alinéa .006 a) i), semble couvrir des charges courantes et non des avantages futurs et ainsi modifier le champ d'application par rapport aux normes actuelles.

Ils se sont aussi demandé si l'utilisation de certains termes provenant de la norme internationale en obscure la clarté par l'utilisation d'expressions non utilisées au Canada. Voici des exemples de termes et d'expressions relevés : congés et autres avantages liés à l'ancienneté, régimes à administration groupée. Les membres ont indiqué plus précisément ces termes et expressions dans les différentes questions répondues ci-après.

Des membres sont préoccupés à propos de l'alinéa c) du paragraphe .005. Selon eux, le fait d'ajouter dans la définition les obligations implicites, pourrait avoir comme conséquence la comptabilisation de programmes sociaux d'une façon différente qu'elle l'est actuellement dans la pratique. Selon ces membres, les programmes d'avantages sociaux ne sont pas considérés comme des avantages sociaux futurs actuellement et ne devraient pas l'être selon eux, à moins que le CCSP désire changer le champ d'application des normes actuelles. Ils font référence spécifiquement au Régime de pension du Canada et au Régime des rentes du Québec qui sont considérés comme des programmes d'avantages sociaux. Les préoccupations des membres sont amplifiées par les indications proposées concernant les régimes généraux et obligatoires.

Glossaire et définitions

2. Les définitions qui figurent dans le glossaire facilitent-elles l'interprétation et l'application de la norme proposée dans le présent exposé-sondage? Dans la négative, quelles autres précisions ou définitions serait-il nécessaire d'ajouter?

Les membres croient que la définition de salarié présentée au paragraphe .008 devrait être présentée dans le glossaire plutôt que dans la section du champ d'application de la norme proposée.

Ils ont aussi relevé d'autres paragraphes de la norme proposée qui incluent des définitions qui selon eux devraient être clarifiées et se retrouver dans le glossaire.

- .037 Régimes multi-employeurs et régimes à administration groupée (aussi appelés régimes à employeurs multiples).
    - D'abord, les expressions « multi-employeurs » et « à employeurs multiples » sont très similaires et ils n'aident donc pas à clarifier les concepts. Aussi, les membres constatent que l'expression « régime à employeurs multiples » est définie dans la norme actuelle et ils se sont demandé pourquoi cette définition n'avait pas été incluse dans les nouvelles propositions.
    - Ensuite, selon eux, la section sur les régimes multi-employeurs (paragraphes .031 à .038) n'exclut pas spécifiquement les régimes sous contrôle commun, contrairement à la définition. Ainsi, pour les membres,

ces concepts ne sont pas clairs et ils proposent au CCSP d'ajouter un arbre de décision pour leur permettre de mieux les comprendre et les distinguer. Pour eux, sans un schéma, la classification des régimes sera ardue à faire.

- .125 La définition de l'expression « coût des services passés » devrait être incluse au glossaire plutôt qu'au paragraphe .125.

- .048 Des membres demandent que soit clarifiée l'expression « partagés équitablement » qui est incluse à l'alinéa d) dans la définition de l'expression « Régime conjoint à prestations définies » au glossaire. Selon eux, les éléments du paragraphe .048 apportent des nuances qui devraient être ajoutées au glossaire.

Certains membres ont relevé un malaise à propos de l'alinéa a) de la définition des « Actifs détenus par un fonds d'avantages à long terme » du glossaire, car elle fait spécifiquement référence à la présence de fonds juridiquement distincts. D'abord, selon eux, on devrait s'écarter des notions juridiques pour être cohérent avec le cadre conceptuel et le concept de primauté de la substance sur la forme juridique qui y est inclus. Ensuite, ils précisent qu'au Québec, les actifs visés ne sont pas dans des fonds distincts; ils sont détenus directement par le gouvernement et font l'objet de fonds d'amortissement, ce qui fait en sorte qu'ils sont considérés comme des actifs des régimes financés. Ainsi, la nouvelle définition aurait comme conséquence de ne pas permettre la classification de ces régimes comme des régimes partiellement ou pleinement capitalisés et aurait un impact important sur les taux d'actualisation à utiliser. Pour eux, il s'agit d'un enjeu important qui pourrait avoir un impact majeur sur la pratique actuelle et la gestion des fonds au Québec. Pour d'autres membres, il n'y a pas d'enjeu, car la définition est cohérente avec le concept et les critères de compensation des instruments financiers.

Finalement, les membres proposent que le glossaire de la version française soit présenté en ordre alphabétique des termes présentés pour faciliter la recherche.

Avantages postérieurs à l'emploi – Distinction entre les régimes à cotisations définies et les régimes à prestations définies

3. L'application des indications relatives à la comptabilisation du coût net des prestations des régimes à prestations définies dont les risques sont partagés par des entités du secteur public soumises à un contrôle commun (paragraphes SP 3251.039 à .042) aurait-elle une incidence sur le traitement comptable de votre participation à un régime d'avantages postérieurs à l'emploi? Veuillez préciser.

Non, selon les membres, l'application des indications n'aura pas d'incidence sur la pratique actuelle.

4. Les indications relatives aux régimes généraux et obligatoires (paragraphes SP 3251.043 à .046) sont-elles utiles dans le secteur public canadien? Dans la négative, pourquoi?

Les indications relatives aux régimes généraux et obligatoires proposées ne sont pas claires pour tous les membres. Certains ont de la difficulté à classer certains régimes qui sont établis par des lois et règlements comme les régimes de retraite du secteur public qui sont en majorité sous contrôle commun (ex. : RREGOP, RVER).

Ils ont demandé à ce que des exemples et explications soient fournis.

Selon leur compréhension, les régimes du gouvernement du Québec établis par des dispositions légales se retrouvent dans cette catégorie selon la définition du glossaire, c'est-à-dire qu'ils fonctionnent comme des régimes multi-employeurs. Les entités participant à ces régimes sont pour la plupart sous contrôle commun.

L'exposé-sondage renvoie d'emblée les régimes généraux et obligatoires au traitement comptable des régimes multi-employeurs (.043). Or, la définition des régimes multi-employeur exclut les entités sous contrôle commun (glossaire). Ce n'est pas cohérent.

Quelle est la pertinence d'une catégorie qui renvoie rapidement au traitement comptable d'une autre? Est-ce adéquat que la forme juridique d'un régime en détermine la catégorie? Pourquoi ne pas mettre davantage l'emphase sur la substance?

À leur avis, la catégorie des régimes généraux et obligatoires ne serait pas utile si la catégorie des multi-employeurs permettait d'inclure les entités sous contrôle commun.

5. Dans le chapitre SP 3250, le paragraphe .109 indique que «les employeurs participants autres que le gouvernement-parraineur ne disposent pas normalement de suffisamment d'informations pour se conformer aux normes relatives aux régimes à prestations déterminées» et qu'«en conséquence, chaque gouvernement participant rend compte du régime interemployeurs [appelé «régime multiemployeurs» dans le présent exposé-sondage] en se conformant aux normes applicables aux régimes à cotisations déterminées». Dans le présent exposé-sondage, le paragraphe .033 indique aussi que si l'entité du secteur public ne dispose pas d'informations suffisantes pour appliquer les dispositions comptables relatives aux régimes à prestations définies, elle doit traiter le régime comme s'il s'agissait d'un régime à cotisations définies. L'application des dispositions des paragraphes SP 3251.033 et .035 du présent exposé-sondage aurait-elle une incidence sur le traitement comptable de votre participation à un régime multi-employeurs? Veuillez préciser.

Selon les membres, l'application des propositions n'entrainerait pas d'incidence sur les pratiques comptables actuelles. Toutefois, ils se sont demandé ce qui arriverait dans la situation où les informations sont disponibles pour procéder à la répartition. Ils croient que cet aspect devrait être clarifié dans les propositions.

Indications concernant le taux d'actualisation

6. Les indications à suivre pour l'appréciation de la situation de capitalisation d'un régime afin de déterminer le taux qu'il convient d'appliquer pour actualiser les obligations au titre des avantages postérieurs à l'emploi (paragraphes SP 3251.105 à .110) sont-elles suffisamment claires et détaillées? Dans la négative, pourquoi?

Pour les membres, des clarifications additionnelles et des exemples s'imposent. Pour des régimes partiellement capitalisés, des exigences légales et réglementaires peuvent demander au promoteur de procéder à des contributions supplémentaires ou d'équilibre. Pour eux, ces régimes sont temporairement non capitalisés. Le paragraphe .110 traite de

la question, mais n'apporte pas suffisamment d'explications ou de clarté pour leur permettre de bien classer les régimes. Des membres ont donné comme exemple les régimes de retraite du secteur municipal qui, en vertu d'une loi, ont l'obligation de financer les déficits par le versement de cotisations d'équilibre. Aussi, ces cotisations d'équilibre pourront provenir de futurs employés, ce qui ne serait pas considéré selon les indications du paragraphe .107b), car il s'attache aux participants ou employés actuels et non aux versements effectués.

De plus, les membres font référence à leur commentaire indiqué vers la fin de la réponse à la question 2 au sujet des régimes considérés comme pleinement capitalisés par un fonds d'amortissement, mais qui ne se retrouvent pas dans un véhicule distinct de l'entité du promoteur du régime. Pour eux, les indications sont très différentes de ce qui se fait en pratique et pourrait changer de façon importante les taux d'actualisation utilisés actuellement.

À propos des régimes non capitalisés, les propositions exigent d'utiliser le taux des obligations provinciales. Or, les membres se sont questionnés sur les obligations visées par ces exigences. Est-ce celles d'une seule province, de plusieurs provinces ou de l'ensemble des provinces? Est-ce que les exigences sont trop détaillées ou prescriptives? Des membres se sont demandé pourquoi le CCSP précise les obligations provinciales au détriment des autres obligations par exemple fédérales et municipales. Les propositions et les raisons sous-jacentes à ces propositions ne sont pas claires pour les membres, incluant ceux représentant le gouvernement fédéral. Les membres sont d'avis qu'on devrait être plus générique sur la question, par exemple en précisant des obligations transigées activement sur un marché ou transigées sur un marché actif.

7. Les approches proposées en ce qui concerne le taux d'actualisation à appliquer aux régimes entièrement capitalisés (paragraphes SP 3251.111 à .114), aux régimes partiellement capitalisés (paragraphes SP 3251.115 à .117) et aux régimes non capitalisés (paragraphes SP 3251.118 à .120) vous conviennent-elles? Dans la négative, veuillez préciser l'approche qui vous pose problème, avec motifs à l'appui.

Les membres ont affirmé que l'Institut canadien des actuaires (ICA) devrait être consulté à propos des taux d'actualisation, car cette institution fixe les balises concernant les taux que les actuaires doivent utiliser dans des normes de pratique. L'ICA pourrait juger pertinent d'émettre des notes éducatives destinées aux actuaires afin de les guider par exemple dans l'établissement de la courbe d'obligations provinciales servant à déterminer le taux d'actualisation.

Les membres affirment qu'il est très important que le CCSP clarifie les catégories ou types de régimes, en considérant les questions soulevées précédemment, car l'impact d'un changement dans le taux d'actualisation pourrait être majeur pour certains régimes du secteur public.

8. Entrevoyez-vous des difficultés relativement à l'approche proposée (paragraphes SP 3251.105 à .110) pour l'appréciation de la situation de capitalisation du régime aux fins de détermination du taux qu'il convient d'appliquer pour actualiser l'obligation au titre des avantages postérieurs à l'emploi? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées aux indications proposées pour atténuer ou éliminer ces difficultés.

Les membres réfèrent aux commentaires qu'ils ont énoncés dans leur réponse à la question 6.

9. Entrevoyez-vous des difficultés relativement à l'approche proposée aux paragraphes SP 3251.115 à .117, qui consisterait à appliquer un taux d'actualisation unique dans le cas des régimes partiellement capitalisés? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées pour atténuer ou éliminer ces difficultés.

Non, les membres n'envisagent pas de difficultés d'application à propos de ces propositions.

Réévaluations du passif (de l'actif) net au titre des prestations définies

10. Êtes-vous d'accord que les réévaluations du passif (de l'actif) net au titre des prestations définies devraient être comptabilisées dans l'actif net sans être ultérieurement reclassées dans l'excédent ou le déficit (alinéa SP 3251.064 d) et paragraphe SP 3251.144)? Dans la négative, veuillez expliquer pourquoi et indiquer comment, selon vous, ces réévaluations devraient être comptabilisées.

Des membres souhaitent que des exemples soient présentés pour leur permettre d'apprécier adéquatement la présentation proposée selon les nouvelles exigences de présentation d'informations financières par comparaison avec les exigences actuellement en vigueur. Pour eux, la présentation aux états financiers n'est pas claire avec les nouveaux modèles de présentation qui ne sont pas encore en vigueur.

D'autres membres concluent que la comparaison avec des états financiers de d'autres entités qui n'utilisent pas le même référentiel comptable sera facilitée.

11. Le CCSP est conscient que, comparativement à la méthode du chapitre SP 3250, la comptabilisation de l'incidence des gains ou pertes actuariels immédiatement dans le passif (l'actif) net au titre des prestations définies pourrait accroître la volatilité de la dette nette. Cela étant, est-ce qu'offrir d'autres possibilités en matière de présentation dans les états financiers ou par voie de notes répondrait aux préoccupations à l'égard de la volatilité de la dette nette? Dans l'affirmative, veuillez préciser quelles options le CCSP devrait envisager en ce sens et en quoi elles amenuiseraient les préoccupations à l'égard de la volatilité accrue de la dette nette.

Les membres n'ont fait aucune autre proposition.

Dispositions transitoires

12. Êtes-vous favorable aux dispositions transitoires proposées (paragraphes SP 3251.200 à .202)? Dans la négative, quels changements apporteriez-vous à ces dispositions et pourquoi les apporteriez-vous?

Étant donné que d'autres normes élaborées plus récemment par le CCSP devront être appliquées dans les prochaines années, les membres sont d'avis que la période proposée pour appliquer le chapitre SP 3251 est adéquate. Ils sont donc d'accord avec la date d'application proposée, toutefois certains ont soulevé des questions relativement à l'application rétrospective des modifications.

D'abord, ils se sont demandé si l'application anticipée des nouvelles exigences était possible pour les entités qui pourraient désirer les appliquer plus tôt que la date proposée. Ils croient que cela devrait être précisé et possible. De plus, ils ont demandé l'ajout d'indication pour la comptabilisation, le retraitement et les informations à fournir dans cette situation.

Finalement, ils sont d'avis qu'une application rétrospective des nouvelles exigences, sans aucun allégement possible, n'est pas souhaitable et serait très difficile, voire impossible à effectuer. En effet, selon eux, il n'est pas possible de déterminer l'impact des changements sans recalculer l'historique. Aussi, ils croient qu'il serait extrêmement complexe et coûteux de refaire tous ces calculs et de retrouver les taux d'actualisation qui auraient dû s'appliquer dans les périodes antérieures, surtout lorsque les régimes sont partiellement capitalisés ou lorsque les régimes changent de catégorie. Ils recommandent donc au CCSP de prévoir des mesures d'allégements pour l'application initiale des nouvelles exigences. Aussi, des questionnements ont été soulevés relativement à l'endroit dans les états financiers où serait comptabilisé l'ajustement, étant donné les autres projets de normes qui ne sont pas encore finalisés.

Exemples illustratifs

13. Les exemples illustratifs (Annexe) vous aident-ils à interpréter et à appliquer la norme? Dans la négative, quels autres exemples faudrait-il ajouter?

Les membres sont d'avis que les exemples devraient être présentés avec et sans les nouveaux modèles de présentation d'états financiers comme ils l'ont indiqué dans leur réponse à la question 10, et en incluant des exemples de situations de capitalisation différentes (entièrement capitalisés, non capitalisés, etc.).

Ils auraient aimé que certains exemples soient plus détaillés et approfondis. Ils citent l'exemple 5, par exemple, qui n'inclut aucun calcul. Selon eux, ce genre d'exemple ne leur permet pas d'approfondir les notions présentées dans les exigences.

Points divers

14. Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage aurait une incidence importante sur la compréhensibilité de l'information financière relative aux avantages sociaux? Dans l'affirmative, veuillez expliquer quelle serait cette incidence.

Les membres n'ont pas répondu à cette question.

15. Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage pourrait entraîner un changement dans la prise de décisions à l'égard des avantages sociaux? Dans l'affirmative, veuillez expliquer ce qui causerait ce changement. Par exemple, serait-ce en raison de politiques déjà en place dans votre organisation? De dispositions législatives?

Les membres ont relevé dans les questions précédentes les changements ou préoccupations qui, à leur avis, sont susceptibles d'apporter des changements dans les organisations, que ce soit lors du classement des régimes (capitalisés, partiellement capitalisé ou non capitalisés), de l'utilisation d'un taux d'actualisation applicable et de la gestion des fonds eux-mêmes (fonds juridiquement distincts ou non). De plus, certains se

demandent si des entités auront tendance à vouloir accélérer la capitalisation de leurs régimes.

Autres commentaires

Les membres ont soulevé d'autres commentaires à propos des propositions et les ont résumés ci-après.

Des préoccupations ont été relevées au sujet de la dernière phrase du paragraphe .16. Selon des membres, plusieurs entités du secteur public fédéral ont comptabilisé des passifs aux livres au sujet des congés de maladie non utilisés bien qu'ils ne puissent être pris sous la forme de congés annuels payés, et ces passifs sont significatifs. Ils craignent que les informations présentées dans les propositions poussent ces entités à faire disparaitre les passifs afférents à ces congés.

D'autres membres se sont questionnés au sujet des exigences du paragraphe .137. En effet, actuellement dans le secteur municipal, les instruments financiers non transférables émis par les municipalités et détenus dans leurs régimes de retraite sont comptabilisés dans les actifs du régime. Ainsi, ils se sont demandé si les indications du paragraphe, précisant que ces instruments sont exclus des actifs du régime, mèneraient à la comptabilisation de ces instruments au coût plutôt qu'à une juste valeur ou à totalement les exclure des états financiers du régime, ce qui en a inquiété plusieurs. De plus, la législation permettait antérieurement aux municipalités du Québec de payer des cotisations d'équilibre avec de tels instruments, mais même si ce n'est plus le cas actuellement, plusieurs de ces instruments sont toujours détenus dans les régimes de retraite et les échéances peuvent aller jusqu'en 2044. Ils demandent donc que le paragraphe soit plus clair sur la façon de comptabiliser ces instruments et souhaitent ardemment pouvoir les maintenir dans leurs actifs de régimes aux fins comptables. Bien que la législation ne permette plus actuellement de verser des cotisations d'équilibre avec des instruments financiers non transférables émis par l'entité du secteur public, cette situation pourrait tout de même se répéter dans le futur en cas de changement à la législation.

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CANADA

November 24, 2021

Michael Puskaric, MBA, CPA, CMA
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Comment on the Public Sector Accounting Board's, Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

Thank you for the opportunity to comment on the Public Sector Accounting Board's Proposed Section PS3251. As the City Treasurer of the City of London, since the City participates in the Ontario Municipal Employees Retirement System (OMERS) defined benefit plan, the review and comment on this exposure draft is important given its implications.

Based on the existing relationships and reporting requirements and expectations between OMERS and the City as known today, the proposed changes would prove highly problematic for both parties as there is no doubt information asymmetry that would require significant process changes to both OMERS and the City in order to satisfy note disclosure requirements, i.e. *PS 3251.170*. We suspect these issues would be encountered by all parties in a multi-employer plan that pool assets which are contributed by various entities. i.e. Municipalities across Ontario.

In response to the 15 questions sought out in the exposure draft, we would concur and echo all the comments and feedback that the **Municipal Finance Officers Association of Ontario** (MFOA) made in its response to this PSAB Exposure Draft, "MFOA response to PSAB Exposure Draft: Employee Benefits Proposed Section PS3251". Below are some of the highlights that ought to be taken into consideration from MFOA's response:

a) More clarity in paragraph *PS3251.004-.008* with respect to OMERS as there is no shared risk or control between OMERS and the public sector entities based on the definition of multi-employer plans.
b) Problematic disclosure requirements as outlined in *PS3251.170*, i.e. *"an indication of the level of participation of the public sector entity in the plan compared with other participating entities."*

c) While *PS3251.201* identifies a retroactive application, this application should be flowed through remeasurement provisions and not through a surplus or deficit account.

d) To aid in the transition and comprehension, additional practical illustrative examples should be provided.

Further, while we recognize the intent of this proposed change, we also need to acknowledge and be mindful that this change will present administrative challenges and additional costs at the municipal level coupled with the dependency on the timing of OMERS issuing their year-end financial statement.

Sincerely,

Anna Lisa Barbon, CPA, CGA
Deputy City Manager, Finance Supports and City Treasurer
City of London

COTAPSA
Our CITY, Our PEOPLE

November 24, 2021

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2
Email: mpuskaric@psabcanada.ca

Re: Exposure Draft on Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

We wish to comment on your Exposure Draft (ED) on Employee Benefits, Proposed Section PS 3251.

The City of Toronto Administrative, Professional, Supervisory Association (COTAPSA) has represented the over 4,800 management non-union employees of the City of Toronto for over 50 years. COTAPSA has advocated for management non-union representation on the OMERS Sponsors Corporation (SC) and OMERS Administration Corporation (OAC). We also seek improved accountability and transparency in overall decision-making at OMERS. COTAPSA is an associated OMERS employer.

OMERS administrators communicated to participating employers in late summer that OMERS was reviewing the Exposure Draft. It now appears the vast majority of impacted OMERS employers will be Ontario municipalities and related agencies. Except for the City of Toronto, municipal employers are represented at OMERS by the Association of Municipalities of Ontario (AMO).

We agree that public sector entities participating in jointly sponsored public pension plans like OMERS should report the proportionate share of pension plan risk and ultimate cost in the accrued benefit obligations reported by each employer. The current standard is inadequate and allows employers to keep their pension obligations off the books. Our jointly-sponsored Ontario public pension plans have evolved in scale, costs, complexity and risks to employers, members, and taxpayers but disclosure standards have not kept pace. The proposed disclosure requirements will provide more relevant and understandable information to financial statements. It is also essential that our Ontario government and its pension regulator better understand the breadth of our province's municipal pension assets and liabilities.

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We believe that sufficient initial information to follow the standards for defined benefit plans can be made available for each participating employer by OMERS administrators. However, defined benefit accounting may cause discomfort for municipal officials who will turn to AMO and OMERS administrators to help address the financial accountability challenges the newly disclosed financial information will likely create. Unfortunately, the desire to help municipal employers leads OMERS administrators to unfairly spend members' contributions assisting employers in treating the PS 3251 standards as a problem rather than an overdue disclosure improvement.

Reasonably precise calculations are not complex and pose no significant burden for municipal employers. Accordingly, we believe that all municipal employers participating in OMERS must be required to recognize their proportionate share of the defined benefit liabilities and assets in the pension plan on their annual financial statements.

We are also hopeful that OMERS is not granted any form of confidentiality for its comments to your organization. Unfortunately, we have yet to see a clear explanation of what OMERS believes is the specific problem with your proposed measures or their suggested alternatives and reasoning. The need for more cost transparency (and cost efficiency) for our public pension funds has never been greater. For the sake of beneficiaries and taxpayers, we need to avoid further distortion of the actual financial picture of our public pension plans. Your new measures will foster more honesty and the improved data necessary to support our pension benefits into the future.

Without the standards of independent bodies such as PSAB, pension beneficiaries are losing access to necessary disclosures of the sustainability of our public pension funds and public finances.

Thank you for allowing us to comment.

Sincerely,

Mike Major
Executive Director

Finance
Office of the Commissioner
Halton Region
1151 Bronte Road
Oakville, ON L6M 3L1

November 25, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Michael Puskaric,

RE: Response to Exposure Draft: Employment Benefits, Proposed Section PS 3251

We appreciate the opportunity to comment on the Public Sector Accounting Board's (PSAB) Exposure Draft: *Employee Benefits, Proposed Section PS 3251* (the ED).

I am writing to provide comments in support of the Municipal Finance Officers Association of Ontario's (MFOA) responses and submission to the ED.

As the Treasurer of the Regional Municipality of Halton, I support the proposed standard with the view that financial statements and note disclosures should promote transparency and understandability to the reader (ie. general public and other levels of government), while balancing the resources required to complete the financial statements in accordance with Public Sector Accounting Standards.

After reviewing the ED, the ED leads us to conclude that participating employers will not be required to recognize a proportionate share of the net assets of the multi-employer pension plan in which they participate.

As such, as an employer in a multi-employer pension plan (i.e., Ontario Municipal Employees Retirement System (OMERS)), we are pleased that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. We anticipate, we will not have sufficient information available. The ED sets out that sufficient information would not be considered available if a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not have access to sufficient information. We believe both these conditions will apply to Halton Region.

We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB in the future. We would like to take this opportunity to encourage PSAB to take a more holistic approach to establishing new or significantly revising standards. It is challenging and administratively burdensome for municipal finance officials to redevelop their financial statements and update related processes/systems frequently for different standards.

Should you wish to follow up on this letter, please contact Cyndy Winslow, CPA, CA at cyndy.winslow@halton.ca.

Sincerely,

Cyndy Winslow
Commissioner of Finance & Regional Treasurer

Appendix 1 - MFOA Response to PSAB Exposure Draft: Employee Benefits, Proposed Section PS 3251

MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

MFOA Response to PSAB Exposure Draft: Employee Benefits, Proposed Section PS 3251

Introduction

About MFOA

The Municipal Finance Officers' Association of Ontario (MFOA), established in 1989, is the professional association of municipal finance officers with more than 4500 individual members. We represent individuals who are responsible for handling the financial affairs of municipalities and who are key advisors to councils on matters of finance policy. MFOA promotes the interests of our members in carrying out their statutory and other financial responsibilities through advocacy, information sharing, networking opportunities, and through the promotion of fiscal sustainability. We also provide members with training and education to enable continuous professional development and to support excellence in municipal finance.

The following submission is made in partnership with MFOA's Committee on Accounting and Financial Reporting, consisting of municipal finance officers across Ontario. Please note that MFOA has attempted to address the questions from a broad Canadian context. However, in many circumstances, we have narrowed our responses to address the Ontario context only. Where this occurs, we have specifically noted that the response is from that specific Ontario context.

Overview

In general, MFOA supports the proposed standard with the view that it will improve the reporting of potential liabilities and risks, keeping in mind that understandability of such disclosure is paramount. We have significant concerns with respect to the resource requirements to develop appropriate note disclosure and actuarial valuation calculations. This will be a significant burden on municipal staff, especially in the first year with the need to prepare an appropriate note to the financial statements.

It should be noted that, in the Ontario context where most municipalities are members of the Ontario Municipal Employees Retirement System (OMERS), a significant portion of the proposed standard will not be applicable. OMERS is a multi-employer plan where resources are pooled under agreement between OMERS and the member municipalities. With OMERS, control and risk are entirely borne by the administering body and not by the employers or the employees. OMERS does not track actuarial gains and losses by employer, as that is contrary to the nature of a multi-employer plan. As such, OMERS employers will likely account for the pension plan in much the same way as is the current practice, using the defined contribution plan methodology. MFOA recognizes this will increase the note disclosure requirements for OMERS employers.

We also take this opportunity to encourage PSAB to take a more wholistic approach to establishing new or significantly revising standards. It is challenging and administratively burdensome for municipal finance officials to redevelop their financial statements and update related processes multiple times within a few years for different standards. For example, under the conceptual framework, PSAB is investigating transitioning traditional budget documents to be presented on the same basis as the financial statements. Proposed PS 3251 requires the inclusion of post-employment benefits in financial statements on a more fulsome basis than under the current standard. However, by regulation, it is not mandatory to include post-employment benefits, along with a number of other categories, within the approved budget. These rapid changes require increased staff resources, may incur additional costs for consultants or software changes, and may delay the completion of the audited statements. Additional forethought when developing or revising a standard as to regulations or other upcoming standards and how one may impact the other would be of great benefit to all involved with implementation.

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

The scope of the standard is clear for the most part. However, there is some confusion as to the application to specific defined benefit plans, such as the Ontario Municipal Employees Retirement System (OMERS) plan in Ontario. Municipalities in Ontario and the OMERS administrators believe that the provisions for defined benefit plans under this standard do not apply based on the definition of multi-employer plans wherein there is no shared risk or control between OMERS and the public sector entities.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

We found the glossary to be informative and assisted with the interpretation of the standard.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

As previously stated, the Ontario municipal circumstance of a defined benefit plan through OMERS does not involve individual employer control of assets nor does it share any risks, in general, if there is a shortfall in the plan. There are no obligations required from Ontario municipalities that contract with OMERS for any payments beyond those required from regular payroll deductions. If there is no pay issued, there are no payments required.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

MFOA cannot comment on this section as we have limited knowledge of other pension plan arrangements across Canada.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

In Ontario, under the OMERS plan, there would be no change in the accounting treatment for pension plan contributions. All contributions are accounted for on a monthly basis and any amount owing at the end of a fiscal year is set as an accrued liability and an expense for that fiscal year.

However, the disclosure requirements set out in s.170 are well beyond what Ontario municipalities currently report on pensions. This may prove to be quite onerous in developing appropriate and auditor-acceptable wording across all Canadian municipalities. Further, there are significant information requirements such as funding methodology, allocations between employers, and plan surpluses and deficits and how these implicate future contributions. Much of this information is not available nor even achievable without great expense on the part of pension providers.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

The guidance is clear and sufficient.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

The discount rate approaches in these sections seem reasonable. MFOA supports the proposed position of not including risk in determining the appropriate discount rate.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

The requisite in-house skill sets to accomplish large sections of the proposed standard are lacking in most municipalities, especially small municipalities. Proper analysis will require expert advice, adding costs to the reporting and administration of the standard.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

As stated in the previous question, the requisite in-house skill sets to accomplish large sections of the proposed standard are lacking in most municipalities, especially small municipalities. Proper analysis will require expert advice, adding costs to the reporting and administration of the standard.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized. If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

MFOA agrees that any revaluation resulting in changes to the net asset or liability of the plan should not flow through to subsequent surpluses or deficits of the entity. PSAB's proposal to recognize the change through PS 1202 (if passed) or through accumulated remeasurements of net assets (if PS 1202 is not passed). Revaluations may fluctuate from year to year and it is inappropriate to recognize any gains or losses due to remeasurement in the entity's operating surplus or deficit as they may not be realized in full or in part in the future.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would

alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility. Through PSAB's ongoing Conceptual Framework and Reporting Model project, this is proposed to be renamed "net financial liabilities" under proposed Section PS 1202.

Volatility is an inevitable consequence with the various remeasurement gains and losses arising from various new standards including Asset Retirement Obligations, Financial Instruments, and now this proposed standard. Continual changes in reporting pushes the learning curve for end users and diminishes the understandability of the financial statements. As such, no further note disclosure requirements should be specified in this area; rather, clarification of the changes should be at the discretion of the municipalities.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

MFOA supports a single year, retroactive application upon initial adoption of the proposed standard. It is assumed that any valuation changes that result from the retroactive application will be flowed through the remeasurement provisions and not through a surplus or deficit account.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

MFOA finds the illustrative examples as helpful with interpretation but do not go far enough for practical application.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

In the Ontario context, MFOA does not think that applying this proposal will improve understandability of employee benefits as there are no future obligations or benefits for OMERS employers. However, in the broader Canadian context, where pension plans may hold post-employment obligations, the application of this proposal will assist with better reporting and accounting of future obligations.

MFOA is of the opinion that understandability will not improve as very few, if any, councillors or members of the public explore the financial statements to this depth. Budget documents, along with in-year and year-end reporting on overall results are relied on far more heavily than the audited financial statements.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

MFOA does not anticipate any change in decision making for employee benefits for Ontario OMERS employers.

The Regional Municipality of Durham

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N. Taylor, BBA, CPA, CA
Commissioner of Finance

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft - Employee Benefits, Proposed Section PS 3251

I am writing to provide comments in support of the Municipal Finance Officers Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on Employee Benefits, Proposed Section PS 3251.

As the Treasurer of the Regional Municipality of Durham, I believe it is important that public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. Financial reporting should promote transparency and understandability to the financial statement reader, while balancing the resources required to complete the financial statements in adherence with Public Sector Accounting Standards.

As identified in MFOA's submission to PSAB, the proposed changes within the Exposure Draft cause a significant burden on municipal staff due to the resources required to develop appropriate note disclosure and actuarial valuation calculations. Additionally, Ontario municipalities who are members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer defined benefit plan, will be required to include additional note disclosures well beyond what is currently reported. Some of the proposed note disdosure requirements relate to information that is not currently provided by OMERS, while the remaining multi-employer plan disclosures would be quite onerous for municipalities to develop.

As highlighted in the MFOA submission to PSAB, the Employee Benefits proposed standard is one of many accounting standard changes to be released within a few years, in which implementing these changes require increased staff resources, potentially additional costs for consultants or software changes, and may delay the completion of the audited financial statements. We encourage PSAB to take a more wholistic approach to establishing new or significantly revising standards, keeping in mind the broader impact to the public sector, from a resourcing and regulatory perspective.

To successfully update the Employee Benefits, I support MFOA recommendations:

1. Clarify the application of the standard to specific defined benefit plans, such as OMERS
2. No further note disclosure requirements should be specified in relation to the net debt volatility, as this should be at the discretion of the public sector enterprise
3. Valuation changes resulting from retroactive application should be flowed through remeasurement provisions and not through a surplus or deficit account
4. Illustrative examples should represent a more practical application to assist financial statement preparers in determining the requirements of the standard

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document provides more germane information to municipal councils than is provided by the historical financial statements in most circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed.

Should you wish to follow up on this letter, please contact Nancy Taylor, BBA, CPA, CA at nancy.taylor@durham.ca or Joanne Cermak, CPA, CA at joanne.cermak@durham.ca.

Sincerely,

Nancy Taylor

Nancy Taylor (Nov 25, 2021 15:19 EST)

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance and Treasurer

TOWNSHIP OF
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Lakes

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November 24, 2021

Michael Puskaric, MBA, CPA, CMA
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON
M5V 3H2

RE: Response to Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

I appreciate the opportunity to comment in support of the submission put forth by the Municipal Finance Officers' Association of Ontario on the Public Sector Accounting Board's (PSAB) Exposure Draft: Employee Benefits, Proposed Section PS 3251 (the ED). While the ED lists 15 questions for comment, this response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans.

The Township of Muskoka Lakes is a participating employer in the OMERS defined benefit pension plan, which is a multi-employer, jointly-sponsored pension plan with more than 1,000 participating employers.

As an employer in a multi-employer pension plan (i.e., OMERS), it is appropriate that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. The interpretation that the proposed guidance will not apply to OMERS employers such as the Township of Muskoka Lakes is based principally on the proposals set out in new paragraphs .033 - .035, which state that an entity would not be required to recognize a proportionate share when sufficient information is not available. The ED sets out that sufficient information would not be considered available if a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not have access to sufficient information. We believe both conditions will apply to OMERS employers such as the Township of Muskoka Lakes.

However, the requirement for additional disclosure as set out in para.170, including sub-para (d), would create other challenges of their own insofar as the development of auditor-acceptable and appropriate language across the municipal sector, and the availability and expense of gathering information to support such disclosures related to funding methodology, proportionate share amongst employers, plan surpluses and deficits and their impact on future contributions, particularly for small municipalities such as ours. It is important to recognize the significant burden on municipal staff due to the resources required to develop appropriate note disclosure

and actuarial valuation calculations and the limited increased value it would provide to users of our financial statements.

Sincerely,

Mark Donaldson, CPA, CMA
Director of Financial Services/Treasurer

Municipal Pension Board of Trustees

Mail: PO Box 9460, Victoria BC V8W 9V8 • Location: Ground Floor, 320 Garbally Road, Victoria, BC V8T 2K1
Phone: 250 356-6220 • Fax: 250 356-6245 • Email: mpbt@pensionsbc.ca • Web: mpp.pensionsbc.ca

November 24, 2021

Via email: info@psabcanada.ca

Michael Puskaric
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Subject: Response to PSAB Employee Benefits Proposed Section PS 3251 Exposure Draft

Dear Mr. Puskaric,

I am writing on behalf of the Municipal Pension Board of Trustees (the Board) in response to the Public Sector Accounting Board's (PSAB) call for public comment to PSAB Employee Benefits Proposed Section PS 3251 Exposure Draft. The scope of our comments is limited to accounting treatment of pension benefits.

About the Municipal Pension Plan (MPP or plan)

The MPP is the largest pension plan west of Ontario, with approximately 380,000 members and more than 900 employers participating from the health, local government, education and community services sectors. Our plan represents more than 30% of all members of pension plans registered in British Columbia, and approximately 1/3 of all pension assets (approximately $66.5 billion) in the province. As a large pension plan, we strive to be an industry leader and an effective participant in the pension industry.

We are a multi-employer, contributory, defined benefit pension plan governed by a joint board of trustees. The plan's independent board is fully responsible for the administration of the plan and investment of the fund.

Our participating public sector employers have no formal claim to any pension plan surpluses. In the event of an unfunded liability, both plan members' and plan employers' contributions will be increased equally to amortize the cost of the deficit. In this manner, unfunded liabilities are short term and contributions maintain the plan's fully funded status over time. We are proud to say that we are fully funded on a going concern basis.

As a funded pension plan, we do not follow PSAB standards. We use the Pension Accounting Standards as set out in Part IV of the CPA Handbook. However, the PSAB standards are applicable to many of the employer entities who participate in the MPP.

As participants in a multi-employer jointly managed public sector pension plan, we understand that most, if not all, MPP employers record the contributions they make to the MPP as a pension

expense in their own financial statements; they do not directly record any future obligation for pension liabilities in their financial statements. This practice follows the PSAB's defined contribution pension plan accounting requirements and aligns well with our model of plan governance where participating employers and members share the responsibility for plan governance.

In the unlikely event that the plan is wound up tomorrow, there is no entity or group of entities legally obliged to fund any shortfall. If a shortfall existed at the time of a wind up, benefits might need to be pro-rated. More specifically, the plan's trust agreement provides that, in the event the plan is terminated in its entirety, the plan sponsors will determine what happens if there is an unfunded liability. It reads as follows:

> *If the assets in the Pension Fund as of the date of termination are insufficient to make full provision for all entitlements to receive a pension in respect of the Plan Members' membership in the Pension Plan to the date of termination, such shortfall will be dealt with in the manner as is then agreed to by the Signatories*.

Further the plan's trust document explicitly provides the following:

> *Without limitation, no Plan Member, Employer, Signatory or union or association that represents any of the Plan Members shall be liable or responsible for any debts, liabilities, obligations or deficiencies of the Board, the Pension Plan or the Pension Fund.*

Summary Feedback on PSAB Employee Benefits Proposed Section PS 3251 Exposure Draft

First, as we noted in our earlier submission on this project[1], while the plan itself does not follow the PSAB accounting standards, we believe it is imperative we make submissions during this engagement due to the potential for profound implications for our participating employers. The plan is a model of a modern well-governed defined benefit pension plan and our on-going sustainability is tied to that of our participating employers. As you develop future guidance for non-traditional pension plans, we hope you give our comments serious consideration, given the unique nature of the public sector pension plans in British Columbia.

Second, we were very pleased with what appears to be PSAB's acknowledgement of the reasonableness of our position that when a public sector entity, participating in a defined benefit pension plan, is not able to identify its share of assets or liabilities, then the entity may account for pension expenses on a defined contribution basis. This appears to be the gist of the proposed standard with respect to public sector entities participating in either multi-employer or joint defined benefit pension plans, and we believe this means our plan's participating employers can continue to use defined contribution accounting.

Third, we were very pleased with what appears to be PSAB's acknowledgement of the reasonableness of our position that public sector employers participating in pension plans like ours, that are structured to be fully funded (and required to amortize any deficits and return to a fully

[1] See correspondence dated January 31, 2019, entitled "Submission re Employment Benefits: Non-traditional pension plans"

funded position over a period not exceeding 15 years) are entitled to use the plan's expected rate of return as the discount rate.

We believe there are opportunities to further refine the guidance, focusing on the following points, which are described in further detail in the attached appendix.

Plan Category Definitions - To reduce the risk that public sector employers come to different, opposing conclusions as to which category applies, we recommend modifications be made to clearly differentiate each plan category. In addition, we encourage PSAB to look at expanding the definition of joint defined benefit plans to focus on the residual risk to participating employers and the control they have over non-traditional pension plans such as MPP.

Application of Defined Contribution Accounting - We support the ongoing application of DC accounting standards for MPP employers. However, we recommend refining the guidance to clearly identify that the primary rationale for the ongoing application of defined contribution accounting standards for non-traditional joint defined benefit plans (like the MPP) is on its shared risk structure, as described on page four of this document.

Applicable Disclosure Requirements - We believe the application of some new requirements would add significant additional costs and would misrepresent the risks of a public sector employer using defined contribution accounting. As a result, the new disclosure requirements may be a deterrent for public entities choosing to participate in a defined benefit pension plan versus a defined contribution plan.

Thank you for the opportunity to comment on Proposed Section PS 3251 Exposure Draft.

Sincerely,

Gary Yee,
Board Chair

cc: Michael McMillan, Health Employers Association
Gary MacIsaac, Union of BC Municipalities

Appendix 1: Responses to Questions re. PSAB Employee Benefits Proposed Section PS 3251 Exposure Draft

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

No comment.

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2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

The Glossary is generally helpful in providing clear definitions. However, we do have the following comments / recommendations:

Plan category definitions - There are challenges in determining which category of pension plan may apply to an employer as the MPP can be interpreted to fall under multiple plan categories, including multi-employer and joint defined benefit. Unless the PSAB advises differently, our assumption is the MPP is considered a joint defined benefit plan.

To reduce the risk that public sector employers come to different, opposing conclusions as to which category applies, we recommend modifications be made to clearly differentiate each plan category.

Joint defined benefit plan – The definition includes many characteristics, but "shared risk" is not clearly defined and "reduced risk" to the public sector entity is not clearly reflected. We recommend the current definition be expanded to recognize the principles inherent in the contractual agreement that establishes the jointly trusteed public sector plans in British Columbia, including the MPP. These principles are:

- Equal sharing of responsibility for management of the pension asset in the best interest of the beneficiaries
- Sharing of contributions
- Equal sharing of responsibility for any unfunded liabilities generated during the period of joint trusteeship
- Equal ownership of any surpluses generated during the period of joint trusteeship
- Protection of the plan from unilateral actions by plan sponsors or principals

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3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

It is unclear to the MPP whether this guidance would change any public sector entity's accounting treatment of the MPP. We understand this guidance may impact whether the Province of British Columbia (Province) recognizes MPP or not. What we don't understand is what constitutes a defined benefit plan that shares risks among various public sector entities under common control. Without further clarity, we worry there is a substantial risk of governments being asked to include pension plans where there is no identifiable risk or liability to the government.

In the case of a pension plan where a single or a group of public sector entities are the sole sponsors of the plan, the concept of common control may be applicable. However, we submit that in a jointly sponsored plan such as MPP, where the risks/rewards are shared between the participating employers and members, common control among the public sector entities is irrelevant as no one single entity has unilateral control over the pension plan. In our case, no single entity even has unilateral control over participating employers.

We understand some, but not all, of MPP's participating employers' financial statements may be consolidated on the Province's financial statements (i.e., summary accounts.) However, in the case of joint defined benefit plans such as the MPP, neither the Province, nor the public sector entities under its control, have any right to MPP surpluses or the responsibility to fund deficits or on wind up. As a result, we strongly believe that the Province should only be required to disclose the net defined benefit cost in respect of our plan (i.e., DC accounting), but not recognize it as an obligation (i.e., DB accounting.) We think it is important to call out that implicit in the guidance is an erroneous assumption that all defined benefit pension plans must have a consolidating sponsor.

Recording all the shortfall as a commitment for future cash outflows of the Province can result in a dramatic overstatement of that liability. It also creates a moral hazard, with readers of the Province's financial statements erroneously believing that the government or taxpayers back all the liabilities of the plan.

Expanding the definition of joint defined plans to recognize that in a joint defined benefit plan a participant's risk, including the Province's risk, is limited to the contributions the participant makes addresses our concerns.

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4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

There are some challenges in the guidance with respect to determining which category of pension plan may apply to an employer. For example, the MPP could be considered to fall under multiple categories, including category-wide, multi-employer or a joint defined benefit plans. We recommend refinements be made to the guidance to clearly differentiate each plan category and minimize the risk that similarly situated public sector employers come to different conclusions with respect to the category of the same plan.

In addition, under paragraph 0.43, it states that category-wide plans should use the guidance applicable to multi-employer plans. We are not clear on the purpose of defining "category-wide plans" separately if they are considered a subset of multi-employer plans.

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5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Inclusion of paragraph .033 is aligned with how our participating employers currently account for their pension obligations. We appreciate PSAB's acknowledgement of the fact that in a multi-employer defined benefit plan, there is no mechanism for allocating surpluses/deficits or gains/losses to individual employers.

However, we believe it is important that the standard clearly state that where there is reduced risk to the public sector entity due to risks being shared or limited contractually, DC accounting and disclosure standards apply. We do not agree with the guidance that defined benefit accounting is the default form of accounting and is only allowed if there is insufficient information available to employ the defined benefit accounting and disclosure method. For this reason, we recommend refining the standard to clearly identify that DC accounting standards apply not only where insufficient information is available to apply DB accounting standards, but also where the pension plan in question, has the shared risk characteristics listed on page 4 of this submission.

In addition, we are not clear on the applicable disclosure requirements for joint defined benefit plans. Paragraph .49 states that a public sector entity should account for its participation in a joint defined benefit plan in the same way as a multi-employer defined benefit plan. Paragraph .170(d) provides the disclosure requirements for a public sector entity in a multi-employer defined benefit plan who takes on defined contribution accounting. Paragraph .171 prescribes disclosure requirements for joint defined benefit plans, in addition to those required from multi-employer defined benefit plans (paragraphs .157-.169). However, it is not clear as to what happens when a participating employer in a joint defined benefit plan is not able to follow defined benefit accounting due to lack of sufficient information (i.e. a corollary to .170(d)). We suggest that paragraph .171 be expanded to cover such cases.

We also note that the disclosure requirements under paragraph .170 (d) have been greatly enhanced compared to the existing standard. We believe the additional prescribed information may lack objectivity in practice and, in any event, will add little value to end users. For these reasons, we request that PSAB considers reverting to the existing requirements. Simplifying or consolidating the disclosure requirements for non-traditional plans may also lead to more efficiency and reduce the need for identifying so many different categories.

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6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

We support a guidance that uses an expected market rate of return when a pension plan is fully funded. However, the proposed guidance is inconsistent because paragraph .112 speaks to an expectation to be fully funded, but paragraph .107 outlines a complex calculation that must be performed annually for a pension plan to prove it is fully funded. We believe this may result in pension plans that are fully funded not being considered fully funded during economic crises. Paragraph .110 provides better measures that examine the pension plans funding policy, actions and governance to establish whether a pension plan is expected to be fully funded or not. We also believe that the paragraph .110 should be the first consideration in determining the funded status of the plan, and be made clearer to confirm that all registered pension plans should be considered fully funded without a need for further analysis where there is a legislative or funding policy requirement to fully fund any deficit.

How a pension plan operates generally does not vary annually and it will continue to operate in a similar manner unless the funding policy changes or plan rules are modified. For this reason, we believe the annual test in paragraph .107 is unnecessary, complicated, and costly, and a triennial requirement is a more appropriate minimum standard.

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7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

We support the approach taken for fully funded plans to use a market related discount rate. Given our Plan's funding policy, joint trust agreement and other governing documents, as Plan governors, we are tasked with ensuring that in the event of adverse experience, the Plan's fully funded status is restored over a period not exceeding 15 years. It is our expectation that our Plan will be deemed fully funded under PSAB standards.

Participating employers have no formal claim to any MPP surpluses and in the event of an unfunded liability, both plan members' and plan employers' contributions to the MPP will be increased equally to amortize the cost of the deficit. In this manner, unfunded liabilities are short term and contributions maintain the MPP's fully funded status over time.

We also applaud PSAB for recognizing the unique aspects of modern Canadian public sector defined benefit pension plans.

We have no comment with respect to the rules for partially funded or unfunded plans, given our understanding that our plan will always be treated as fully funded for the reasons noted above.

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8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

To distinguish between fully and partially funded plans, PSAB should strengthen paragraph .110 by making specific reference to plans that are required to be fully funded over the long term by means of their funding policy, governing documents, or legislation, as is the case with the MPP. This removes the ambiguity between partially funded plans where the sponsor is under no obligation to fund the deficit versus plans that may experience a decline in their funded status over the short run but have an obligation to fund the resulting deficit and restore the Plan to fully funded position.

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9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

We have no comments as we expect the MPP to be deemed fully funded for the reasons stated before.

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10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

We have no comments but understand this to be a direct result of PSAB's proposal to require immediate recognition of actuarial gains/losses. Our comments regarding the proposed requirement are stated below.

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11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

We do not agree with immediate recognition of actuarial gains and losses, nor the removal of asset smoothing, for the following reasons:

a) It introduces unnecessary volatility to the public sector entity's financial statements

b) It overstates/ understates the cost of public sector pension plans
c) It creates a further disconnect between accounting and funding

We believe the proposed guidance will create unnecessary volatility on public sector entity financial statements and may negatively impact the users of the statements. Pension plans are long term in nature. Allowing actuarial gains and losses to be amortized (when a pension plan is a going concern) provides better disclosure as it better presents the impact over the long term.

Introducing such volatility into public sector entities' operating results may cause public sector pension plans to appear more expensive than they are. This would almost certainly challenge public sector entities' ongoing plan participation and erode the sustainability of modern defined benefit pension plans. Plan sustainability is important, as these plans provide members with predictable and reliable incomes in retirement and have a stabilizing effect on the local, provincial and national economies especially important during market downturns created by a global pandemic.

To illustrate our concerns, it may be helpful to use an example. If investment markets dip at year-end, this could temporarily push a plan into a deficit position, creating significant concern. However, market dips are usually short term and the deficit is usually erased the following period. Similarly, a very strong investment year could push a plan into a strong surplus position, leading readers to believe they could access this surplus.

To balance out disclosure and provide a long-term perspective, we provide additional optional disclosure on the actuarial surplus/deficit from a funding basis on the plan financial statements. This disclosure reflects the methodology employed by the plan's actuary and defers investment gains and losses and other scheduled amortizations.

As PSAB continues to develop new guidance, we want to ensure that the standards introduced will balance the need to reflect both changes immediately and the long-term nature of pension plans. We propose that long-term value is more important to readers, as the "long term" is when active members retire and begin to access the funds. We also suggest that aligning disclosures with the work done by the pension actuaries is logical.

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12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

We hope that PSAB uses the long-time frame between now and the implementation date of proposed standards to clarify the standards applicable to joint defined benefit plans such as MPP and simplify the disclosure requirements for public sector entities who follow defined contribution accounting standards, as recommended above.

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13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

We found the illustrative examples helpful.

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14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

We believe the level of disclosure required for public sector entities to be excessive—particularly for multi-employer pension plans and joint defined benefit pension plans that are required to use defined benefit accounting. The proposals detract from the understanding of the risks of participating in such a plan. Pension plans are not well understood, and the plans that are shared by many employers are even more complicated. To include lengthy disclosure requirements for every possible risk would make the financial statements incomprehensible for most readers. Also, the pension disclosure is already publicly available through the actual pension plan financial statements. The full set of disclosures do not need to be recreated on the public sector entity's financial statements.

Also, we consider the level of disclosure required for defined benefit accounting under this guidance as punitive to joint and multi-employer defined benefit plans. Each public sector entity would incur significant additional costs for providing this level of disclosure, which would be another significant deterrent for participating in a defined benefit pension plan versus a defined contribution plan. The level of disclosure should not be so vastly different between multi-employer and joint defined benefit plans. We recommend that rather than recreating this disclosure, readers should be directed to the actual pension plan financial disclosures. The pension plan financial statements already provide excellent disclosures that are similar to the requirements in this guidance.

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15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Under the proposed changes, each public sector entity would likely incur significant additional costs to provide the level of disclosure required for multi-employer or joint defined benefit plans (assuming sufficient information was available for defined benefit accounting). The new disclosure requirements in this guidance may be a deterrent for public entities choosing to participate in a defined benefit pension plan versus a defined contribution plan, which would be to the detriment to all its employees. The pronouncements could have an unintended impact on public sector entities deciding not to offer defined benefit pensions as an employee benefit. In addition, application of the new disclosure requirements may likely detract from the comprehensibility of the financial position of employers by disclosing information they are not responsible for managing. If a reader has interest in the financial position of the MPP, that information is publicly available in its financial statements issued annually.

As PSAB continues to develop its guidance we strongly recommend it include explicit guidance for non-traditional defined benefit pension plans that offer the employer similar risks to defined contribution pension plans, while providing benefits to employees that are similar to traditional defined benefit pension plans. Disclosure for these new plans needs to align with the residual risks to the employer.

Grant Thornton

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November 24, 2021

Dear Mr. Puskaric:

SUBJECT: PSAB's Employee Benefits, Proposed Section 3251 (May 2021)

Grant Thornton LLP (hereinafter "we") would like to thank you for the opportunity to provide comments on the Public Sector Accounting Board's (hereinafter the "PSAB" or the "Board") Exposure Draft entitled E*mployee Benefits, Proposed Section 3251* (hereinafter the "ED"). Below please find our response to the questions asked in the ED:

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

Yes, we believe it is clear.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

Yes, we believe that the definitions assist in interpreting and applying the standard.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

We have no comments in relation to this question.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

We are not aware of any such plans within our Firm. However, we do find the guidance somewhat confusing as to what type of plans the guidance is intended to apply to.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring**

government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

We do not believe that would change current practice.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

Based on our review of the proposed guidance, it appears to be sufficient.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

We do not agree with the new methodology for partially funded plans. We believe it is overly complex and will add significant costs for entities, whereby we do not see sufficient benefit to require the need for this analysis. It will also require extensive information to be provided by actuaries in order to audit the work they performed and add to audit costs and the need for subject matter experts to assess the accounting. The Board should consider reducing the effort by having different rates for fully funded and unfunded plans as proposed, but it should propose a simpler method to determine the rate for a partially funded plan (for example, a single simple rate. We understand the process proposed for partially funded plans is very technically sound and exact, but the extensive effort to arrive at the rate by actuaries and to audit the estimates is too costly especially for smaller public sector entities and government not-for profits of which there are numerous ones in the sector.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

Please see our comments in Question 7.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

Please see our comments in Question 7.

Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets3 without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

Yes, we agree.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

While it will add volatility, we believe that stakeholders can be educated about the impacts. We are open to further disclosures that could convey the impacts.

Transitional provisions

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

Yes, we agree.

Illustrative examples

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

We believe that more illustrative examples, showing the underlying calculations, would be very useful to demonstrate basic concepts like net interest calculated and valuation allowances, for example. Also, a good example disclosure would be useful for a defined benefit plan. The former illustrative materials in Section PS 3250 were extensively used and referred to so it would be extremely helpful to provide detailed illustrations in all areas to help preparers understand the concepts for an area of accounting that is not well understood.

Other

14. **Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.**

No, we do not believe it will significantly change the understandability of financial reporting on employee benefits. In general, defined benefit plan accounting is not well understood by financial statements users. Also, users have previously found the disclosures for defined benefit plans to be excessive. The proposals add even more disclosure which we believe will not add to understandability for audit committees, the public and other stakeholders. We believe the current disclosures will add to the disclosure overload users feel versus adding a benefit for them. Some examples of disclosure we find are unnecessary include paragraphs .115, .161(a)(ii) and (iii), .163(c)(iv), .166, 169(c), 170(d)(iv), .182, and .197 (while this isn't a comprehensive list).

15. **Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.**

For pension plans, we believe that a lot of public sector entities depend on their funding valuations to assess the status of their plans versus accounting valuations as they find that information more useful. Removing the smoothing of actuarial gains and losses from the asset/liability will result in a balance that better demonstrates the liability or asset at a point in time. For post-employment benefits and compensated absences, we do not believe that it will change decision making.

Other items

Below are additional comments we have on the Exposure Draft:

- Paragraph .006(a)(ii) refers to social security contributions (which is American terminology). We would suggest using terminology that is more Canadian.
- We believe that paragraph.006(b) should include sick leave plans that accumulate but do not vest as an example because they are the largest significant employee benefit plan other than pension plans. We believe the standard needs to be extremely clear that these plans are post-employment benefit plans as that is an area that is misunderstood by preparers and result in a significant number of restatements by entities that do not realize these types of plans result in a liability or how they should be measured appropriately.
- We believe that the discussion in paragraph .014 related to accumulating and vesting benefits was much clearer in the former standard Section PS 3250. It was a very useful paragraph to convey to preparers and practitioners that sick leave plans fall under the scope of the standard. The Board should consider improving the guidance in this paragraph by incorporating the well-used and understood guidance in PS 3250 to provide further clarity.
- Paragraph .016 states: "*The method specified in paragraph PS 3251.015 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, a public sector entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences**. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave***." We would suggest that the last sentence is somewhat unclear as to what it is trying to convey.
- Paragraph .036 says *"There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). **A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph PS 3251.033 would recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit**."* We think there should be additional guidance to explain what an entity should do when the multi-employer plan has a different year end than the public sector entity's year end and it cannot obtain that information as at its year end date.
- We question whether the guidance in paragraph 110(b)(i) allows so much judgment that there may be a bias to use a fully funded interest rate that may lead to a lower liability in cases that it really should not.
- Below are some additional comments we have related to the proposed disclosures:
    - We believe paragraph.060 should be clarified as to whether this disclosure is optional or mandatory.
    - Paragraph .166 says "*A public sector entity would disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph PS 3251.084). **Such disclosure would be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables**). When a public sector entity provides disclosures in total for a grouping of plans, it would provide such disclosures in the form of weighted averages or relatively narrow ranges."* We believe this bolded portion of this disclosure should be clarified for preparers and practitioners to understand its intent.
    - For paragraphs .182 and .197, are those disclosures intended to require separate disclosure of employee future benefits apart from each function, by function in the statement of operations or that they must be allocated between functions?

- Paragraph .198 refers to employee future benefits, we believe it should refer to termination benefits.

If you wish to discuss our comments, please contact Melanie Joseph (Melanie.Joseph@ca.gt.com, 416-607-2736).

Yours sincerely,

Grant Thornton lip
Melanie Joseph, CPA, CA

Ontario Federation of Labour Response to

Public Sector Accounting Board

Exposure Draft – Employee Benefits,

Proposed Section PS 3251

Submitted to:

Public Sector Accounting Board

Ontario Federation of Labour
November 25, 2021

ONTARIO FEDERATION OF LABOUR • FÉDÉRATION DU TRAVAIL DE L'ONTARIO
15 Gervais Drive, Suite 202, Toronto, Ontario M3C 1Y8 T: 416-441-2731 | F: 416-441-1893 | OFL.CA

The Ontario Federation of Labour (OFL) represents 54 unions and one million Ontario workers. It is Canada's largest provincial labour federation and speaks on public-policy matters on behalf of its affiliates, including pensions and benefit plans. The OFL has long experience advocating on behalf of both public- and private-sector pension plan members and public pensions. We appreciate the opportunity to provide summary comments on the Exposure Draft.

Discount Rate

Paragraph .111 of the Exposure Draft indicates funded plans would use the "expected market-based return" on plan assets, suggesting the PSAB intends to permit the continued use of an actuarially determined expected rate of return for fully funded plans. We strongly support allowing the continued use of an expected rate of return. However, we believe including the words "market-based" in the new standard is unnecessary and potentially confusing. We believe the draft already establishes the principle that forward-looking assumptions should be based on market expectations but not simply and mechanically derived from current market prices.

Accordingly, we recommend that the words "market-based" be omitted from the basic description of the discount rate basis for funded plans, in order to improve clarity.

Participating Employers in Multi-Employer Plans

PS 3251 proposes that, by default, participating employers will be expected to follow defined benefit (DB) accounting for their share of the multi-employer plan's total assets, liabilities, and costs. However, "when sufficient information is not available," the participating employer would be permitted to continue using defined contribution accounting, in addition to making certain new disclosures.

We are keenly aware participating employer-level data is commonly if not typically unavailable. Requiring employers to obtain this information would either be extraordinarily expensive and difficult (and, in some cases, simply impossible), or would likely result in unreliable information amounting to an approximation rather than an accurate picture. We fail to see how this requirement would serve the public interest. Although the PSAB adopts the approach of International Public Sector Accounting Standards (IPSAS) 39 on this score, we strongly believe that the realities of Canadian multi-employer pension plans justify a departure from international standards on this issue, and that the current approach of PS 3250 should apply.

All evidence in front of us suggests that employer-level information is currently unavailable for large multi-employer plans, meaning that, in most instances, defined contribution accounting will continue in accordance with PS 3251.

However, we are concerned about the potential for confusion and disputes among governments, auditors, and users of the financial statements emanating from the expectations outlined in this standard. New standards must be appropriate and feasible and reflect the realities of Canada's pension system.

We therefore strongly recommend the PSAB reconsider its adherence to IPSAS on this issue.

Paragraph .036 of the Exposure Draft suggests that a participating employer that has followed defined contribution accounting where information for DB accounting is unavailable may still be required to recognize assets, liabilities, and pension expenses that may arise from a "contractual agreement" to share in plan surpluses or deficits. We do not see how this is practically workable and envisage accounting disputes and confusion arising from the uncertainty inherent in this additional reporting requirement.

We recommend the PSAB revise the language and approach in this regard.

Conclusion

Public disputes centring on accounting standards have arisen in recent years. We believe the public is ill-served by accounting standards changes that risk fuelling uncertainty, confusion, and unnecessary disputes about accounting rules. We particularly feel that plan members' pension assets should not be diverted toward an expensive and potentially futile attempt to generate usable data. New standards should be realistic and reflective of the pension system in Canada.

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November 25, 2021

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Re: Exposure Draft – Employee Benefit, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on PSAB's Exposure Draft – Employee Benefits, Proposed Section PS 3251. Our comments are below.

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Generally, yes, we find the scope of PS 3251 is clear and effectively combines the two previous sections, with one exception. We feel it is not clear where non-vesting accumulated sick leave plans fit in the proposed standard. Accumulating paid absences that do not vest are included as part of short-term employee benefits; however, these absences are generally not expected to be settled within 12 months after the end of the reporting period. Which would lead us to follow the guidance in other long-term employee benefits, however, accumulated non-vesting sick leave does not clearly fit into the description of other long-term employee benefits. In addition, paragraph PS 3251.016 indicates that sick leave obligations are likely only to be material if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave, which is inconsistent with current PS 3255. We view this guidance as unclear and likely to result in divergent views between jurisdictions, preparers, and auditors. If the intent is to remove the requirement to recognize accumulated sick leave benefits that do not vest and are not to be taken as paid annual leave, we encourage PSAB to state this intent directly. By referencing *informal understanding* in paragraph PS 3251.016, this leaves significant room for interpretation and disagreement. As does the reference that *in many cases, a public sector may not need to make detailed computations to estimate that there is no material obligation*. It is our view those benefits should be treated as event driven benefits, similar to long-term disability benefits. We would encourage PSAB to consider removing this requirement, consistent with ASPE 3462.026, which specifically scopes these benefits out from recognition.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

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- We feel there is room for improvement to definitions contained in the Glossary and we also feel one important definition has been omitted – that being a definition of "provincial government bonds" referenced in paragraph PS 3251.118.

- Provincial government bonds should be defined to clarify which provincial government bonds are to be used when determining a discount rate for unfunded plans. Paragraph PS 3251.118 specifies *cash flows that are consistent with the timing and amount of expected benefit payments required*, but this is not prescriptive enough for jurisdictions to apply consistently and promote comparability since it leaves room for interpretation. Considerations should include whether provincial bonds refer to a basket of bonds across all provinces; whether requirements differ between the three levels of government; and whether outliers should be removed from the calculation. In addition, paragraph PS 3251.120 could be clarified when referring to a *single weighted average discount ra*te. We currently use a historical weighted average discount rate. If the reference to a *single weighted average discount rate* is not intended to include historical rates, that should be clearly specified to prevent differing interpretations. Please see response to question #7 below for further discussion.

- We feel there is an opportunity to enhance "negative definitions" included in the PS 3251 Glossary with concrete definitions. For example, the definition of **defined benefit plans** notes they *are post-employment benefit plans other than defined contribution plans*. Stating what it is not doesn't necessarily define what it is. The previous definition included two examples (final pay plan, flat benefit plan) and adding examples to the current definition would be helpful.

  "Negative definitions" that should be strengthened with more detail include **defined benefit plans, other long-term employee benefits,** and **post-employment benefits**.

  The previous Glossary definitions of **retirement benefits** and **post-employment benefits** should be considered in developing an updated definition of **post-employment benefits**. The definition for **short-term employee benefits** should consider narrative from PS 3255.05.

- We feel some definitions are better explained in the standard than in the glossary. Examples include employee benefits noted in paragraph .006 – **short term employee benefits, post-employment benefits**, and **other long-term employee benefits**. We suggest cross-referencing such glossary items with the relevant paragraphs.

- We feel that **category-wide plans** should be investigated by PSAB to determine applicability within Canada before including in the revised standard. This should be done to avoid overlap with multi-employer plans.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

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No, this would not change the accounting treatment for our post-employment benefit plans. We do not have any defined benefit plans that share risks between public sector entities under common control.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

No, the proposed guidance is not relevant for the Canadian Public Sector. There is confusion as to what a category-wide plan is and there does not appear to be a Canadian plan that fits this description. As the proposed treatment of category-wide plans is the same as the proposed treatment of multi-employer plans, we fail to see the necessity of specifying these plans separately.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

No, this would not change the accounting treatment for our plans. However, we do feel there is potential for conflict with our auditors in assessing whether sufficient information is available. In addition, we are concerned that the proposed standard could result in accounting standards driving the management of multi-employer plans, as pressure would be put on multi-employer plan administrators to implement systems to track such information at great cost for little benefit. In our view, the risks associated with defined benefit multi-employer plans can be sufficiently communicated through disclosure requirements.

We feel the guidance in PS 3251.035 (a) could be strengthened to address these concerns by changing the wording, "This may occur if:" to "This **would** occur **when**:". We encourage PSAB to consider providing additional clarity on when *a public sector entity would not have access to sufficient information about the plan*. Our concern is this wording alone leaves the potential for differing interpretations with auditors as to what is considered *access to sufficient information*. We would suggest wording such as "a public sector entity would be considered as not having access to sufficient information about the plan when the plan is administered by a non-controlled entity", as this is an example where an entity would not have access to the required data and asset information that would allow accounting for a plan on a defined benefit basis.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

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The guidance on assessing the funding status of a plan for identifying the appropriate rate to use to discount post-employment benefit obligations is clear, but we do not feel the guidance is sufficient. While we appreciate the objective behind the funding assessment guidance, we feel the proposed calculation to assess the funding status of a plan adds further layers of complexity to long-term estimates without improving the precision of those estimates.

In reference to paragraph PS 3251.106, we disagree that the funding status of a plan should be assessed at the end of each fiscal year. Assessing the funding status of a plan at the end of the reporting period would be extremely difficult to implement operationally and would put our reporting deadlines in jeopardy. These difficulties are discussed further in our response to question #15 below. We also feel the requirement to complete a funding assessment annually does not consider the magnitude of the information gathering and processing required, as is currently recognized in PS 3250.118, which allows valuations to occur once every three years. We feel the previous approach is reasonable because it balances the need for timely and relevant estimates with the significant cost and effort associated with completing a full actuarial valuation.

In our view, the calculation proposed in PS 3251.107 is overly complicated and unnecessary. Our actuaries have confirmed that the proposed funding assessment calculation would require a significant amount of work at a significant cost, as the calculation proposed is not one that is currently prepared. In addition, for smaller plans, this would be even more onerous as they are less likely to use sophisticated modeling software that would allow the proposed funding assessment calculation to be completed.

We do not disagree with the objective to determine whether a plan is partially funded to identify the appropriate discount rate. However, we feel the assessment could be completed more efficiently through the use of an accounting valuation. For example, if the accounting valuation indicated a funded status of 80% using the expected return on assets, and paragraph PS 3251.110 did not apply, the liability would then be re-measured using a blended rate of 80% of the expected return on assets and 20% of the unfunded discount rate. It is our view that the proposed calculation which includes projected future contributions for current plan members to evaluate against projected benefit payments based on accrued service is flawed as those future contributions are intended to address, at least in part, future service costs. If those future contributions are removed from the funding assessment calculation, we believe the result is essentially an accounting valuation funding status with no need to project future benefit payments or expected return on assets for the following reasons:

- The accumulated benefit obligation has already projected the future benefit payments and then discounted those back using the expected return on assets; and
- The expected return on assets does not need to be projected, as this is what has been used to discount the benefit payments.

Once the funding status is assessed and identifies a potential partially funded plan, we welcome the guidance in paragraph PS 3251.110 for determining whether evidence exists to rebut a presumptive partially funded status. This should serve to minimize disagreements with auditors over funding status. We do suggest PSAB provide guidance on what would be considered a *timely manner* in PS

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3251.110 (b) as this would be subject to interpretation and could lead to disagreements between preparers and auditors.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

- We partially agree with the proposed discount rate approach for fully funded plans. We agree that the expected market-based return is the most appropriate rate to use as it best approximates the expected return for plan holders as the underlying assets generating that return will be used to settle the obligation. We disagree with the requirement to use the discount rate at the end of the reporting period. As noted in our response to question #15, this will be very difficult to implement operationally.

- We do not agree with the proposed discount rate approach for partially funded plans. We support using a single discount rate that reflects both the funded and unfunded portion of the liability, but as noted in response to question #6, we feel the proposed funding assessment calculation is overly complex and flawed. As previously noted, we suggest using the funding status percentage from the accounting valuation as the basis of calculating the single discount rate for partially funded plans by combining the expected market-based return on plan assets for the funded percentage with the market yields of provincial bonds for the unfunded percentage. This would provide a single discount rate that reflects both the funded and unfunded portions and alleviates the challenges (complexity, timing, resources) of performing costly and complex funding status assessments based on projected assets and benefit payments.

- We do not agree with the proposed discount rate approach for unfunded plans, and we feel the proposed standard is not clear when it comes to the discount rate to be used. When reading paragraph PS 3251.118, one could easily conclude a provincial government has the option to use their own provincial bond rates, in essence, their own cost of borrowing. Through discussions with other jurisdictions, this appears to be how most interpreted the proposed standard. However, in reading paragraph PS 3251.119, which specifies *the discount rate does not reflect the entity-specific credit risk*, it appears PSAB is not intending for a provincial government to use its own cost of borrowing. This is consistent with the basis for conclusion paragraph 50, which refers to applying *professional judgment in determining the appropriate **basket** of provincial government bonds.* We are concerned there will be differing interpretations between jurisdictions, preparers, and auditors. In addition, it is difficult to envision the Government of Canada using provincial bonds to value their employee benefit liabilities. In our view, an entity's cost of borrowing is a relevant measure for measuring the time value of money for that entity. We would suggest the wording to be updated to consider something such as:

  > For entities with market debt issues, the time value of money is interpreted as a discount rate determined by reference to market yields on the entity's market debt issues with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations.

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> For entity's that do not have market debt issues, the time value of money is interpreted as a discount rate determined by reference to market yields on provincial government bonds, relative to the jurisdiction of that entity, with cash flows that are consistent with the timing and amount of expected benefit payment required to satisfy the post-employment benefit obligations.

Furthermore, we feel that a weighted average historical bond rate prior to the end of the reporting period would better facilitate the demands of performing actuarial valuations and allow for timely financial reporting. Using a spot rate at the end of the reporting period could cause delays with financial reporting without providing any meaningful benefit to financial statement users. Our practice is to have the assumptions used in preparing actuarial valuations set and approved approximately 5 months prior to year end, allowing our external actuaries sufficient time to prepare valuations.

As mentioned in response to question #2, we feel *provincial government bonds* should be clearly defined to eliminate any potential misinterpretation. As it is currently written, it is unclear whether PS 3251.118 is referring to provincial bonds of the applicable jurisdiction or a basket of provincial bonds. Additionally, as noted in response to question #2, we feel that paragraph PS 3251.120 could be clarified when referring to a single weighted average discount rate. As previously noted, we currently use a historical weighted average discount rate, and if the reference to *a single weighted average discount rate* is not intended to include historical rates, that should be clearly stipulated to prevent differing interpretations.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

We foresee significant challenges with the proposed approach to assess the funding status of a post-employment benefit plan in order to determine the appropriate discount rate. As indicated in our responses to #6 and #7, we feel the funding assessment calculation proposed to determine the blended rate is overly complex and flawed. We feel a simpler and more efficient approach would be to use the accounting valuation funding status to determine the blended rate. We do not agree with the proposed calculation to assess funding status, we do not feel it is necessary to assess the funding status annually, nor do we see it necessary to wait until fiscal year-end to assess the funding status. Each of these issues will cause significant operational challenges, put our reporting deadlines in jeopardy, and add a significant amount of additional cost and work for preparers, actuaries, and auditors. We discuss these challenges further in our response to question #15. Except for in cases of significant economic events, the funding status typically changes slowly and the frequency of assessing funding status should reflect such. In addition, we feel the funding status could be assessed prior to the fiscal year end and that a requirement to assess funding status within six months of the fiscal year-end, is sufficient when considering the magnitude of the information gathering and processing required, as noted in PS 3250.118. Further to that, we encourage PSAB to allow all valuations to be performed once every three years.

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9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Yes, as previously noted in #6, #7, and #8, we do not agree with the proposed approach to assessing the funding status, which is also included in PS 3251.116 for calculating the blended rate. As previously stated, we feel there is a much simpler and effective method through calculating a blended rate based on the accounting valuation funding status. In addition, as previously mentioned in #6, we foresee significant challenges using a discount rate that relies on market yields for bonds at the *end of the reporting period*.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

We agree that revaluations on the net defined benefit liability should be recognized in net assets without subsequent recognition in surplus or deficit. Although this is a significant change from recognition under current standards, we feel it removes volatility from the Statement of Operations and provides better accountability for current service costs and debt servicing costs of the defined benefit liability. We feel this proposal is reasonable - provided users are educated about the changes through enhanced disclosures.

We feel that ultimate settlement of a defined benefit plan should be clarified to explicitly indicate whether amounts remain in revaluations or move to accumulated surplus/ deficit. In the event that a government no longer had a liability for defined benefits, it would have a case for moving those settled amounts to accumulated surplus/ deficit since the revaluations would no longer relate to employee benefit plans that have not yet been settled (similar to remeasurement gains and losses in the Financial Instruments standard).

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

Yes, we feel that requiring changes in net debt to be reported on the Statement of Net Debt and specifying which changes in net debt are related to surplus/deficit, which changes are related to changes in non-financial assets, and which changes are related to items such as revaluations or fair value remeasurements provides a more fulsome and transparent view of what is driving the volatility in net debt. Items causing volatility, such as changes in estimates, need to be distinguishable for

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users to understand changes in net debt and make informed decisions. For example, bond raters require sufficient information to assess volatility.

We feel that reflecting an accurate net defined benefit liability (asset) at the financial reporting date is consistent with the new conceptual framework. As we noted in our response to #14, current note disclosures can be enhanced to explain volatility caused by immediate recognition of actuarial gains and losses.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Yes, we agree with the transitional provisions; however, we would ask that PSAB clarify how previously recognized revaluations and amortized actuarial gains and losses should be treated in relation to accumulated other. For example, would previously recognized amounts be required to move from accumulated surplus/deficit to accumulated other? Or would moving net unamortized gains and losses at the transition date to accumulated other be sufficient? In our view, it is more practical not to retroactively adjust actuarial gains and losses that have been previously recognized.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes, the illustrative examples are helpful. We suggest including additional examples of multi-employer plans that would meet defined contribution recognition and examples of those that would meet defined benefit recognition would be helpful. If category-wide plans are included in the Section, we would suggest examples of such plans be included as well.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Yes, we feel that understandability would be improved as a result of applying the proposals outlined in this Exposure Draft, specifically with the removal of asset smoothing and deferral provisions. The Statement of Financial Position would accurately reflect management's best estimate of Employee Benefit obligations at the year-end reporting date. This is an improvement over the current method of netting unamortized gains or losses from other years against the defined benefit liability, which have no bearing on the current obligation on the year-end reporting date. The same is true regarding plan assets reflecting fair market value on the balance sheet as opposed to "market-related" assets recognizing gains and losses over five years – fair market value is far more understandable than market-related value.

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Likewise, employee benefits recognized in the Statement of Operations are more understandable by removing deferrals. Expenses will reflect a truer representation of the current service cost by removing amortization of gains and losses, which are difficult to understand for the average financial statement user as they are impacted by financial conditions or assumption changes that may have occurred many years ago.

Presenting actuarial gains and losses separately under revaluations represents a significant change from recognizing the gains and losses through the Statement of Operations as changes in estimates. The revaluations of the net defined benefit liability/ asset recognized in net assets should include appropriate disclosures to bolster understandability since it is a new concept. Once understood, the revaluations should provide an accountability of a government's employee benefit assumptions over time.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

The proposals in this Exposure Draft have the potential to impact decision making for employee benefits. Volatility with the obligation, and resulting net debt impact, may lead to rash decisions by policy makers. As an example, falling interest rates make it seem as though the benefit liability is increasing to unsustainable levels and governments could make rash changes to employee benefit plans. In addition, the removal of the impact of revaluations from the Statement of Operations could result in decision makers missing the significant risk associated with measurement uncertainty of these plans. The proposals outlined will require a significant amount of education related to the changes for both decision makers and users of the financial statements. The cause of the change would be unrelated to policies already in place or legislative requirements.

The requirement to use a blended discount rate to estimate accrued benefit obligations on partially funded plans, potentially resulting in increased liability, may result in decision makers opting to fund plans by issuing debt. The amount of debt required to fund an employee benefit plan would be determined based on the expected return on plan assets, rather than the blended discount rate, and therefore the impact to the statement of financial position would be reduced. Although this could be viewed as positive, it represents a decision driven by accounting standards and not by operational requirements.

Changes proposed to the attribution period in section PS 3251.081 could lead to changes in decision making for terms of our post-retirement health benefits as it expedites the recognition of the liability to eligibility rather than over the expected periods of service. For example, under the current terms of one of our post-retirement health benefit plans, employees are eligible for post-retirement health benefits once they are vested in the pension plan, which has a vesting period of two years. As a result, the attribution period would be reduced to two years instead of over the expected periods of service. We consider this a positive change because it would result in the accounting terms matching the terms of the benefit agreement, however we feel it prudent to ensure PSAB is aware of the potential impact.

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From an operational perspective, assessing the funding status of a plan, setting a discount rate, and determining the expected return on assets at the end of the reporting period will cause significant operational impacts and put our reporting deadlines in jeopardy. Our assumptions, including discount rates, are typically set approximately 5 months in advance of year-end and are discussed and approved with our actuaries before final approval from the Minister of Finance. Delaying the discount rate until the end of the reporting period will cause significant operational challenges for preparers, auditors, and actuaries. We expect actuarial results would not be available until we are well into our financial reporting processes, which would likely delay the release of our Public Accounts (typically at the end of July). Our assumption approval process, which is now completed approximately 5 months prior to year-end, would now be delayed until after year-end, when year-end reporting work is underway. Although our actuaries could prepare the valuation using draft assumptions during the fiscal year, they would still be required to wait for the final assumption approvals prior to updating the valuation calculations and drafting the final reports, for over 30 plans (in our case), subsequent to year-end, approximately six months later. Once final reports are received, we still require time to review the reports, prepare our calculations, and prepare our entries for processing. Delaying these processes would give our external auditors very little time to audit the assumptions, which is now done well in advance of the end of the reporting period, along with the final employee benefit calculations. This creates significant operational pressures for all parties involved at an already busy time.

The challenges could be largely eliminated by allowing the discount rates and funding assessments to be calculated in advance of the end of the reporting period. Along with reducing funding assessments and accounting valuations to once every three years. To recognize the operational challenges posed by this proposal, we suggest PSAB should allow setting the discount rate within six months of the end of the reporting period. We suggest replacing *"at the end of the reporting period"* with *"within six months of the end of the reporting period"* throughout the discount rate guidance in PS 3251.111-120. We also suggest requiring additional disclosure of the discount rate used in the financial statements and the discount rate as it would have been calculated at the year-end date, with reference to the sensitivity analysis disclosure. This would provide financial statement users a means of quantifying the impact of the change in discount rate to year-end.

We thank you for this opportunity to respond to this Exposure Draft, and we appreciate the work PSAB has put into the Employee Benefits project. If PSAB or its staff have any questions, or would like to discuss anything in this response, we would be happy to discuss at your convenience.

Sincerely,

Robert E. Bourgeois, CPA, CA

Executive Director, Government Accounting
NS Dept of Finance and Treasury Board

November 25, 2021

Mr. Michael Puskaric, Director
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Exposure Draft on Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

We appreciate the opportunity to comment on the proposed Exposure Draft on Employee Benefits, Proposed Section PS 3251.

The Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) represents excellence in local government management and leadership. With more than 2000 members working in municipalities across Ontario, AMCTO is Ontario's largest voluntary association of local government professionals, and the leading professional development and advocacy organization for municipal professionals.

We write to you today in support of submissions made by the Municipal Finance Officers Association (MFOA) and the Association of Municipalities of Ontario (AMO).

Both associations recognize the proposed improvements to reporting of potential liabilities and risk. However, they also identify the challenges and administrative burden the majority of municipalities to whom the standard would apply as members of multi-employers pension plans (ie. OMERS) would face.

Each association has concluded that municipal employers participating in the OMERS pension plan will not be required to recognize their proportionate share of the liabilities and assets of the pension plan in which they participate and continue their current practice with regard to accounting for their pension obligations. AMCTO is pleased to hear this.

We also strongly endorse MFOA's position that encourages PSAB to consider how new or revised standards will be implemented noting that there is administrative burden to redevelop financial statements and update processes multiple times a year, per standard.

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For any questions, please do not hesitate to contact David Arbuckle, darbuckle@amcto.com who will be happy to assist.

Thank you for the opportunity to comment.

Yours sincerely,

Sandra MacDonald, CMO, AMCT, AOMC
President, AMCTO

CC: Jamie Macgarvey, AMO President
Trevor Pinn, MFOA President

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November 25, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael Puskaric,

Our response to Exposure Draft: *Employment Benefits, Proposed Section PS 3251* is below:

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

   Yes, we find the scope of the proposed PS 3251 to be clear.

   We note some additional items that should be within the scope, given the scope is employee benefits, but are not clear:

   - ED PS 3251 does not specifically state the object to recognize termination benefits, including severances. We encourage PSAB to state in PS 3251 which object termination benefits should be recognized as.
   - Expense by object of accretion expense (interest). PSAB should clearly indicate in the standard that the pension interest is included in the salaries and benefits object. Without guidance, some may argue that pension interest should be included in the "interest or financing costs" object. In our view, the pension interest is part of compensation expense, so should be in the salaries and benefits object and this should be added to PS 3251.
   - We note that it is unclear whether defined contribution plan costs may be capitalized when salary and benefit costs are being capitalized. PS 3251.056 says the costs are expensed, yet paragraph .143 allows for defined benefit cost to be recognized as part of the cost of assets. There is no conceptual reason why defined contribution costs could not be capitalized when defined benefit costs may be.
   - We suggest an edit in paragraph .164 (and others) where PSAB is using "etc." It is not clear what is meant by "etc." and instead PSAB should clarify the principle of disclosure that it intends for these instances.
   - We note that PSAB included ESG disclosures in its strategic plan. Because this standard is about employment benefits, PSAB could operationalize ESG disclosures into PSAS beginning with employee benefits, by requiring ESG employment disclosures, such as

salary by employee demographic, or training provided, or other disclosures. The GRI (series 40x) provides more examples of ESG disclosures that could be included.

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions2 are necessary?

   Overall, the definitions contained in the Glossary help to interpret and apply the standards. We do think some areas within ED PS 3251 could be further explained either through the Glossary or through application paragraphs:

   - Defined benefit plans where an entity is both a controlled entity (i.e. consolidated into a public sector entity) and a controlling entity (controls a number of entities that participate in a defined benefit plan). The ED (paragraph .041) indicates that the controlled entity would record the plan as a defined contribution plan and the controlling entity would record the plan as a defined benefit. Clarifying how such an entity would record the plan would be beneficial. We also note that a controlled entity may be a GBE, in which PSAS would not apply, or PSAB should clarify whether 3251.041 is overriding whatever applicable accounting framework the GBE is using with respect to the GBE's accounting for pensions.
   - "not normally available" (ED PS 3251.005) – what does this mean? What effect does timing of when the information becomes available have? The public employer or government entity may report before the plan – will this make the information "not normally available"? In addition, PSAB should add to PS 3251 a more specific example of when sufficient information is available or not available i.e. an entity is able to determine the percentage its contributions are (or its employees are) of the total contributions to the plan (or total employees in the plan) and therefore has sufficient information to record its pro-rata share of defined benefit liability and plan assets (or PSAB may conclude that this is not sufficient information). Example A1 is not sufficient because it gives no indication of what information is available to Local Government Unit A, and instead Example A1 implies that what is relevant is that participating entities are exposed to actual risks of other entities. If this is the case, PSAB should remove the concept of "sufficient information" and simply require that defined contribution accounting is used when a multi-employer plan exposes a participant to risks associated with other entities. We note this is a counter-intuitive result and it is even more important that some form of defined benefit accounting be used, if the entity is exposed to risks not only with their own employees but other employees. In addition, see our response to question 5.

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

   We note PSAB should recognize that an entity may have a policy of allocating out pension defined benefit liabilities recognition to entities under common control. We suggest a similar

concept as in PS 3420 Inter-entity transactions be included in PS 3251 to allow that when entities under common control recognize their share of a defined benefit obligation, either in accordance with legislation or agreement, the entities follow the guidance for defined benefit plans.

We suggest that paragraph .047 be amended to include "...joint defined benefit plans are governed by a formal agreement or legislation, which establishes shared control over the plan..." because the joint defined benefit plan may be also be governed by legislation.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

   Yes, we agree the guidance on category-wide plans is relevant to the Canadian public sector. The definition of "category-wide plans" could be improved, specifically to clarify what "all entities in economic categories" means. Does this mean "category-wide plans" is limited to entities or individuals in specific job descriptions, such as nurses, teachers or police officers? Do "category-wide plans" include plans that cross over different job descriptions?

5. Paragraph PS 3250.109 states that "*sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans.*" Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

   As noted in our response to question 2, the term "not normally available" should be further defined/clarified. For example, a public sector entity may have its own contributions and total pension contributions as "normally available" information, and no additional information is available. An entity may use this information to reasonably estimate the amount to pro-rate its share of the pension plan and record the plan as a defined benefit plan while another entity may say sufficient information is "not normally available" because the entity does not allocate for the entity's specific current and past employees. To promote consistency of practice, PSAB should clarify, with additional examples, what it means by "sufficient information" or "normally available."

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

Yes, the guidance on assessing funding status of the plan is sufficient to determine funding status for identifying the appropriate discount rate to use to discount post-employment benefit obligations. We believe further guidance could be added to define "temporary funding shortfalls" as this determination will have a significant impact on the financial statements. For example, guidance or an example could be added that "plans with less than XX% funding for YY consecutive years would normally be classified as partially funded." Furthermore, ED PS 3251.106 requires the public sector entity to assess the funding status "at the end of each fiscal year-end." This requirement may be overly costly given the long duration of pension plans and cause unintended changes in financial reporting. We encourage the PSAB to consider a modification to the wording, such as, "as part of the funding valuation, the public sector entity should assess the funding status of each post-employment benefit plan to determine the appropriate rate for discounting the associated obligation and at any point when significant factors occur between the plans funding valuation, for example if a significant investment declares bankruptcy." Alternatively, PSAB could introduce the concept that assessing the funding status is done each year end, but accounting recognition of a change in funding status would only be done if the change in funding status was considered "other than temporary."

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

   Yes, we agree with the proposed discount rates to be used for fully funded, partially funded and unfunded plans. We believe the principle of using different rates appropriately reflects the expected long-term cost of the pension plans based on the funding status of the plan. We acknowledge that this approach requires professional judgement, e.g. to determine the "expected market-based return," however PSAB's approach best reflects the economic fundamentals of the entity's participation in the pension plan, and therefore promotes accountability most effectively.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

   Yes - we see a few challenges in implementing the proposed approach, however we still support the proposed approach. As noted above in question 6, defining "temporary funding shortfalls" may be difficult without additional guidance. As noted above in question 7, determining the "expected market-based return" for fully funded plans may be challenging, specifically when asset managers measure expected returns differently than the plan. For example, an asset manager may measure performance of private equity or private infrastructure as CPI plus 5%, under current pre-COVID inflation rates this creates a total 'expected' return of 7-8%. However, the pension plan may measure private equity expected return as S&P 500 plus 4% because the

investment(s) are private and they expect to be compensated for the increased risk of private investments. This variance in approach will create challenges, specifically if more and more plans have increased type 2 and 3 investments. Nevertheless, we believe these are issues with estimation, and do not merit change in PSAB's overall approach to determining the discount rate, which we consider to be appropriate.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

   Yes, preparers and auditors may experience some challenges with applying a single discount rate for partially funded plans, specifically when the rate is to be assessed "at the end of each fiscal year." For example, a partially funded plan may be 65%, 70%, 75%, 67% and 68% funded over the past five years. Different users may have different approaches to determine the appropriate split between the expected market-based return and the market yields of provincial government bonds. Providing guidance and altering the frequency to assess the single discount rate without any significant market impacts, would help users determine an appropriate rate. In our view, these challenges do not require a change in PSAB's approach regarding the appropriate discount rate to use for partially funded, funded or unfunded plans.

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets3 without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

    No, we do not agree that revaluations on the net defined benefit liability (asset) should not be recognized on the statement of operations. The financial statements may include a number of significant estimates, such as asset retirement obligations or tax revenues. All other changes in estimates flow through the statement operations and revaluations on the net defined benefit liability (asset) should too. Moving the revaluations of net defined benefit liability (asset) to accumulated other creates the precedent to move other changes in estimate(s) off the statement of operations (perhaps when PSAB in the future re-opens or deals with new accounting issues) and this decreases accountability. We recognize that it is not always possible to budget for such expenses; however, this is a consequence of using a fair value approach. Furthermore, it also creates possible bias to alter the statement of operations as preparers know future adjustments to the estimate will not affect the statement of operations; for example, using a lower expected salary escalation rate to decrease current costs and when actual salary escalation rates are higher, there will be no impact to the statement of operations.

    We note that this "accumulated other" is a way to deal with volatility of these remeasurements. However, we ask that PSAB provide a specific economic interpretation of the "accumulated other" with respect to pensions: if the balance in this account grows over time (either loss or gain), what accountability value is being served and what is the decision-relevance of that

information? We also encourage PSAB to recognize that at least some of these items proposed to bypass the statement of operations are "realized items" such as actuarial gains and losses, and therefore the statement of operations will be missing at least some "realized" items.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

    We think presentation disclosures in PS 1201 and those proposed in PS 1202 are sufficient. In our view, pension liability (asset) should be part of net financial liabilities and should not be excluded from the statement of net financial liabilities.

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

    Yes - we agree with retroactive application. Given the possible significant impact on some entities and the possible initial implementation cost(s), we suggest a five-year implementation date is maintained from the date of issuance.

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

    Overall ED PS 3251 states Example 1 – 14, however the examples are integrated and the exposure draft does not include 14 separate examples. This makes reviewing/analyzing the examples complex. Due to the integration of the example, a user may find it difficult when they are looking for an example of a specific item, such as how to determine the discount rate for a partially funded plan. Example 14 calculates this amount, but in the example the rate is calculated and not a pre-determined management assumption and the example does not show how management would determine their assumption. Although it would increase the length of the standard, it would be beneficial to have individual examples for individual scenarios.

    An example of "*provincial government bonds with cash flows that are consistent with the timing and amount of expected benefit payments*" would be useful. For example, does the public entity use all provincial government bonds across Canada, do they only use bonds issued within their specific province or some other basket of provincial bonds?

    In addition, none of the examples includes revaluations. It would be beneficial to include an example for revaluations.

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

    Yes, we think that applying the proposal will change the understandability of employee benefits. We note the following positive and negative effects:

    - As noted above to question 10, we disagree with revaluations not being recognized on the statement of operations. By removing the revaluations from the statement of operations, financial statement users may need to adjust the statement of operations to include revaluations.
    - We anticipate increased volatility due to the immediate recognition of actuarial gains and losses. This increased volatility may be difficult for management to explain to some users, however we believe this volatility is appropriate as it reflects the best estimate of cost and the liability (asset).
    - Disclosures – overall we see an increase in disclosures for the public sector entity, however some of the exposures may be better suited for the actual pension plan(s) (Section 4600) and ED PS 3251 includes more disclosures than the plan, e.g. 3251.160.
    - Application of the actuarial assumption - discount rate should create increased comparability for plans with similar economic substance. For example, fully funded plans should be more comparable as they will all use a discount rate that approximates the expected market-based return.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

    We do not anticipate the proposed changes as outlined in the Exposure Draft will result in a significant change in decision making because they appropriately retain and permit the use of expected rate of return on net assets as the discount rate, which in our view is consistent with the economic substance of pension plans, specifically fully funded plans.

Thank you for the opportunity to comment.

Sincerely,

Colin Semotiuk CPA, CA

Wayne Morgan PhD, CPA, CA, CISA

City of Greater Sudbury
Ville du Grand Sudbury

November 25, 2021

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RE: Letter of Support for MFOA's Submission to Exposure Draft: *Employment Benefits, Proposed Section PS 3251*

We appreciate the opportunity to comment, and I would like to add that my comments are supportive of the submission provided by the MFOA in response on the Public Sector Accounting Board's (PSAB) Exposure Draft: *Employee Benefits, Proposed Section PS 3251*. While the ED lists 15 questions for comment, our response focuses principally on Question 5, which addresses accounting for defined benefits by employers who participate in multi-employer plans.

The City of Greater Sudbury is a single-tier municipality with a population of over 165,000 and covers over 3,000 square kilometers. We are a participating employer in the OMERS defined benefit pension plan, which is a multi-employer, jointly-sponsored pension plan with more than 1,000 participating employers.

Municipalities are already required to prepare and submit several hundred regulatory required reports to numerous agencies. As identified in MFOA's submission to PSAB, the proposed changes within the Exposure Draft will cause a significant burden on municipal staff due to the resources required to develop appropriate note disclosure and actuarial valuation calculations. Some of the proposed note disclosure requirements relate to information that is not currently provided by OMERS, while the remaining multi-employer plan disclosures would be quite onerous for municipalities to develop. The cost of development of these disclosures will be borne by City taxpayers.

As an employer in a multi-employer pension plan (i.e., OMERS), we are pleased that the ED recognizes that sufficient information may not be available to participants in order to recognize a proportionate share of the pension's net assets. We expect we will not have sufficient information.
Specifically, our interpretation of the ED leads us to the conclusion that participating employers will not be required to recognize a proportionate share of the net assets of the multi-employer pension plan in which they participate. Our conclusion that the proposed rules will not apply to OMERS employers is based principally on the proposals set out in new paragraphs .033 - .035, which state that an entity would not be required to recognize a proportionate share when sufficient information is not available. The ED sets out that sufficient information would not be considered available if a) the entity is exposed to actuarial risk from employees of other employers, or b) the entity does not have access to sufficient information. We believe both conditions will apply to OMERS employers such as the City of Greater Sudbury.

From the analysis from the MFOA, ee reiterate that the inclusion of paragraphs .035(a) and (b), as drafted, is critical.

To successfully update the Employee Benefits, I support MFOA recommendations:

- Clarify the application of the standard to specific defined benefit plans, such as OMERS
- No further note disclosure requirements should be specified in relation to the net debt volatility, as this should be at the discretion of the public sector enterprise
- Valuation changes resulting from retroactive application should be flowed through remeasurement provisions and not through a surplus or deficit account
- Illustrative examples should represent a more practical application to assist financial statement preparers in determining the requirements of the standard

It is said that the budget document is the most important policy document produced by municipalities. In addition to regular financial updates, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. As a public entity we strive to provide accountability and transparency to the general public, but it must be balanced with the resources required for work that the public finds worthwhile. As noted by the submission by MFOA the balance is not achieved in the current ED.

We understand that PSAB is using a multi-phase strategy for the development of the new employee benefits standard, and that the ED's principles and guidance will be further deliberated by PSAB during future phases. We will continue to monitor the project's developments closely.

Regards,

Ed Stankiewicz
Executive Director of Finance, Assets and Fleet

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November 25, 2021

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PSAB Exposure Draft: Employee Benefits, Proposed Section 3251

We commend PSAB for embarking on this project for the Employee Benefits, proposed Section PS 3251. This was a significant undertaking by PSAB to update the existing employee benefit standards that was developed more than two decades ago.

Our concerns and suggested proposals to PSAB's specific questions are reflected in the attached appendix.

Sincerely,

Dan Stadlwieser
Controller

Attachment

Appendix

Employee Benefits, Proposed Section PS 3251

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   Yes – the Exposure Draft is clear in its scope for Employee Benefits.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   Yes – overall, the Glossary helps to interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft. Clarifications that may be useful are:

   - Category-wide plans – more clarification may be required on what a category-wide plan is, as described in question #4 below.
   - Adding the terms and definitions of the discount rates that are used for the plans (i.e. expected market-based return and provincial government bond rates).

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   No – the accounting treatment for our involvement as a controlling entity in post-employment benefit plans will not change when applying the guidance in paragraphs PS 3251.039-.042 since the net defined benefit cost for the plans would still be recognized in our consolidated financial statements.

   More work will need to be completed with public sector entities under common control to determine if there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost for the plan as a whole in

order to determine if the accounting treatment will change for the controlled entities when applying the guidance in paragraphs PS 3251.039-.042.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   Unknown – it cannot be determined whether the guidance on category-wide plans is relevant for the Canadian public sector and whether we have plans that may fall under this category as more clarification is required on what constitutes a category-wide plan, including:
   - What is considered a category;
   - Who determines what the categories are; and
   - PS 3251.045 states that many category-wide plans are funded on a pay-as-you-go basis. Does that mean all pay-as-you-go basis plans that have entities in a particular category would fall under category-wide plans? Or if we have any plan that covers entities of a particular category but does not have pay-as-you-go, it would not be considered a category-wide plan?

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   Unknown – under the proposed guidance, the onus is on the public sector entity to prove that sufficient information is not available in order to account for the plan as a defined contribution plan. This may lead to additional effort and cost to prove that sufficient information is not available and could potentially lead to disagreements with auditors. More work will need to be completed with public sector entities and pension plans in order to determine if sufficient information will be available in a timely manner to determine if the accounting treatment will change under the proposed guidance in PS 3251.033 and PS 3251.035.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

   No – the guidance on assessing the funding status of a plan in paragraphs PS 3251.105-.110 is not clear to determine funding status.

   - Unclear why there is a partially funded status. Most plans have a funded policy goal of achieving fully funded status and contributions to the plan are determined in this manner.
   - More clarity may be required on what constitutes temporary funding shortfall to still be considered a 'fully funded plan'. See the response to question # 8 below for anticipated challenges.
   - Paragraph PS 3251.107 states "to assess the funding status of the plan, a public sector entity would determine the balance of post-employment benefit plan assets, at the end of the reporting period and the projected balance of the post-employment benefit plan assets at the end of each subsequent reporting period". It is unclear what the subsequent reporting period (number of years) is, as this is not specified.
   - Unclear how often the funding status of plans need to be assessed. If an annual assessment is required, there will be additional effort and cost associated with this, with minimal additional benefit. See the response below to question # 8 for anticipated challenges.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   Yes, we agree to the proposed discount rate approaches for fully funded plans.

   No, we do not agree to the proposed discount rate approaches for partially funded and unfunded plans.

   Partially funded plans – The use of the provincial government bond as a discount rate for the unfunded portion of a partially funded plan does not account for the anticipated return on plan assets going forward. To use a provincial bond rate to discount the unfunded portion of the plan implies that the controlling public sector entity needs to fund this portion immediately. Additionally, discount rate calculation approach for partially funded plans will require additional effort and

actuarial expertise. See the response below to question # 9 for anticipated challenges.

Unfunded plans – The discount rate recommended for unfunded plans is market yield of the provincial government bonds. More flexibility should be permitted due to varying situations amongst public sector entities.

- The unfunded plans will be financed through general revenues or borrowing. Therefore, cost of borrowing could be considered as an appropriate discount rate for unfunded plans, as it aligns with how we will be paying the obligations. The liability should reflect the expected future economic settlement. The yield of a bond includes market value changes affected by changes in a government's credit rating or market coupon rates, and does not impact the cost of borrowing to a government. The coupon rate or discount rate is a more accurate reflection of future economic settlement when in a borrowing environment.
- In addition, the province might not have bonds with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations. In that case, can the province consider a basket of comparable bonds across different provinces or Government of Canada bonds?

Additionally, the use of provincial bonds for municipal or federal government plans may not be an appropriate discount rate for unfunded plans, as the provincial bonds may not reflect future economic settlement.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

Yes – we foresee the following challenges that may result from the proposed approach to assessing the funding status:

Frequency of valuations – For a fully funded or partially funded plan, how frequently does the valuation need to be done to determine whether the plan will be fully funded or not. Doing this assessment of plan assets and projected benefit payments at the end of each fiscal year for each subsequent period would require additional effort and actuarial expertise.

We propose that such an assessment should be allowed to be done once in three years or more.

Cost and time pressure – Assessing the funding status by comparing each subsequent period's projected plan assets and benefit payments would require

detailed actuarial assessment. This would significantly increase the cost to the taxpayer and will create time pressures for getting the information, to be included in financial statements, given our legislated deadline for public accounts to be published by June 30th.

Documentation and use of professional judgement – As per PS 3251.110, all the plans with any shortfall will be considered partially funded, unless you can rebut the partially funded assumption. It would require significant documentation and expertise, to support the professional judgement call on persuasive evidence to rebut the partially funded assumption. This could also potentially cause issues with auditors, as there might be disagreements on funding status judgements.

We propose that thresholds should be incorporated for determining the funding status. For example, anything above 90% or 95% should be considered fully funded.

In addition, an alternative approach PSAB should consider to determine the appropriate discount rate to use is using active/not active (funded partially or fully funded / unfunded) plans instead of the three funding statuses proposed.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

Yes – The discount rate calculation for partially funded plans will require significant additional effort. A single discount rate is to be used for a partially funded plan, which needs to be calculated based on a weighted average of fully funded rate and unfunded rate for fully funded periods and partially funded periods respectively. This would require a projected calculation of plan assets and projected benefit payment amounts for each period, which will not only require significant effort but would also require actuarial expertise. Therefore, there will be more dependence on actuarial assessment to be done every year.

This would also create time pressures at year-end, as each plan firstly needs to be assessed for funding status and then consequently the discount rate has to be calculated based on the funded status. This additional work would require more time and resources during year-end, which could ultimately make it harder to meet the legislative timelines to publish the financial statements.

We propose that if the plan has a funding policy goal of achieving fully funded status and is above a certain threshold percentage for funding, then it should be allowed to use the expected market-based return as a discount rate.

Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    No – reclassifying realized component in subsequent periods should be recognized in the Statement of Operations; all gains and losses should eventually be recognized in the Statement of Operations. If not, the pension expense will be understated every year in the Statement of Operations and the 'accumulated other' component of net assets will keep growing.

    In addition, there seems to be lack of guidance on how the 'revaluation gains and losses' will be taken out from the 'accumulated other' component of net assets after all the plan obligations have been met.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

    Yes – additional disclosure or presentation requirements could help in explaining the volatile movements in 'net debt' on the Statement of Financial Position. As per PS 3251, 'Revaluation of the net defined benefit liability (asset)' would be recognized in the 'accumulated other' component of 'net assets' without any reclassification to surplus or deficit in subsequent periods.

    We propose there should be additional disclosure on the details of 'accumulated other' changes during the year, as the immediate recognition of 'pension revaluation gains and losses' could be quite material and would never be reclassified to surplus or deficit in the Statement of Operations. The Exposure Draft of PS 1202, only includes 'opening balance', 'amounts arising during the year', 'amounts reclassified during the year to surplus or deficit' and, 'closing balance' for 'accumulated other' in the 'statement of change in net assets (net liabilities)'. To understand that increased volatility is the direct result of immediate recognition of 'revaluation gains or losses'; the details of changes to 'amounts arising during the year' for the 'accumulated other' balance in the 'statement of change in net assets (net liabilities)' should be disclosed.

We suggest that either PS 3251 should provide the option to separately identify significant changes to 'accumulated other' due to 'employee benefits' or a consequential amendment should be done to PS 1202, to require such details of 'accumulated other' in the 'statement of change in net assets (net liabilities)'.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Partially agree – we agree with the proposed date of transition; however, we disagree with the proposal that the standard should be applied retroactively. This is inconsistent with past standards, and would require additional work to get actuarial valuations for the previous year.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes – the illustrative examples assist with the interpretation and application of the proposed Sections.

It would also be useful to provide a table or flow chart format for different types of employee benefits with accounting treatment and applicable sections for each of them.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

No – we believe that applying the proposals outlined in the Exposure Draft would not significantly change the understandability.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Unknown – more work will have to be performed in order to determine if applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits. Some issues that might affect decision making include:

- The additional work and time pressure associated with the proposed changes may result in changing the legislative timeline in when consolidated financial statements are published.
- 'Revaluation gains and losses' would no longer flow through 'statement of operations' and would not be required to be budgeted by the government entities. In addition, there is the added complexity of; net debt volatility due to immediate recognition of 'revaluation gains and losses' on 'statement of financial position' and change in the way discount rates are calculated for the defined benefit plans based on their funding status.
  As a result, there might be some long-term changes in decision making related to 'post-employment plans', as some entities could either
  - Move from 'defined contribution plans' to 'defined benefit plans', as significant portion of defined benefit pension costs would not be required to be budgeted anymore; or
  - Move from 'defined benefit plans' to 'defined contribution plans' because of the complexity associated with changes proposed in accounting and calculation for 'defined benefit plans' and to remove the volatility from the Statement of Financial Position.

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November 25, 2021

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Dear Mr. Puskaric,

Re: "Employee Benefits, Proposed Section PS 3251"-- Consultation Response to Exposure Draft

Thank you for this opportunity to comment on the above noted Exposure Draft and the PSAB's continued efforts to engage key stakeholders in changes to Public Sector Accounting Standards.

Overall, the City feels that the scope of PS 3251 is clear and we appreciate the phased approach. We do have concerns with the removal of the deferral provision as the deferral and amortization approach provides stability over the long lived nature of the pension plan. This change will likely cause increased volatility in net debt (assets) resulting from the impact of actuarial gains and losses; however, we feel the transparency provided by the removal of the deferral provision offsets the volatility concern and therefore are not opposed to the change. We also foresee significant challenges in a consistent application and interpretation of partially funded plans. Further details of our review and specific responses to the questions have been compiled below.

PS 3251 Comments

Purpose and scope

1. ***Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.***

   Overall we found the scope was clear, however in regards to PS 3251.005c, we suggest additional guidance on informal practices be provided to help us understand what will trigger an informal practice that would require the entity to record the liability. We also suggest illustrative examples be included.

Glossary

2. ***Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?***

   More clarity regarding the difference between multi-employer plans and category-wide plans would be helpful. In their current form, it is not clear what the City of Edmonton (City) would report under. An illustrative example that would provide clarification on economic categories would be helpful.

Post-employment benefits - distinction between defined contribution plans and defined benefit plans

3. ***Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a postemployment benefit plan? Please explain.***

   This will not impact the City as we are not involved in a shared risk defined benefit plan with another public sector entity, however we would suggest more clarification on the definition of common control be provided to ensure understanding and appropriate application.

4. ***Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?***

   As the category-wide plans are described we do not see the application relevant for the Canadian public sector. Additional clarification in regards to what distinguishes a category-wide plan from a multi-employer plan and what is meant by economic categories would be helpful to fully understand the addition of this concept.

5. ***Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the***

accounting treatment for your involvement in a multi-employer plan? Please explain.

Applying the guidance provided in PS 3251 will not change the accounting for the City's multi-employer plans. We did note the absence of the reference to legislation that PS 3250 included for multi-employer plans which we feel creates some confusion with the new category-wide plans. Additional clarification in regards to the legislation requirement would be helpful.

As well, we support the additional clarity provided in section 3251.035 (a)(b) with the inclusion of circumstances where a public sector entity is unable to segregate/identify its share of the underlying financial position and performance of a multi-employer plan with sufficient reliability for accounting purposes.

Post-employment benefits - defined benefit plans: Discount rate guidance

6. ***Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount postemployment benefit obligations? If not, why?***

   The guidance on funded and unfunded for the most part is clear, with one exception. Within section PS 3251.110, a fully funded plan can have "temporary" funding shortfalls that reflect a short-term change in the plans funding status or in the proportion of projected benefit payments to be satisfied by plan assets. We found the lack of guidance on what constitutes short-term and temporary to be concerning. Without definitive guidance, there is the possibility of a significant variance in the application of "short-term" timeframes and a resulting lack of consistency in the use of discount rates. Guidance that would provide further clarity in regards to short-term and long-term time-frames (e.g. number of years) would provide better understanding and consistency in approach. We suggest perhaps the temporary decline in investment accounting guidance (PS 3041.07-.13) could be leveraged to determine a temporary time frame for PS 3251.110. An illustrative example of a short-term or temporary funding shortfall would be helpful to provide clarity and improve consistency in approach.

   As PS 3251.110 allows for a fully funded plan at times to have funding shortfalls, we found the need for guidance on partially funded unclear and unnecessary.

7. ***Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.***

The City agrees with the approach for fully funded (market return rate as it is most reflective of the value of the plan assets) and unfunded plans (bond rate). However, to ensure clarity and to improve understanding, we suggest that PSAB provides the rationale for the requirement for the different rates between funded and unfunded plans. The proposal would have implications to benefit payments that we are seeking to better understand.

We do not agree with the approach for partially funded plans. This approach is very subjective, lacks consistency and would be overly burdensome to administer. It will be difficult for readers of financial statements to understand the impact with the rate changes and large fluctuations may signal a concern in plan administration when it is a result of an accounting change.

We do not understand the requirement to partially incorporate a current lower bond based discount rate today for a potential future funding issue. At most, note disclosure on future plan funding status projections and steps to address funding shortfalls could be required as an alternative to the use of partially funded plans.

8. ***Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.***

   We foresee challenges with the approach for partially funded plans as noted above in our response to questions 6 and 7 and recommend removing the guidance for partially funded plans or providing more prescriptive guidance.We also request that PSAB includes rationale for prescribing different rates for funded and unfunded plans.

9. ***Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.***

   Yes, we foresee challenges with the partially funded guidance. We would suggest modifications to the guidance that would allow plans a certain defined timeframe to adjust their strategy to 'correct' funded status and continue applying the fully funded guidance. If a plan's funded status can not be corrected within a certain timeframe, then we suggest the unfunded plan guidance should be applied, thereby negating the need for a partially funded category.

Overall, we are not clear on the requirement for partially funded plan status and why it is necessary for application in the Canadian context. It was felt that partially funded was perhaps more of a requirement in the international stage where the financial risks associated with plan funding may be greater.

Post-employment benefits - defined benefit plans: Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    We agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets and not in the Statement of Operations. If these unrealized gains/losses were recognized in the Statement of Operations it would create fluctuations to operating surplus/deficit that are beyond City Council or Administration's control and would be very difficult for users of the financial statements to understand this revaluation change in the context of city operations. We see value in an illustrative example being provided that would assist with understanding the flow of transactions and ultimate financial statement presentation.

11. ***PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.***

    We are concerned that readers of the statements will not understand the function of the "other" category and how it relates to the City's overall financial reporting and stability. To address this, we do recommend the inclusion of disclosure options to assist in increased understanding of the causes of the volatility in net debt (assets). Additional disclosure guidance should include the significant contributors to the change in net debt (assets).

Transitional

12. ***Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?***

We have no concerns with the proposed transitional provisions, however it would be helpful to understand why only retroactive application is proposed by including that rationale within the Basis for Conclusion.

Illustrative examples

13. ***Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?***

    Additional illustrative examples on note disclosure related to prior year impacts would be helpful, as well as understanding how revaluations on the net defined benefit liability (asset) should be recognized in net assets.

    We would also appreciate understanding how the values within Example 2 - A3, are calculated.

Other

14. ***Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.***

    We don't anticipate a significant change in understandability of financial reporting based on the proposed Exposure Draft. We can foresee additional note disclosure to adequately explain the impact. If partially funded guidance continues to be included we would anticipate that additional disclosure would be required for users to understand this change and the rate applied.

15. ***Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.***

    We do not anticipate any changes in this Exposure Draft will result in major changes in decision making as our pension plans are governed by Pension Plan's Provisions or legislation on the multi-employer plans.

    For the other employee benefits offered to eligible City's employees, the benefits are part of the collective bargaining process with Union Representatives. We do not anticipate the changes in the Exposure Draft will alter the decision making in relation to the benefit plans.

Thank you for considering our comments. Please reach out if we can provide additional clarity on our observations.

Sincerely,

Stacey Padbury CPA, CA
Deputy City Manager and Chief Financial Officer

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

25 November 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Exposure Draft – *Employee Benefits, Proposed Section PS 3251*

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,

Lissa Lamarche, CPA, CA

Assistant Auditor General
Office of the Auditor General of Canada

Specific questions posed by the Public Sector Accounting Board (PSAB):

Question 1

Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

OAG response:

Yes, we find the scope of this standard to be clear.

Question 2

Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

OAG response:

No, we think the definitions contained in the Glossary do not go far enough in some cases to help interpret and apply the standard. Specifically, we think the Glossary should be revised with additional guidance added in the following areas:

- For the most part the definitions align with those in IPSAS 39 with only minor modifications. However, we find the definition of category-wide plans to be somewhat broad and inconsistent with the description in PS 3251.044 given that the definition refers to “economic categories laid down in legislation” and the guidance in PS 3251.044 refers to “all entities (or all entities in a particular category such as a specific industry)”. We think that economic categories could be interpreted in different ways. Therefore, we think PSAB should address this inconsistency. If it is determined that this type of plan is relevant to the Canadian public sector, we think the definition should be more precise by explaining what is meant by an “economic category” and including an illustrative example(s) of what would be considered a category-wide plan as mentioned in our response to Question 4 and Question 13.

- We note that the definition of a defined contribution plan in the Glossary of this Exposure Draft (ED) refers to “fixed contributions”, which is the same term used in the Glossary of PS 3250. While we support a simple two-classification approach (i.e. defined benefit and defined contribution plan), we think that additional guidance and illustrative examples should be added to address what constitutes “fixed contributions” since that is a critical element in the definition of a defined contribution plan. We think this guidance could address the impact of variable payments subject to caps or contingent payments to ensure consistent application of the definitions provided in the standard. We think that without such guidance it may be difficult to interpret and apply this definition. This is especially important since the definition of a defined benefit plan has changed to describing what it is not, rather than what it is.

- In the context of joint defined benefit plans, PS 3251.BC56 mentions that use of the term “sponsor”, which is legal terminology, has now been replaced with “participating entities”, which is accounting terminology. We note a number of instances in PS 3251 which mention controlling entity. For example, PS 3251.41 (b) mentions the accounting that would be followed by a controlling public sector entity, in the case of a defined benefit plan that shares risks between public sector entities under common control, and PS 3251.046 mentions the accounting that would be followed by the controlling entity in the context of a category-wide plan. However, the guidance on multi-employer plans does not mention the controlling entity or the entity responsible for the plan unlike PS 3250.108 which explicitly addresses this aspect for multi-employer plans.

  We do not have concerns related to the definition of a controlling public sector entity in the context of a defined benefit plan that shares risks between public sector entities under common control because that is already addressed in PS 3251.039. However, we do not see the same clarity for controlling entity used in the context of a category-wide plan and we think this concept in missing for multi-employer plans as explained above. On that basis, we think that the Glossary should include a definition of the term “controlling entity” in the context of multi-employer plans and category-wide plans. In addition, guidance should be provided to help determine the entity that is responsible for the full recognition of the plan’s liability / assets. Related to this, we think the standard should also explicitly address how a controlling or entity responsible for a multi-employer plan should account for such a plan.

- Finally, we think there could be plans that were clearly classified as a multi-employer plan under PS 3250 that would no longer meet the definition of a multi-employer plan under PS 3251 because they include entities that are under common control and also entities that are not under common control. This would create a classification challenge for such plans for both the controlling entity and the participating entities based on the current definitions. We think that PSAB should clarify either the definition of a multi-employer plan or a defined benefit plan that shares risk between entities under common control, as described in PS 3251.039, to allow for an appropriate classification based on the substance of the plans.

Question 3

Would applying the guidance for recognizing a public sector entity’s net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

OAG response:

No, applying the guidance for recognizing a public sector entity’s net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control would not change the accounting treatment for our involvement in a post-employment benefit plan as we are not aware of any plans that fit this definition.

Question 4

Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

OAG response:

Yes, we think the guidance on category-wide plans may be relevant for the Canadian public sector since the inclusion of this new category of plans may help to address plans that are currently not being accounted for by public sector entities. That said, we are not aware of any examples in our audit portfolio of public sector entities that would meet this definition.

However, we note that the definition of a category-wide plan is quite broad, there are no examples provided, and there seems to be a lack of consistency between the definition in the Glossary and the guidance in PS 3251.044 as mentioned in our response to Question 2. Initially we thought that the definition of a category-wide plan could encompass plans such as the Canada Pension Plan (CPP) which is a federal/provincial plan established by the following act: *Canada Pension Plan*. The CPP is a compulsory and contributory social insurance program operating in all parts of Canada except Quebec, which operates the Quebec Pension Plan, a comparable program. Given that the CPP applies to public sector entities, we think that the guidance in PS 3251.044 which states that (emphasis added) "…This section deals only with employee benefits of the public sector entity and does not address accounting for obligations under category-wide plans related to employees and past employees of entities that are not controlled by the government reporting entity…" is not intended to scope in plans or programs like the CPP. Since the CPP provides benefits to Canadians and almost all employers contribute to the CPP, not just those controlled by the governments, we do not think it would be considered a category-wide plan in this standard. That said, we think the guidance could be improved in the following areas:

- We note that category-wide plans are referred to in the definition of multi-employer plans and category-wide plans are required to be accounted for in the same way as a multi-employer plan per PS 3251.043. We think that category-wide plans, however, could be for entities under common control which are excluded from the definition of a multi-employer plan. It is therefore unclear how a plan that is established in legislation for all entities under common control would be classified and accounted for. We think that PSAB should consider addressing this gap.

- PS 3251.046 provides a rebuttable presumption that a category-wide plan will be characterized as a defined benefit plan by the controlling entity but does not provide guidance on what is meant by the "controlling entity" and whether the controlling entity could consist of more than one entity where the plan is jointly controlled by more than one level of government. We think that PSAB should include additional guidance around this aspect.

- We think there needs to be clearer distinction between social benefit programs and employee benefits. While PS 3251.044 states that: "…This section deals only with employee benefits of the public sector entity and does not address accounting for obligations under category-wide plans related to employees and past employees of entities that are not controlled by the government reporting entity…", we do not find the distinction to be all that clear. We think that PSAB should consider the guidance in IPSAS 42, Social benefits to see if the definition of a social benefit could be brought into PS 3251 to make the distinction clearer or benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities could be explicitly scoped out of PS 3251, considering they are explicitly scoped out in IPSAS 39.

- We also think that the guidance provided in PS 3251.044 is unclear regarding the section that will eventually deal with the accounting for any obligations arising in respect of the category-wide plans related to employees and past employees of entities that are not controlled by the government reporting entity. We think PSAB should explicitly state what standard should be applied to these circumstances.

- We think an illustrative example of what would be considered a category-wide plan would be helpful, as mentioned in our response to Question 2 and Question 13.

Question 5

Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

OAG response:

Yes, applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this ED would potentially change the accounting treatment for entities that participate in a multi-employer plan depending on whether sufficient information is available. We find, however, that the lack of clarity around what would be considered sufficient information may ultimately lead to no change in accounting.

In order to ensure that participating entities in multi-employer benefit plans do not default to defined contribution accounting, as they have been accustomed to under the existing requirements of PS 3250, we think that PSAB should expand the guidance around what constitutes sufficient information and include an illustrative example describing what would be sufficient information as discussed in our response to Question 13. While paragraph .035 provides some examples of what may lead to insufficient information, there are no examples of what would be considered sufficient information. We think this lack of guidance could lead to reduced accountability as certain public sector entities may not have a complete accounting of the obligations for which they are responsible for.

Question 6

Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

OAG response:

Yes, we believe the guidance on assessing the funding status of a plan is clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations in the majority of circumstances.

However, as noted in our response to Question 8, we think that consideration should be given to simplifications such as whether thresholds can be used when assessing the funding status and whether the assessment needs to be performed on an annual basis or could be on a less frequent basis (for example every three years similar to the frequency of a funding valuation).

In addition, we think that PSAB should consider providing guidance and principles that could be applied to plans where separate invested funds were not set aside until after a certain date, which is the case for certain government pension plans. What is currently intended by PS 3251 is not clear, in particular, how the funding assessment would be calculated and applied in those circumstances where the legislation does not allow an entity to pay benefits from the funded portion of the plan for benefits earned prior to the establishment date of the funded portion. In those circumstances, we think the substance of the plan should prevail. In other words, we think it may be appropriate for the entity to consider the two components of the plan separately (funded and unfunded) rather than together (partially funded). PS 3251.115 states that: "In some cases, post-employment benefit plans may contain a portion of the plan's post-employment benefits that are funded by plan assets and a portion that are unfunded. These types of plans are referred to as 'partially funded plans'". Applying the proposed guidance to the two components described above separately versus together could lead to different discount rate outcomes. As currently proposed, it is not clear how the funding status assessment would apply to the circumstances described above. We think that the calculation would be more challenging and therefore we think PSAB should consider providing more guidance on the principles that might be applied in these cases.

Question 7

Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

OAG response:

Yes, in theory we agree with the proposed discount rate approaches for fully funded, partially funded and unfunded plans. However, we think there will be difficulties in the practical application of such an approach and we think improvements are needed as mentioned in our response to Question 8.

While we think that the proposed discount rate approach for funded and partially funded plans could introduce management bias and will be more costly to implement/maintain, we note that within this ED PSAB has attempted to bring in a more objective expected rate of return by requiring the use of an expected market-based return on plan assets which would be calculated in a way that "maximizes the use of relevant, observable, and verifiable inputs at the end of the reporting period and minimizes the use of unobservable inputs" as noted in PS 3251.114; this differs from existing PS 3250.044 requirements which do not contain such a nuance. In addition, we think there are other advantages to maintaining an expected market-based rate of return approach for fully funded plans. Examples include reduced liability volatility for funded plans and a consideration of the differences between public sector and private sector plans (e.g. more sophisticated investment strategies due to the size and nature of the plans and little/no bankruptcy threat). On that basis, we are not strongly opposed to PSAB's proposals in this area. However, we think improvements will be needed as follows:

- Guidance on determining the expected market-based return on plan assets; and
- Guidance on how provincial government bonds are to be used in practice.

Expected market-based return on plan assets:

As indicated above, we note the nuance between the existing requirements in PS 3250.044 and PS 3251.114, however, no emphasis was made by PSAB on how an expected market-based return on plan assets would differ from the current requirements and how this concept would be applied for plans having a significant portion of their assets that would require the use of unobservable inputs. We think that PSAB should be more explicit by providing examples of inputs that would be expected to be market-based versus those that would be considered unobservable and therefore more subjective. We also believe that PSAB should provide guidance on how an expected market-based return would be determined for assets with significant unobservable inputs.

Provincial government bonds:

PS 3251.118 provides that the discount rate for unfunded plans would be "*determined by reference to market yields at the end of the reporting period on provincial government bonds with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations.*" PS 3251.BC50 specifies that the Board determined that provincial government bonds represented a deep market in Canada and thus PSAB is proposing the use of only provincial government bonds. This proposal should lead to lower liabilities for unfunded plans which currently use a discount rate derived from yields on government of Canada bonds. While we do not disagree with this current assessment, we think such an assessment may not endure over the long-term as markets can change over time. Therefore, we think that PSAB should consider referring more generally to government bonds which would be consistent with IPSAS 39.88 while providing guidance on what constitutes a "deep and liquid market".

In addition to the above, we think that PSAB should consider providing guidance on how to use provincial bonds in the determination of the discount rate and include an illustrative example as mentioned in our response to Question 13. It is not clear whether the discount rate is meant to match the province (for example, whether an Ontario plan would need to use an Ontario provincial bond rate) or whether a basket of provincial bonds is meant to be applied in all cases, including for Federal plans.

In conclusion, we think that more prescriptive guidance on determining the discount rate for funded, partially funded, and unfunded plans should be provided in a few areas in order to ensure consistent application between similar pension plans, comparability between similar entities and pension plans, and understandability by preparers and users. This guidance would help to address the challenges that may result from the proposed approach as discussed further in our response to Question 8.

Question 8

Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

OAG response:

Yes, we foresee challenges that may result from the proposed approach to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation.

We anticipate challenges in the following areas:

- Determining an expected market-based return on plan assets where there are significant unobservable inputs as discussed above in our response to Question 7;
- Determining the discount rate for partially funded plans; and
- Determining the funding status on an annual basis.

Discount rate for partially funded plans:

We think that determining a discount rate for partially funded plans will be onerous and will most likely require the use of an actuary. We think that PSAB should consider issuing guidance that could be used by actuaries in determining the discount rate for a partially funded plan as this would help ensure a consistent approach.

In addition, we think that PSAB should consider whether simplifications could be made to the calculation such as thresholds that could be used when determining the funding status of a plan. For example, if a plan is 90% funded, in accordance with the proposals it is still subject to the partially funded discount rate calculation regardless of whether the difference would be material or not. We think that thresholds could be useful in reducing the cost and effort required to determine the funding status and resulting discount rate.

Annual funding status assessment:

The requirement to assess the funding status at the end of each fiscal year for both funded and partially funded plans as required by PS 3251.106 adds to the ongoing cost of implementation and may not result in any significant difference in valuation. On that basis, we think PSAB should consider whether an annual assessment is required or whether an assessment performed every 3 years, similar to a funding valuation, would be sufficient. Alternatively, PSAB could consider developing indicators which would trigger a new funding assessment rather than requiring an annual funding status assessment in all cases.

Question 9

Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

OAG response:

No, we do not foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans. However, we do see implementation challenges as described further in our response to Question 8 and we think additional guidance is needed as described in our responses to both Questions 7 and 8.

Question 10

Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

OAG response:

Yes, we agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit. However, we think that PSAB should consider adding a budget component related to revaluations that will be recognized directly in net assets.

To improve the proposals and ensure that governments remain accountable for amounts recognized outside of surplus or deficit, we think PSAB should consider adding a budget component for these amounts. This would be consistent with current practice that requires a budget for amounts recognized in annual surplus or deficit, including the amortization of actuarial gains and losses.

Question 11

PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

OAG response:

We think the existing presentation and disclosure options in PS 1201 and those proposed in PS 1202 are sufficient to address concerns regarding increased volatility.

Question 12

Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

OAG response:

Yes, we agree with the proposed transitional provisions; however, we think they are incomplete.

In our view, retroactive application is the only method that would result in the faithful representation of the employee benefits covered by this standard. However, we think that full retroactive application may not be practicable in all circumstances, especially since some of the changes may be quite significant and it may be costly to implement on a fully retroactive basis. As a result, we think that PSAB should consider whether a modified retroactive approach could also be an acceptable approach to ease the cost of implementation.

Moreover, we think that the proposed transitional provisions should be expanded as they do not seem to take into account all the complexities in PS 3251 and do not specify how the requirements might be applied on a fully retroactive basis. Unlike IPSAS 39 which uses the same discount rate for all plans regardless of the funding status, PSAB is proposing different discount rates for funded, partially funded, and unfunded plans which requires an entity to assess the funding status of the plan on an annual basis. This could result in significant swings in discount rates depending on the results of the annual funding status assessment. For that reason, we think that the transition requirements should be different than the transition requirements in IPSAS 39 and PSAB should consider whether practical expedients could be used in the year of adoption.

In addition, we think that PSAB should be more prescriptive on what funding status valuations would be required in the year of adoption (e.g. three separate dates representing the opening balance of the comparative year, the ending balance of the comparative year and the ending balance of the current year rather than on an annual basis as would be required in PS 3251.106).

We also think that PSAB should consider clarifying the requirements in PS 3251.110. It is unclear whether an entity should consider the factors in this paragraph in the first year of a funding status assessment (e.g. the opening balance of the comparative year). We note that this paragraph applies to fully funded plans that are not consistently 100 percent funded. This could imply that in the first year, this paragraph is not applicable. We think PSAB should clarify whether this paragraph should apply in the year of adoption to comparative periods.

It is also unclear how and where the effect of the change in the net defined benefit liability (asset) would be recognized given it has an impact on both amounts recognized in annual surplus or deficit and amounts that would be recognized directly in accumulated other. For example, it is unclear if the effects of the change the net defined benefit liability (asset) would be recognized in accumulated other, annual surplus or deficit, directly in accumulated surplus/deficit, or a combination. We think that guidance needs to be included to address this aspect.

Finally, we note that the transitional provisions do not mention whether the standard can be early adopted. We think that PSAB should be explicit in this regard while taking into account the transition date for PS 1202.

Question 13

Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

OAG response:

Yes, the illustrative examples (Appendix) assist us with the interpretation and application of the proposed Section. However, we think illustrative examples should also be added as follows:

- Distinguishing between a defined contribution and defined benefit plan when there is variability in contributions as mentioned above in our response to Question 2;
- Category-wide plan example, should this type of plan be retained, as mentioned above in our response to Question 2 and Question 4. If no example of category-wide plan exists in Canada, a relevant example might be one that is drawn from other countries that have these types of plans. This would allow preparers to better determine if they have these types of plans and would ensure that this new proposed standard could be appropriately applied to new category-wide plans that are developed in the future;
- An example that describes what would be considered sufficient information to account for a multi-employer defined plan using defined benefit plan accounting as mentioned in our response to Question 5; and
- An example that illustrates how provincial government bonds would be used to determine the discount rate of an unfunded plan as mentioned in our response to Question 7. In addition to the duration that would be used in a particular circumstance, PSAB could provide clarity on whether all provincial bonds would be used in all cases or whether public sector entities should use only those bonds specific to their province.

Question 14

Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

OAG response:

Yes, we think that applying the proposals as outlined in this ED would significantly change the understandability of financial reporting on employee benefits. We think this change would affect understandability both positively and negatively in the following ways:

- Immediate recognition of actuarial gains and losses in the net defined benefit liability (asset) will result in recognizing an asset when a plan is in a surplus and a liability when a plan has a deficit which is much easier to understand as compared to the current deferral approach which can result in the recognition of an asset despite being in a liability position or vice versa.
- Recognition of actuarial gains and losses along with other revaluations directly in net assets removes volatility in the statement of operations which may also lead to an increase in comparability when compared to our international counterparts whose standards follow a similar approach which in turn may lead to an increase in understandability for users of financial statements.
- Elimination of the use of market-related values for plan assets eliminates the smoothing effect previously allowed under PS 3250.035 which allowed plan assets to be adjusted to market value over a period not to exceed five years in a manner that minimizes short-term fluctuations. The elimination of this smoothing mechanism reduces complexity for users and preparers of financial statements (F/S), is more amenable to assessing the comparability of financial results across entities (as there are often different deferral periods determined from one entity to the next, and even sometimes from one benefit plan to the next within the same entity), is more transparent, and more faithfully represents the value of the assets set aside to fund the defined benefit obligation thereby increasing understandability.

- Application of the proposed discount rate approach, which is very different from the approach used by our international counterparts, may make comparability of similar plans across jurisdictions difficult, which in turn may lead to a decrease in understandability for users of financial statements.

Question 15

Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

OAG response:

Yes, we think that applying the proposals as outlined in this ED would result in a change in decision making for employee benefits.

We think the proposals will improve decision making in the following ways:

- Assets and liabilities will more faithfully represent the employee benefit plan position as at the end of each reporting period, which should allow for improved decision-making.
- Using an expected market-based rate of return on plan assets approach to value pension liabilities helps to ensure that assets will be sufficient to fund future liabilities within a given probability, which better matches how a public sector entity manages a funded pension plan. In our experience, a public sector entity specifies the return to strive for on the assets set aside to ensure that it is sufficient to cover the liability, without going into a significant asset position which can be problematic for government pension plans. Using a market yield approach can result in greater liability volatility and can overstate the value of liabilities which in turn can lead to less than optimum investment strategies. Therefore, adopting a discount rate that is based on funding status can result in better information which may lead to better decision making from an asset management perspective.
- Recognizing revaluations, which include the difference between actual and expected market-based return on plan assets, directly to net assets should reduce the incentive to realize gains and losses in annual surplus/deficit in a specific fiscal period by making short-term investment decisions that may not be consistent with a pension plan's long-term investment strategies.

Other considerations:

We would like to raise the following observations for further consideration as the Board finalizes its deliberations on this ED:

Sick leave

We note that paragraph 3251.016 mirrors the requirements in IPSAS 39.17. An example is provided in paragraph .016 of when sick leave balances are likely to be material. Specifically, the example states (emphasis added) "a sick leave liability is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave." We are concerned that the inclusion of this example may lead to public sector entities removing material accumulating, non-vesting sick leave balances from their F/S. We think that PSAB should consider rewording the example to avoid an outcome that may lead to significant unrecorded liabilities for some public sector entities.

Attributing benefits to periods of service

We note that the attribution rules in PS 3251.078 are different than the attribution rules in PS 3250.029 which require the use of the projected benefit method prorated on services to attribute the cost of retirement benefits to the periods of employee service. Under this method, the PS 3250 Glossary states that "generally an equal portion of the total estimated benefit (i.e., with salary projection, when appropriate) is attributed to each year of service." This requirement is different from PS 3251.078 which requires that: "*if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity should attribute benefit on a straight-line basis from:*
(a) the date when service by the employee first leads to benefits under the plan...until,
(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases."

The requirements in PS 3251.078-.082 are identical to the requirements in IAS 19.70-.74. In its December 2020 meeting, the interpretation of these paragraphs was discussed by the IFRS Interpretations Committee (IFRIC) following a submission about the periods of service to which an entity attributes benefit for a particular type of defined benefit plan. The fact pattern in the submission described that employees were entitled to a lump sum benefit payable on retirement provided they were employed by the entity when they reached the age of retirement. The amount of the retirement benefit was dependent on the length of service before retirement and equal to one month of final salary for each year of service capped at 16 consecutive years of service. The majority of IFRIC members concluded that it would be appropriate to attribute the benefit to the last 16 years of service based on the requirements in IAS 19.70-.74. Some respondents were of the view that it would also be appropriate to consider that an entity's obligation arises from the date the employee joins the entity, regardless of the employee's age, because the employer incurs the obligation from that date, even if the benefits are conditional on further service. These respondents also noted that such an approach would be consistent with the overarching objective in IAS 19.1 (PS 3251.001) to recognize an expense when the entity consumes the economic benefit arising from the services provided by the employee and would faithfully reflect the underlying economics and true costs of an employee's service. The IFRIC staff disagreed and said that an entity should determine the date when service first leads to benefits under the plan by applying IAS 19.70-74 (PS 3251.078-.082).

Based on this IFRIC, the interpretation of PS 3251.078-.082 could be significantly different from how benefits are attributed under existing public sector standards and could lead to situations whereby a benefit is not accrued until much later and closer to the date of retirement. In order to ensure consistent application of the attribution rules, we think that PSAB should consider clarifying its intentions with respect to the attribution rules. While IFRIC has provided its interpretation of these paragraphs, some public sector entities may not turn to IFRIC to help interpret these paragraphs which could lead to diversity in application. Given the lack of clarity in the existing IAS 19 paragraphs, hence the submission to the IFRIC, we think that PSAB has an opportunity to provide clarity in this area, for example in the Basis for Conclusions. We think this is especially important as these plans are common in the public sector in Canada and this change could have a significant impact.

Funding valuations versus accounting valuations

We note that PS 3250 contains considerable guidance around the differences between funding valuations and accounting valuations, while there is no comparable guidance in PS 3251. For example, PS 3250.008-.010 discusses the objectives of funding and accounting. Given that PS 3251.106 requires a public sector entity to assess the funding status at the end of each fiscal year and when a plan that does not consistently have 100 percent of the benefit obligation funded uses professional judgment to assess the unique circumstances and characteristics of a post-employment benefit plan in determining whether a fully funded plan becomes a partially funded plan or vice versa, or remains the same as required by PS 3251.110, we think this distinction becomes important. If a funding valuation, which is prescribed by legislation, is distinct from an accounting valuation, it is not clear whether or how an entity's funding policy as set out in legislation (PS 3251.110(a)) could impact the outcome of an accounting valuation. For example, if an entity uses letters of credit in lieu of making special solvency payments, it is not clear whether such a mechanism could result in a partially funded plan being considered fully funded. It is also not clear how legislation which provides that a plan cannot have a funding shortfall would impact a funding status assessment and thus the accounting valuation. We therefore think that PSAB should consider clarifying these aspects.

Joint defined benefit plans

We note that the accounting for joint defined benefit plans has changed. Under PS 3250.081, a participating government in a joint defined benefit plan was required to account for its portion of the plan in accordance with the standards for defined benefit plans whereas PS 3251.049 directs entities participating in a joint defined benefit plan to account for such a plan in the same way as for a multi-employer defined benefit plan. Given the lack of guidance around what is considered sufficient information as discussed in our response to Question 5, we see a risk that public sector entities previously accounting for their participation in joint defined benefit plans in accordance with the standards for defined benefit plans will switch to the easier option of accounting for their participation using defined contribution accounting. We do not think such a result would be in the Canadian public interest as entities would remove these obligations from their F/S. We think an outcome such as this would not improve understandability of the financial reporting of employee benefits and would not provide the F/S users with better information for accountability purposes. We would therefore urge PSAB to reconsider the proposals in this area.

Other minor editorial comment

We note that the disclosure requirements in PS 3251.041 and .042 refer to the same paragraphs (i.e. PS 3251.172). We think that that the reference to this paragraph in PS 3251.042 should refer to PS 2200 or PS 3251.173.

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November 23, 2021

Via email: info@psabcanada.ca

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric:

Re: Invitation to Comment – PSAB Exposure Draft, Employee Benefits, Proposed Section PS 3251

We understand that the Public Sector Accounting Board (PSAB) has issued its Exposure Draft for a new employee benefits standard, EMPLOYEE BENEFITS, Section PS3251 to replace RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255. Individuals, governments, and organizations have been invited to provide written comments. On behalf of the Teachers' Pension Plan ("Plan"), the Teachers' Pension Board of Trustees submit our feedback. The scope of our comments is limited to accounting treatment of pensions.

The Teachers' Pension Plan prepares its financial statements in accordance with Section 4600 of Part IV of the CPA Handbook and while as an entity the Plan is not directly affected by PSAB Standards, its on-going sustainability is tied to that of its participating employers. We make our submission from this perspective.

The Plan is jointly sponsored; the participating employers and members generally equally share any required contribution increases or decreases and the Plan is governed by its respective Joint Trust Agreement. No individual sponsor has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, sponsor contribution rates, and funding shortfalls and surpluses. Further, the contractual agreement that amended the Plan to be jointly sponsored specifically states that no participating entity has a responsibility for any assets, liabilities, obligations of deficiencies of the Plan. Contributions to the Plan are determined by actuarial valuations using "best estimate" assumptions.

The board understands that in the current phase, PSAB has focused its efforts on the topics of deferral provisions and discount rate guidance. In future phases, PSAB will focus on guidance for non-traditional pension plans. Given the unique nature of public sector pension plans in British Columbia, we hope that you give our comments serious consideration as you develop future standards for non-traditional defined benefit pension plans.

We are pleased to see that PSAB has recognized the need to differentiate between the different types of non-traditional defined benefit pension plans and treats each type individually based on its risk and cost

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sharing principles. We are also pleased to see that PSAB has followed other standards setters[1] in concluding that when a public sector entity is not able to identify its share of assets/liabilities, the entity may take on defined contribution accounting. This was raised in our previous submission and is now explicitly provided for in Paragraphs .033 and .035 in respect **of multi-employer plans**, and implicitly for **joint defined benefit plans** by PSAB directing such entities to follow **multi-employer plan** guidance.

Our comments are in relation to the following major themes; details are provided in the Appendix as we respond to the questions raised by PSAB:

- Clarification of definition for **joint defined benefit plans**
- Removal of disclosure discrepancies between **multi-employer plans** and **joint defined benefit plans**
- Simplification of disclosure requirements for **multi-employer** and **joint defined benefit** plans who may take on defined contribution accounting

Under the existing standards, the participating employers in our Plan follow defined contribution accounting and expense their contributions. In the public accounts, the Province of British Columbia reports the net obligation in respect of the Plan and provides high level disclosures similar to defined contribution plans. It is our hope that under the proposed standards, the participating employers and the Province of British Columbia can continue with their current practice.

We appreciate the opportunity to provide input on these issues.

Respectfully submitted,

Rob Taylor, Chair
Teachers' Pension Board of Trustees

[1] IAS 19 and IPSAS 39 both state that when sufficient information is not available to use defined benefit accounting for a multiemployer defined benefit plan, an entity shall account for the plan as if it were a defined contribution plan with disclosures.

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Appendix

Our response to PSAB questions

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

Yes. We have no comments.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

Given its characteristics, the Teachers' Pension Plan can fall under several categories: a **category-wide plan**, a **multi-employer plan**, or a **joint defined benefit plan**. We believe that **joint defined benefit plan** is the most appropriate label, provided that the current definition is expanded to recognize the principles inherent in the contractual agreement that gave rise to the jointly trusteed public sector plans in British Columbia (Minister's Principles – 1998). These principles are:

a) Equal sharing of responsibility for management of the pension asset in the best interest of the beneficiaries
b) Sharing of contributions
c) Equal sharing of responsibility for any unfunded liabilities generated during the period of joint trusteeship
d) Equal ownership of any surpluses generated during the period of joint trusteeship
e) Protection of the plan from unilateral actions by plan sponsors or principals

Please note that under the current governance structure of the Plan, no participating entity has a responsibility for any assets, liabilities, or obligations of deficiencies of the Plan on an individual basis. As a result, defined contribution accounting standards are applicable.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

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3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain**.

In the case of a pension plan, where a single or a group of public sector entities are the sole sponsors of the plan, the concept of common control may be applicable. However, in a jointly sponsored plan such as our Plan, where the risks/rewards are shared between the participating employers and the plan members, common control among the public sector entities is irrelevant as no one single entity has unilateral control over the pension plan.

This is more pronounced in the case of the Province of British Columbia. One can argue that most public sector entities participating in the BC public sector plans fall under the province's control. We interpret the proposed standards to imply that the province needs to account for these plans on a defined benefit basis. However, in the case of **joint defined benefit plans,** such as our Plan, neither the province nor the public sector employers under its control, have any right to surpluses or the responsibility to fund deficits on wind up. As a result, we strongly believe that the province should disclose the net defined benefit cost in respect of our Plan, but not recognize it as an obligation.

Expanding the definition of joint defined plans to recognize that in a joint defined benefit plan the employers' and members' risk, including the province's risk, is limited to the contributions the participants makes will addresses our concerns.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

Under paragraph .043, you state that **category-wide plans** should use the guidance applicable to **multi-employe**r plans. If category-wide plans are a subset of multi-employer plans, why is there a need to distinctly recognize them? We have no objections to doing so, but we believe the most differentiating factor between the various types of non-traditional public sector plans is their risk/cost structure.

Simplifying or consolidating the disclosure requirements for non-traditional plans may lead to more efficiency and reduce the need for identifying so many different categories. It will also improve readability for users of financial statements.

For example, it can be argued that the Plan is a **category wide plan** as it covers the public school teachers in British Columbia. However, it is the joint risk/cost sharing principle inherent in our Plan that makes it a **joint defined benefit plan**.

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5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

Inclusion of paragraph .033 is aligned with how our participating employers currently account for their pension obligations. We welcome PSAB's attention to the reality that in a multi-employer defined benefit plan, there is not a separate mechanism for allocating surpluses/deficits or gains/losses to individual employers. Our prior submission had pointed this out and we are pleased to see that multi-employer plans can continue to use defined contribution accounting.

Our concern is mostly in respect of **joint defined benefit plans.** Paragraph .049 states that a public sector entity should account for its participation in a **joint defined benefit plan** in the same way as **a multi-employer defined benefit plan.** Paragraph .170(d) provides the disclosure requirements for a public sector entity in **a multi-employer defined benefit plan** who takes on defined contribution accounting. Paragraph .171 prescribes disclosure requirements for **joint defined benefit plans**, in addition to those required from **multi-employer defined benefit plans** (paragraphs .157-.169). However, it is not clear as to what happens when a participating employer in a **joint defined benefit plan** is not able to follow defined benefit accounting due to lack of sufficient information, i.e. a corollary to .170(d). We suggest that paragraph .171 be expanded to cover such cases.

We also note that the disclosure requirements under paragraph .170 (d) have been greatly enhanced compared to existing standard. We request that PSAB considers reverting to the existing requirements as these enhancements add little value to the users of the financial statements; are likely to lead to increased costs to prepare the statements, and most of the additional information prescribed can only be provided on a subjective basis.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

We support a guidance that uses an expected market rate of return when a pension plan is fully funded. However, the guidance is inconsistent because paragraph .112 speaks to an expectation to be fully funded,

but paragraph .107 outlines a complex calculation that must be performed annually for a pension plan to prove it is fully funded. We believe this may result in pension plans that are fully funded not being considered fully funded during economic crises. Paragraph .110 provides better measures that examine the pension plans funding policy, actions and governance to establish whether a pension plan is expected to be fully funded or not. We also believe that the paragraph .110 should be the first consideration in determining the funded status of the plan, and be made clearer to confirm that all registered pension plans should be considered fully funded without a need for further analysis where there is a legislative or funding policy requirement to fully fund any deficit.

How a pension plan operates generally does not vary annually and it will continue to operate in a similar manner unless the funding policy changes or plan rules are modified. For this reason, we believe the annual test in paragraph .107 is unnecessary, complicated, and costly, and a triennial requirement is a more appropriate minimum standard.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

We support the approach taken for fully funded plans to use a market related discount rate. Given our Plan's funding policy and other governing documents, as Plan governors, we are tasked with ensuring that in the event of adverse experience, the Plan's fully funded status is restored over a period not exceeding 15 years. It is our expectation that our Plan will be deemed fully funded under PSAB standards.

As for partially funded plans, use of provincial government bonds leads to inconsistencies across various jurisdictions assuming that each entity is to use the provincial bond yield in their province. We are also unclear as to whether entities in the same province have to use the same set of bonds to determine their discount rate. We seek further clarification before we can comment on paragraphs .118-.120.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

To distinguish between fully and partially funded plans, PSAB may wish to strengthen paragraph .110 by making specific reference to plans that are required to be fully funded over the long term by means of their funding policy, governing documents, or legislation. This removes the ambiguity between partially funded plans where the sponsor is under no obligation to fund the deficit versus plans that may experience a decline in their funded status over the short run but have an obligation to fund the resulting deficit and restore the Plan to fully funded.

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9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

Yes. Please see our response to questions 6-8 above.

Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

We have no comments but understand this to be a direct result of PSAB's proposal to require immediate recognition of actuarial gains/losses. Our comments regarding the proposed requirement are stated below.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

We do not agree with immediate recognition of actuarial gains and losses nor the removal of asset smoothing for the following reasons:

a) It introduces unnecessary volatility to the public sector entity's financial statements
b) It overstates/ understates the cost of public sector pension plans
c) It creates a further disconnect between accounting and funding

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

No comments. We hope that PSAB uses the long-time frame between now and the implementation date of proposed standards to clarify the standards applicable to **joint defined benefit plans** and simplify the disclosure requirements for public sector entities who follow defined contribution accounting due to lack of sufficient information.

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Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes

.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

As mentioned before, we find the level of disclosure required for multi-employer defined benefit entities who follow defined contribution accounting to be strenuous without necessarily enhancing understandability. Furthermore, we believe that immediate recognition of gains/losses is misaligned with our Plan's funding principles where gains and losses are amortized. This misalignment leads to a misunderstanding of the Plan's financial position. We suggest that PSAB considers preserving the current requirements.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

We understand that the topics of risk-sharing and non-traditional plans will be deliberated by PSAB in future. We reserve our response until then.

Comments on: *Exposure Draft – Employee Benefits, Proposed Section PS 3251, July 2021*

Malcolm Hamilton, November 25, 2021

Overview

I am commenting as an individual. The views expressed are my own, not those of my profession, the C.D. Howe Institute, or any organization with which I am affiliated.

I am a retired pension actuary and a Senior Fellow of the C. D. Howe Institute. Before retiring I was the actuary for large pension plans in both the public and private sectors. I witnessed, and generally supported, the evolution of pension accounting standards in both the public and private sectors. I am familiar with the differences between pension funding and pension accounting. I am also familiar with the differences between public sector and private sector pension plans – differences in their design, funding, risk sharing, investment management and financial reporting.

Since my retirement in 2013, I have written three papers on the financial management of Canada's public sector pension plans, two for the C.D. Howe Institute and one for the Fraser Institute. These papers identified PS 3250 as a significant contributor to the financial mismanagement of Canada's public sector pension plans. To be clear, the papers were not critical of the organizations that administer these pension plans. They criticized public sector employers for mismanaging the cost of pensions as an element of employee compensation.

PS 3250 encourages public sector employers to materially underestimate and underreport the cost of their pension plans. The employers have done so for many years and, if the Exposure Draft is adopted in its current form, they will continue to do so for many more. It is difficult to effectively manage expenditures that are consistently underestimated.

Generally, I support IPSAS 19. I also support the proposed changes to PS 3250 that better align it with IPSAS 19. The proposed handling of deferrals will make it easier for the users of financial statements to distinguish between

- entries that describe the compensation of employees during the reporting period, and
- entries that describe adjustments to the estimated cost of discharging pension obligations assumed long ago.

This is an important distinction, and these are worthwhile changes.

I strongly oppose the most important element of the Exposure Draft – the requirement that public sector employers deviate from international accounting standards by calculating their current service costs and accrued pension liabilities using the expected return on assets (EROA). I oppose this departure from international norms for several reasons.

- The costs and liabilities will be materially underestimated.
- The result is incompatible with the PSAB's mission as articulated in the first paragraph of its *Terms of Reference*. Specifically, using the EROA
    - is contrary to the public interest, and
    - will misinform, not inform, public sector decision makers about the cost of their pension plans.
- The Exposure Draft rejects an important principle found in international accounting standards, and it does so without acknowledgement or justification.
- The reasons given for deviating from IPSAS 19, as set out in paragraphs 37 to 45 of the *Basis for Conclusions*, are irrelevant, unsubstantiated, and often untrue.
- Finally, the decision to adopt the EROA as the discount rate has been influenced by the views of respondents to earlier *Invitations to Comment* without acknowledging that many respondents have interests that conflict with the public interest as it relates to the measurement and reporting of public sector pension costs.

In essence, the public is being asked to believe that a typical public sector, defined benefit pension plan would cost about 10% of pay if sponsored by a Canadian public sector employer, and about 40% of pay if sponsored by a Canadian business, or by an employer subject to International public sector accounting standards.

This is simply not credible.

What does a pension plan cost?

Pensions are earned by employees as compensation for their work. The amount of the pension and the circumstances in which it is payable are set out in the plan document. The employer is obliged to pay the pensions directly, or indirectly through a funding instrument, as they fall due. Pensions are typically due about 30 years after they are earned.

To make sensible decisions about employee compensation, decision makers need sensible estimates of the cost of their pension plans. The public interest is best served if the compensation of public employees is fair and competitive. The public interest is not well served by deliberately overpaying or underpaying public employees. This means that the reported pension costs should fairly represent the value of the pensions employees earn.

The cost of the pensions employees earn in a particular year (i.e., the current service cost) is calculated as follows.

1. The actuary estimates the pensions payable in each future year for service during the year in question.
2. The actuary then calculates the present value of these payments using a discount rate.

The first step is arithmetically formidable, but uncontroversial. The second step is straightforward, but the answer is sensitive to the choice of the discount rate. How this discount rate is chosen, and what the answer represents, are the sources of the current controversy.

PS 3250 identifies two acceptable discount rates:

1. the rate of return that one can reasonably expect to earn without taking investment risk (the yield on long term, high quality, government bonds); and
2. the EROA, i.e., the expected long term rate of return on pension fund assets, assuming that the pension fund's investment policies and procedures endure. The EROA is usually calculated as the sum of
    - the riskless rate, and
    - the expected reward for investment risks taken by the pension fund.

For the purposes of this commentary, I will assume that the appropriate real bond rate (i.e. the bond rate less the inflation rate) is currently about 0.5% (0.5% more than the 0% real yield currently available on long term, inflation protected, Canada bonds) and that the real EROA is currently about 3.5% (based on the most recent financial statements for the governments of Canada and Ontario). The current service cost for a representative public sector DB plan would then be about

- 50% of pay if calculated using the riskless rate (0.5%), and
- 20% of pay if calculated using the EROA (3.5%).

The two discount rates produce dramatically different current service costs – 50% and 20%. They cannot both be right. No public or private sector organization would adopt a pension plan that costs 20% of pay or 50% of pay depending on whom you ask. In this instance the right answer – the fair answer – the answer that conforms to international accounting standards - is 50%.

Why 50%? Because if employees pay 50% of pay for their pensions, they will earn a 0.5% real rate of return on their investment. At the present time, this is the fair rate of return for employees to earn on a long term, risk free investment, and their pensions, which are unaffected by the performance of the pension fund, are essentially long term, risk free investments. If employees pay 20% of pay for their pensions, they will earn a 3.5% real rate of return on their risk free investment. This was a perfectly reasonable return for risk free investments in 2003, when interest rates were much

higher, but it is not reasonable today. The average real yield on long term, inflation-protected, Canada bonds has been 0.5% for the last 10 years.

How is it possible to charge members 20% of pay for a pension plan that costs 50% of pay without the pension plan collapsing? Here is how it works.

- The members contribute 20% of pay to the pension fund, 10% directly and 10% indirectly (as the employer's contribution is considered employee compensation and is presumably earned by the employees).
- If the pension fund invests the contributions in long term bonds, it earns a 0.5% real rate of return and has only enough money to pay 40% of the pensions (because it needs a contribution equal to 50% of pay to cover the full cost of the pensions without taking investment risk).
- So, the pension board decides to invest 100% of the pension fund in equities, hoping to earn the 3.5% real return that the fund will need to pay the pensions. Since neither the pensioners nor the employees bear any investment risk, the risk must be borne by the employer (and ultimately by the public) through adjustments to the employer's annual contribution. The returns added by risk taking and, if necessary, the additional employer contributions, ensure that the pension fund can pay the pensions.
- When all is said and done, the employees pay 20% of pay and earn a 3.5% real return on a riskless investment. The public bears large investment risks for a long time and receives nothing in return as all the contributions, and all the investment income, are needed to pay the pensions. By this device, an amount equivalent to 30% of pay is effectively transferred from the public to the employees, who pay 20% of pay for a pension worth 50% of pay.

This is what has been happening under PS 3250 for more than a decade – 30% of pay has been transferred from the public to public employees without acknowledgment and without being recorded as employee compensation or as an operating cost. The transfer escapes detection because the money is earned in the pension fund as a reward for risks borne by the public, and then it is paid to pensioners as a significant part (60%) of the pensions they are owed.

The reward for risk taking seems large, but so is the risk. The rewards for risk taking during the last 75 years are as shown in the following table. The "reward" is the difference between the return on common stock and the return on long term Canada bonds in a particular year. The returns are measured in Canadian dollars.

Period	Average Annual Reward for Risk Taking	
	Canadian Stock	U.S. Stock
1946-1970	8.4%	8.4%
1971-1995	1.0%	3.6%
1996-2020	0.8%	2.0%
1946-2020	**3.3%**	**4.6%**

While there has always been a reward for risk taking over extended periods, the reward cannot be reliably predicted. Stock returns are volatile. Among other things, this means that the "long term" reward for risk taking cannot be accurately estimated and may change with the passage of time. It also means that the reward a pension fund expects to earn by taking risk can be significantly different from the reward it will receive, even over long periods of time (50 years or longer).

If employees think that 30% of pay is too much to pay to avoid investment risk, there is an obvious solution. If the pension plan is converted to a jointly sponsored pension plan, where employees bear half of the risk, the cost of the plan falls from 50% of pay to 35% of pay, thereby rewarding employees for the risk they bear. If the plan is converted to a target benefit plan, where employees and pensioners bear all the investment risk, the cost falls farther, to 20% of pay. These changes will not happen if the reported cost of the pension plan is 20% of pay no matter how much, or how little,

risk the employees bear. Proper accounting creates an incentive for plan members to bear some of the investment risk. Poor accounting does not.

How much is at stake?

Employees contribute about $22 billion per annum to trusteed public sector pension plans. Some of this is for DC plans. If we assume that 90% is for DB plans and that the average employee contribution rate is 9% of pay, we arrive at an estimated covered payroll of $220 billion. If the current service cost, properly measured, is 50% of pay, not the reported 20% of pay, the aggregate annual underreporting of pension cost comes to

30% x $220 billion = $66 billion per annum.

This overstates the problem because the underreporting is only 15% of pay for jointly sponsored pension plans where employees bear half the risk. If we assume that two-thirds of the plans have shared risks, the blended underreporting will be 20% of pay, not 30% of pay, and the estimated underreporting drops to $44 billion per annum. Since this has been going on for at least 10 years, albeit with interest rates at a slightly higher level, the cumulative underreporting could easily be $300 billion, and this is increasing at the rate of $44 billion per annum.

If I assume that

- real Interest rates remain low,
- the exposure draft is adopted in its current form, and
- there are no changes to the relevant standards for the next 20 years (which seems likely when one considers that this round of changes will have been underway for 12 years by the time it takes effect),

then the cumulative underreporting of public sector pension costs will exceed $1 trillion.

This is a critical issue… important to the public and important to the public service. A proposed deviation from international accounting standards that could potentially cost the public $1 trillion needs to be well supported.

This one is not.

Comparing the Exposure Draft to IPSAS 19

It is important to identify the source of the difference between the Exposure Draft and IPSAS 19.

Both the Exposure Draft and IPSAS 19 require that an employer use the prevailing yield on long term, high quality, government bonds as the discount rate in each of the following circumstances.

1. The pension plan is not funded.
2. The pension plan is partially or fully funded, and the pension fund invests in a suitable portfolio of high quality, long term, government bonds.

The difference in the standards arises not from the funded status of the pension plan, but from the decision to invest part of pension fund in risk assets (stock, real estate, infrastructure, private equity, etc.) with an expectation of higher returns. IPSAS 19 requires the employer to ignore these additional returns. The Exposure Draft requires the employer to include the additional returns in its determination of the discount rate. In this sense, the standards are incompatible.

Having identified the source of the difference, we must now identify the reason for the difference. We are not looking at conflicting opinions about the virtues of Canadian governance practices, or the rewards pension funds should reasonably expect for taking risk, or the prowess of those who manage Canada's public sector pension funds. IPSAS 19 ignores the reward for risk taking because the members of traditional DB plans

- bear no investment risk, and
- deserve no reward for the investment risk borne by others (the public in this instance).

In the context of our example, this means that the pension plan costs 50% of pay *unless the employees and/or pensioners bear some investment risk.*

The Exposure Draft arrives at a different conclusion. In prescribing the EROA as the discount rate, the Exposure Draft has implicitly rejected the principle supporting IPSOS 19 and substituted, in its place, an opposing principle – *the rewards for investment risks taken by a pension fund and borne by the public should go to plan members (who bear no risk), not to the public (who bears all the risk).* In the context of our example*,* this means that plan members should pay 20% of pay for their pension, not 50%, the difference being their reward for investment risk taken by the pension fund and borne by the public. It also means that the public deserves no reward for the investment risk it is forced to bear. The Exposure Draft justifies this by noting that Canada's public sector pension plans are well governed, well-funded and widely admired before concluding that a large reduction in reported pension costs is the appropriate recognition for this excellence.

I will not attempt a point-by-point refutation of paragraphs 37 to 45 of the *Basis for Conclusions*. None of the claims are substantiated. IPSAS 19 concludes that, since plan members bear no investment risk, the rate of return on the pension fund is irrelevant regardless of the risk taken or the skill of the investment team. The *Basis for Conclusions* counters by noting that Canadian Pension Funds are well funded, well governed and have good returns. If we accept IPSAS 19, these are not relevant considerations. If we reject IPSAS19, we should identify the objectionable principal and explain why we reject it.

The relevant consideration is that the Canada's public sector DB pension plans – the ones we are considering in Phase 1 of this process - are identical to all traditional DB plans in one important respect – employees and pensioners bear no investment risk. If public sector employees and pensioners bear no investment risk, why should they be rewarded for the investment risks taken by their pension plans and borne by the public? This is the question that the *Basis for Conclusions* needs to ask and answer. I see no satisfactory answer as the principle in question appears to be quite sound, and very much in the public interest.

Transition to a Standard Aligned with IPSAS 19

Transitioning from PS 3250 to a new standard better aligned with IPSAS 19 will be a challenge. The sponsors of Canada's private sector DB plans experienced a similar transition in the 1990s, but real interest rates were unusually high in the 1990s, 4% to 5% higher than they are today, and this made the transition much easier than it would otherwise have been.

The last 20 years have been difficult for private sector DB plans. As interest rates fell, the plans became more expensive, but employees did not see them as becoming more valuable. It is economically unwise for an employer to force employees into a pension plan that costs more than employees think it is worth. As costs rose the plans became less viable. Many were wound-up, or frozen, or cut back. Many were replaced by DC pension plans that solved the employers' cost management problems and left the employees to contend with low interest rates.

I do not believe that public sector DB plans are condemned to the same fate. The plans are larger, stronger, and more resourceful than their private sector counterparts. They enjoy the support of their members and their unions. They also enjoy the support of regulators and legislators. The members, unions and pension funds are politically influential and economically powerful. Still, the transition will be difficult, and it comes at a bad time, with the gap between EROAs and bond yields being as large as it has ever been.

Between 2000 and today, real interest rates have declined by about 4% while the EROAs used for financial reporting are down by only 1%. Public Sector DB plans have insulated themselves from 75% of the reduction in interest rates by

1. making more optimistic assumptions about the future performance of risk assets, and
2. taking more risk.

Under IPSAS 19, these strategies would no longer work. Optimistic assumptions and piling investment risk on the public would no longer solve the affordability problem. Public Sector pensions are large and indexed. The members retire early and collect their pensions for a very long time. With proper accounting, the plans are prohibitively expensive when real interest rates are low – in particular, the plans where members bear no investment risk.

It is important to appreciate the cause of the affordability problem The problem is not caused by a change in accounting standards. The problem is *revealed* by a change in accounting standards. The problem is caused by low interest rates; and the problem will be with us for as long as interest rates stay low. The accounting change reveals what is now hidden. If interest rates return to the levels of the 1990s, the problem disappears; but no one should rely on this, and few expect it.

There are many options for making public sector DB plans more affordable, but the task will be neither quick nor easy. The private sector has had 20 years to adjust to low interest rates. The public sector may not need that long, but it will take some time.

Public sector workers have the best pension plans in Canada. I do not expect this to change. However, the growing gap between public sector pensions and private sector pensions is not healthy and will not change if poor accounting insulates public sector employers, employees,and pension plans from low interest rates. If PS 3250 remains as it is, or as proposed in the Exposure Draft, our public sector pension plans will appear affordable without being affordable, and they will not adapt.

The public interest is not well served by the status quo, and the Exposure Draft is the status quo. The public interest is also not well served by an abrupt, chaotic transition. This problem has been building for 20 years and it will not be solved overnight. Ideally, we need accounting standards that can accommodate an orderly transition from where we are to where we need to be.

I do not know what options PSAB has for accommodating a gradual transition. The destination - accounting standards that are better aligned with IPSAS 19 and with economic reality - must be clear from the outset. Otherwise, no one will understand what needs to be done and nothing will change. The road needs to be long enough to give public sector employers and their pension plans time to adapt, but not so long that employers decide to wait another 5 or 10 years to see what happens.

The task will be much easier if real interest rates rise by 2%; even 1% will make a big difference. But we cannot rely on this because, as low as Canadian interest rates are today, in many other countries they are even lower.

Conflicts of Interest

I am surprised that PSAB has not publicly addressed the potential for conflicts of interest.

The public sector pension community includes

- members of public sector pension plans, both active and retired,
- unions representing public sector employees, and
- public sector pension plans, most of which acknowledge a fiduciary duty to beneficiaries (mostly active and retired plan members).

I suspect that most plan members, if asked whether they would like the public to be told that their pension plan costs 10% of pay or, alternatively, 40% of pay (net of employee contributions) would favor the lower number. This is the number with which they are familiar. It is probably the number that sounds reasonable to them. The 40% number would, by comparison, look inconceivably high. Plan members might be concerned about the public reaction to such a

large number. Their preference for the lower number would not be rooted in a deep understanding of accounting practice or economic theory. It would be the product of what they have been told, what they believe to be true, and what they want to be true. Why would anyone want their employer to think that their pension plan is prohibitively expensive when, by using a different discount rate, the plan could appear easily affordable?

In paragraph 43 of the *Basis for Conclusions* we learn the following.

> *"Most respondents to PSAB's Invitation to Comment, "Discount Rate Guidance" supported a discount rate based on the expected return on plan assets for fully funded plans, noting that the discount rate reflects:*
> *(a) the true economic burden to the public sector entity;*
> *(b) the plan's unique design, including the investment strategy a particular public sector entity applies to fulfill its obligation; and*
> *(c) the long-term nature of the plans."*

This is true as written, but there is more to the story. By my count, 100% of the public sector pension plans and 100% of the public sector unions favored using the EROA. 100% of the audit firms and 60% of the Auditors General disagreed. So, while it is true that "most" favored the use of the EROA, there was a clear divide between those who were expressing their views as professionals and those who were expressing their views about what best served the interests of plan members. The problem is clear from the reasons cited by respondents for favoring the EROA.

- The first is wrong, as the true economic burden should include the burden of bearing the risks implicit in the investment policy, and the present value of future pensions discounted at the EROA does not do this.
- The second is debatable, as plan members bear none of the investment risk and, consequently, have not "earned" any of the returns related to risk taking, it is not clear that the discount rate should include these returns.
- The third is also false, as the cash flow being discounted extends well beyond 50 years and the projections rely on an assumption that the plan continues indefinitely as a going concern. Moreover, the long term bond yield is just as "long term" as the EROA, and far more objectively determined.

My point is that the members of the plan, and those who represent their interests, have an understandable preference for whatever discount rate produces the smaller number. This should not be confused with a well-reasoned opinion on the economic or accounting merits of a proposal, or on how well a proposal serves the public interest.

None of this would be relevant if the members' interests were well aligned with the public interest, but in this instance, they are not. Overcompensating members is not in the public interest. Being overcompensated by the public is in the members' interest. If the interests conflict, then there is no reason to believe that the preferences of plan members and their representatives coincide with the public interest. More likely, they do not.

Similar issues arise for employer respondents. Most (perhaps all) public sector employers choose the EROA as their discount rate and do so every year. I suspect that most do so because this is what they have always done, this is what everyone else does, and this produces the lowest reportable cost. How can they then publicly admit that they harbor doubts about the use of the EROA, even if they do? Would this not be an admission that they have knowingly misreported pension costs for many years?

There are also potential conflicts on the PSAB. Many board members are employed in the public sector. Presumably, many are members of public sector pension plans. Some may have been involved in choosing or recommending the discount rate that public sector employers use for their financial statements. I am sure that the board members are earnest, dedicated, well-respected professionals. I am not questioning their integrity. I understand the importance of having people with public sector financial reporting experience on the PSAB. Still, when the issue is how one should account for, and report on, an important element of public sector compensation, the PSAB should be clear about the steps it has taken to ensure that conflicts of interest have been properly identified, disclosed and addressed.

Look at it this way. A group of public sector professionals decides to override international public sector accounting standards and, by so doing, removes over $40 billion per annum from the reported cost of public sector pensions. The decision was reached after conferring with public sector pension plans and unions, all of whom felt that the reductions were justified. Am I the only one who sees a problem here?

If the Exposure Draft is adopted as written, the PSAB will have decided that it is in the public interest to reward public sector employees for investment risks borne by the public. Other standard setters appear to have reached the opposite conclusion. Someone should acknowledge and explain this.

Vérificateur Général
VILLE DE MONTRÉAL

Le 25 novembre 2021

Monsieur Michael Puskaric, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Monsieur,

Nous vous faisons parvenir nos commentaires concernant l'exposé-sondage intitulé *Projet de chapitre SP 3251, « Avantages sociaux »*. De façon générale, nous sommes d'accord avec les démarches entreprises par le Conseil sur la comptabilité dans le secteur public (CCSP) pour moderniser la norme sur les avantages sociaux.

QUESTIONS SPÉCIFIQUES DU CCSP

Objet et champ d'application

1. **Trouvez-vous que le champ d'application (paragraphes SP 3251.004 à .008) de la norme proposée est clair? Dans la négative, veuillez décrire les situations pour lesquelles le champ d'application manque de clarté.**

Le champ d'application proposé est clair. Nous avons toutefois des commentaires et des interrogations à propos de certains paragraphes.

En effet, nous aimerions que les alinéas .006 c) i et ii) soit clarifiés par des exemples. Plus précisément, nous nous sommes demandé à quoi le CCSP fait spécifiquement référence à propos des congés et des autres avantages liés à l'ancienneté. Nous ne connaissons pas ce type d'avantages, car nous n'avons pas été témoin de tels éléments en pratique.

De plus, le fait d'inclure les salaires et cotisations de sécurité sociale à l'alinéa .006 a) i), semble couvrir des charges courantes et non des avantages futurs et ainsi modifier le champ d'application par rapport aux normes actuelles.

Nous nous demandons si l'utilisation de certains termes provenant de la norme internationale en obscure la clarté par l'utilisation d'expressions non utilisées au Canada. Voici des exemples de termes et d'expressions relevés : congés et autres avantages liés à l'ancienneté, régimes à administration groupée.

À l'alinéa c) du paragraphe .005, le fait d'ajouter dans la définition les obligations implicites pourrait avoir comme conséquence la comptabilisation de programmes sociaux d'une façon différente qu'elle l'est actuellement dans la pratique. Les programmes d'avantages sociaux ne sont pas considérés comme des avantages sociaux futurs actuellement et ne devraient pas l'être, à moins que le CCSP désire changer le champ d'application des normes actuelles. Nous faisons référence spécifiquement au Régime de pension du Canada et au Régime des rentes du Québec qui sont considérés comme des programmes d'avantages sociaux. Nos préoccupations sont amplifiées par les indications proposées concernant les régimes généraux et obligatoires.

Glossaire et définitions

2. Les définitions qui figurent dans le glossaire facilitent-elles l'interprétation et l'application de la norme proposée dans le présent exposé-sondage? Dans la négative, quelles autres précisions ou définitions serait-il nécessaire d'ajouter?

Nous proposons de présenter la définition de salarié traitée au paragraphe .008 dans le glossaire plutôt que dans la section du champ d'application de la norme proposée.

D'autres paragraphes de la norme proposée incluent des définitions qui devraient être clarifiées et se retrouver au glossaire.

- .037 Régimes multi-employeurs et régimes à administration groupée (aussi appelés régimes à employeurs multiples).
  - D'abord, les expressions « multi-employeurs » et « à employeurs multiples » sont très similaires et ils n'aident pas à clarifier les concepts. Aussi, nous constatons que l'expression « régime à employeurs multiples » est définie dans la norme actuelle et nous nous demandons pourquoi cette définition n'avait pas été incluse dans les nouvelles propositions.
  - Ensuite, la section sur les régimes multi-employeurs (paragraphes .031 à .038) n'exclut pas spécifiquement les régimes sous contrôle commun, contrairement à la définition. Ainsi, ces concepts ne sont pas clairs et nous proposons au CCSP d'ajouter un arbre de décision pour nous permettre de mieux les comprendre et les distinguer. Sans un schéma, la classification des régimes sera ardue à faire.

- .125 la définition de l'expression « coût des services passés » devrait être incluse au glossaire plutôt qu'au paragraphe .125.

- .048 nous demandons que soit clarifiée l'expression « partagés équitablement » qui est incluse à l'alinéa d) dans la définition de l'expression « Régime conjoint à prestations définies » au glossaire. Les éléments du paragraphe .048 apportent des nuances qui devraient être ajoutées au glossaire.

Nous avons un malaise à propos de l'alinéa a) de la définition des « Actifs détenus par un fonds d'avantages à long terme » du glossaire, car elle fait spécifiquement référence à la présence de fonds juridiquement distincts. D'abord, on devrait s'écarter des notions juridiques pour être cohérent avec le cadre conceptuel et le concept de primauté de la substance sur la forme juridique qui y est inclus. Ensuite, au Québec, les actifs visés ne sont pas dans des fonds distincts; ils sont détenus directement par le gouvernement et font l'objet de fonds d'amortissement, ce qui fait en sorte qu'ils sont considérés comme des actifs des régimes financés. Ainsi, la nouvelle définition aurait comme conséquence de ne pas permettre la classification de ces régimes comme des régimes partiellement ou pleinement capitalisés et aurait un impact important sur les taux d'actualisation à utiliser. Il s'agit d'un enjeu important qui pourrait avoir un impact majeur sur la pratique actuelle et la gestion des fonds au Québec et par conséquent pour la Ville de Montréal.

Finalement, nous proposons que le glossaire de la version française soit présenté en ordre alphabétique pour faciliter la recherche.

Avantages postérieurs à l'emploi – Distinction entre les régimes à cotisations définies et les régimes à prestations définies

3. L'application des indications relatives à la comptabilisation du coût net des prestations des régimes à prestations définies dont les risques sont partagés par des entités du secteur public soumises à un contrôle commun (paragraphes SP 3251.039 à .042) aurait-elle une incidence sur le traitement comptable de votre participation à un régime d'avantages postérieurs à l'emploi? Veuillez préciser.

Non, l'application des indications n'aura pas d'incidence sur la pratique actuelle.

4. Les indications relatives aux régimes généraux et obligatoires (paragraphes SP 3251.043 à .046) sont-elles utiles dans le secteur public canadien? Dans la négative, pourquoi?

Les indications relatives aux régimes généraux et obligatoires ne sont pas claires.

Nous avons de la difficulté à classer certains régimes qui sont établis par des lois et des règlements comme les régimes de retraite du secteur public qui en majorité sont sous contrôle commun (p. ex. RREGOP, RVER).

Des exemples et explications devraient être fournis.

Selon notre compréhension, les régimes du gouvernement du Québec établis par des dispositions légales se retrouvent dans cette catégorie selon la définition du glossaire, c'est-à-dire qu'ils fonctionnent comme des régimes multi-employeurs. Les entités participant à ces régimes sont pour la plupart sous contrôle commun.

L'exposé-sondage renvoie d'emblée les régimes généraux et obligatoires au traitement comptable des régimes multi-employeurs (.043). Or, la définition des régimes multi-employeurs exclue les entités sous contrôle commun (glossaire). Ce n'est pas cohérent.

5. **Dans le chapitre SP 3250, le paragraphe .109 indique que « les employeurs participants autres que le gouvernement-parraineur ne disposent pas normalement de suffisamment d'informations pour se conformer aux normes relatives aux régimes à prestations déterminées » et qu'« en conséquence, chaque gouvernement participant rend compte du régime interemployeurs [appelé « régime multiemployeurs » dans le présent exposé-sondage] en se conformant aux normes applicables aux régimes à cotisations déterminées ». Dans le présent exposé-sondage, le paragraphe .033 indique aussi que si l'entité du secteur public ne dispose pas d'informations suffisantes pour appliquer les dispositions comptables relatives aux régimes à prestations définies, elle doit traiter le régime comme s'il s'agissait d'un régime à cotisations définies. L'application des dispositions des paragraphes SP 3251.033 et .035 du présent exposé-sondage aurait-elle une incidence sur le traitement comptable de votre participation à un régime multi-employeurs? Veuillez préciser.**

L'application des propositions n'entraînerait pas d'incidence sur les pratiques comptables actuelles. Toutefois, nous nous demandons ce qu'il arriverait dans la situation où les informations sont disponibles pour procéder à la répartition. Nous croyons que cet aspect devrait être clarifié dans les propositions.

Indications concernant le taux d'actualisation

6. **Les indications à suivre pour l'appréciation de la situation de capitalisation d'un régime afin de déterminer le taux qu'il convient d'appliquer pour actualiser les obligations au titre des avantages postérieurs à l'emploi (paragraphes SP 3251.105 à .110) sont-elles suffisamment claires et détaillées? Dans la négative, pourquoi?**

Des clarifications additionnelles et des exemples s'imposent. Pour des régimes partiellement capitalisés, des exigences légales et réglementaires peuvent demander au promoteur de procéder à des contributions supplémentaires ou d'équilibre. Ces régimes sont temporairement non capitalisés. Le paragraphe .110 traite de la question, mais n'apporte pas suffisamment d'explications ou de clarté pour nous permettre de bien classer les régimes. À titre d'exemple, les régimes de retraite du secteur municipal qui, en vertu d'une loi, ont l'obligation de financer les déficits par le versement de cotisations d'équilibre.

De plus, nous faisons référence à notre commentaire indiqué vers la fin de la réponse à la question 2 au sujet des régimes considérés comme pleinement capitalisés par un fonds d'amortissement, mais qui ne se retrouvent pas dans un véhicule distinct de l'entité du promoteur du régime. Les indications sont très différentes de ce qui se fait en pratique et pourrait changer de façon importante les taux d'actualisation utilisés actuellement.

À propos des régimes non capitalisés, les propositions exigent d'utiliser le taux des obligations provinciales. Or nous nous sommes questionnés sur les obligations visées par ces exigences. Est-ce celles d'une seule province, de plusieurs provinces ou de l'ensemble des provinces? Est-ce que les exigences sont trop détaillées ou prescriptives? Pourquoi l'utilisation du taux des obligations provinciales au détriment des autres obligations par exemple fédérales? La norme pourrait plutôt être plus générique sur la question, par exemple en précisant des obligations transigées activement sur un marché ou transigées sur un marché actif.

7. **Les approches proposées en ce qui concerne le taux d'actualisation à appliquer aux régimes entièrement capitalisés (paragraphes SP 3251.111 à .114), aux régimes partiellement capitalisés (paragraphes SP 3251.115 à .117) et aux régimes non capitalisés (paragraphes SP 3251.118 à .120) vous conviennent-elles? Dans la négative, veuillez préciser l'approche qui vous pose problème, avec motifs à l'appui.**

Nous nous questionnons à savoir si cela causait des incohérences avec les exigences de l'Institut canadien des actuaires (ICA) qui prescrit des exigences aux actuaires à propos des taux d'actualisation à utiliser. L'ICA pourrait juger pertinent d'émettre des notes éducatives destinées aux actuaires afin de les guider par exemple dans l'établissement de la courbe d'obligations provinciales ou fédérales servant à déterminer le taux d'actualisation.

Il faudrait clarifier les catégories ou types de régimes, en considérant les questions soulevées précédemment, car l'impact d'un changement dans le taux d'actualisation pourrait être majeur pour certains régimes du secteur public.

8. **Entrevoyez-vous des difficultés relativement à l'approche proposée (paragraphes SP 3251.105 à .110) pour l'appréciation de la situation de capitalisation du régime aux fins de détermination du taux qu'il convient d'appliquer pour actualiser l'obligation au titre des avantages postérieurs à l'emploi? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées aux indications proposées pour atténuer ou éliminer ces difficultés.**

Nous référons aux commentaires énoncés dans notre réponse à la question 6. Aussi, le projet de norme semble exiger une évaluation actuarielle annuellement alors que dans le secteur municipal et dans certaines provinces, l'évaluation (complète) se fait aux 3 ans, sauf s'il y a un déficit important (le par. 106 mentionne à chaque fin d'exercice et le par. 065 à intervalles suffisamment réguliers), ceci augmenterait les coûts de façon importante.

9. Entrevoyez-vous des difficultés relativement à l'approche proposée aux paragraphes SP 3251.115 à .117, qui consisterait à appliquer un taux d'actualisation unique dans le cas des régimes partiellement capitalisés? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées pour atténuer ou éliminer ces difficultés.

Non, nous n'envisageons pas de difficultés d'application à propos de ces propositions.

Réévaluations du passif (de l'actif) net au titre des prestations définies

10. Êtes-vous d'accord que les réévaluations du passif (de l'actif) net au titre des prestations définies devraient être comptabilisées dans l'actif net sans être ultérieurement reclassées dans l'excédent ou le déficit (alinéa SP 3251.064 d) et paragraphe SP 3251.144)? Dans la négative, veuillez expliquer pourquoi et indiquer comment, selon vous, ces réévaluations devraient être comptabilisées.

Nous souhaitons que des exemples soient présentés pour nous permettre d'apprécier adéquatement la présentation proposée selon les nouvelles exigences de présentation d'informations financières par comparaison avec les exigences actuellement en vigueur. La présentation aux états financiers n'est pas claire avec les nouveaux modèles de présentation qui ne sont pas encore en vigueur.

La comparaison avec des états financiers d'autres entités qui n'utilisent pas le même référentiel comptable sera facilitée.

11. Le CCSP est conscient que, comparativement à la méthode du chapitre SP 3250, la comptabilisation de l'incidence des gains ou pertes actuariels immédiatement dans le passif (l'actif) net au titre des prestations définies pourrait accroître la volatilité de la dette nette. Cela étant, est-ce qu'offrir d'autres possibilités en matière de présentation dans les états financiers ou par voie de notes répondrait aux préoccupations à l'égard de la volatilité de la dette nette? Dans l'affirmative, veuillez préciser quelles options le CCSP devrait envisager en ce sens et en quoi elles amenuiseraient les préoccupations à l'égard de la volatilité accrue de la dette nette.

Nous n'avons aucun commentaire à cet égard.

Dispositions transitoires

12. Êtes-vous favorable aux dispositions transitoires proposées (paragraphes SP 3251.200 à .202)? Dans la négative, quels changements apporteriez-vous à ces dispositions et pourquoi les apporteriez-vous?

Nous sommes d'avis que la période proposée pour appliquer le chapitre SP 3251 est adéquate. Nous sommes d'accord avec la date d'application proposée, toutefois nous nous questionnons relativement à l'application rétrospective des modifications.

Des précisions devraient être apportées quant à l'application rétrospective de la norme. De plus, étant donné la complexité d'une application rétrospective, des allègements devraient être prévus à la norme.

Exemples illustratifs

13. Les exemples illustratifs (Annexe) vous aident-ils à interpréter et à appliquer la norme? Dans la négative, quels autres exemples faudrait-il ajouter?

Nous sommes d'avis que les exemples devraient être présentés avec et sans les nouveaux modèles de présentation d'états financiers comme indiqué dans notre réponse à la question 10, et en incluant des exemples de situations de capitalisations différentes (p. ex. entièrement capitalisés, non capitalisés).

Nous souhaiterions que certains exemples soient plus détaillés et approfondis. L'exemple 5, par exemple, qui n'inclut aucun calcul, ce qui ne nous permet pas d'approfondir les notions présentées dans les exigences.

Points divers

14. Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage aurait une incidence importante sur la compréhensibilité de l'information financière relative aux avantages sociaux? Dans l'affirmative, veuillez expliquer quelle serait cette incidence.

Nous sommes d'avis qu'en termes de comparabilité, cela sera mieux. Par contre, le sujet demeure complexe.

15. Estimez-vous que l'application des propositions contenues dans le présent exposé-sondage pourrait entraîner un changement dans la prise de décisions à l'égard des avantages sociaux? Dans l'affirmative, veuillez expliquer ce qui causerait ce changement. Par exemple, serait-ce en raison de politiques déjà en place dans votre organisation? De dispositions législatives?

Nous avons relevé dans les questions précédentes les changements ou préoccupations qui sont susceptibles d'apporter des changements dans les organisations, que ce soit lors du classement des régimes (capitalisés, partiellement capitalisé ou non capitalisés), de l'utilisation d'un taux d'actualisation applicable et de la gestion des fonds eux-mêmes (fonds juridiquement distincts ou non). De plus, nous nous demandons si des entités auront tendance à vouloir accélérer la capitalisation de leurs régimes.

Nous avons des préoccupations au sujet de la dernière phrase du paragraphe .16. Plusieurs entités du secteur public fédéral ont comptabilisé des passifs aux livres au sujet des congés de maladie non utilisés bien qu'ils ne puissent être pris sous la forme de congés annuels payés, et ces passifs sont significatifs. Nous craignons que les informations présentées dans les propositions poussent ces entités à faire disparaître les passifs afférents à ces congés.

Autres commentaires

En ce qui concerne les exigences du paragraphe .137, actuellement dans le secteur municipal, les instruments financiers non transférables émis par les municipalités et détenues dans leurs régimes de retraite sont comptabilisés dans les actifs du régime. Ainsi, nous nous demandons si les indications du paragraphe, précisant que ces instruments sont exclus des actifs du régime, mèneraient à la comptabilisation de ces instruments au coût plutôt qu'à une juste valeur ou à totalement les exclure des états financiers du régime. De plus, la législation permettait antérieurement aux municipalités du Québec de payer des cotisations d'équilibre avec de tels instruments, mais même si ce n'est plus le cas actuellement, plusieurs de ces instruments sont toujours détenus dans les régimes de retraite et les échéances peuvent aller jusqu'en 2044. Le paragraphe doit être plus clair sur la façon de comptabiliser ces instruments et nous souhaitons ardemment pouvoir les maintenir dans leurs actifs de régimes aux fins comptables. Bien que la législation ne permette plus actuellement de verser des cotisations d'équilibre avec des instruments financiers non transférables émis par l'entité du secteur public, cette situation pourrait tout de même se répéter dans le futur en cas de changement à la législation.

Veuillez agréer, Monsieur, mes salutations distinguées.

Michèle Galipeau, CPA auditeur, CA

Michèle Galipeau, CPA auditrice, CA
Vérificatrice générale de la Ville de Montréal

MG/dds

AUDITOR GENERAL
OF NEW BRUNSWICK

VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

November 25, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Exposure Draft Comments – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on the *Employee Benefits*, Proposed Section PS 3251 Exposure Draft. We are pleased to submit to the Board our response in the attached appendix to the specific questions posed in the Exposure Draft.

We have significant concerns the new standard as written may raise accounting classification and measurement issues for New Brunswick's non-traditional pension plans. Given there is another Exposure Draft yet to be issued applicable to non-traditional plans, we encourage PSAB to delay the effective date of PS 3251 for non-traditional plans until the implementation date in the upcoming non-traditional plans Exposure Draft.

We hope our perspective within our role as a legislative audit office, will provide PSAB with useful feedback.

Sincerely,

Janice Leahy

Janice Leahy, CPA, CA, CIA
Acting Auditor General

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APPENDIX

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Yes, we found the scope of this standard to be clear.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

No, overall, we find the definitions contained in the Glossary need clarification to help interpret and apply the standard and note the following areas for improvement:

i) The Exposure Draft (along with IAS 19 *Employee Benefits*) define defined benefit plans as, "*post-employment benefit plans other than defined contribution plans*." In contrast, PS 3250 Glossary notes, "*a defined benefit plan specifies either the benefits to be received by employees after retirement or the method for determining those benefits*." PS 3250.013 states, "*because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of a particular plan makes it a defined benefit or a defined contribution plan*."

In our view, a clear definition of defined benefit plans is needed. We encourage PSAB to revise the definition of defined benefit plans to provide relevant and clear guidance.

ii) The New Brunswick Public Service Pension Plan (NBPSPP) is the Province of New Brunswick's largest pension plan. The classification of this plan under the proposed PS 3251 is unclear as the Province is the major employer and there are entities not under common control that participate in the plan.

In our view PSAB should clarify either the definition of a multi-employer defined benefit plan or a defined benefit plan that shares risk between entities under common control to allow for appropriate classification based on the substance of the plan so the NBPSPP can be classified consistently by the Province and participating entities.

iii) We note there is no comparable guidance in PS 3251 like PS 3250 for the differences in actuarial valuation for accounting purposes and actuarial valuation for funding purposes. In our view, definitions for "actuarial valuation for accounting purposes" and "actuarial valuation for funding purposes" should be added to the Glossary. In the Exposure Draft, there appears to be commingling of valuation for accounting purposes and valuation for funding purposes concepts. PSAB should revise the standard to be clear as there are several references to "funding status" and "funding assessment" which may cause confusion.

iv) We encourage PSAB to further define:

- terms such as "liability ceiling", "category wide plans", "constructive obligation," and "vesting"
- joint defined benefit plans including specifying whether "equitable", "mutual" and "shared" necessarily means equal
- pension assets relative to circumstances where there is no pension fund
- recording of pension assets relative to netting of one plan's net pension asset against another plans net pension liability for an entity and whether a net pension asset would be presented as a financial or non-financial asset.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

No, we are not aware of any examples in our portfolio of plans in which applying this guidance would change the accounting treatment.

However, we again request PSAB to clarify either the definition of a multi-employer defined benefit plan or a defined benefit plan that shares risk between entities under common control to allow for appropriate classification in situations where the majority of the plan is under common control.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

No, we are not aware of any instances in which this guidance would be relevant for the Canadian public sector. We encourage the Board to seek examples of category-wide plans from stakeholders to ensure this guidance is relevant.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Yes, the guidance could potentially change the accounting treatment for entities that participate in a multi-employer plan depending on whether sufficient information is available.

In our view, the substance and structure of the plan should drive accounting classification. We encourage PSAB to expand guidance around what constitutes sufficient information.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

Yes, we find the guidance clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post- employment benefit obligations.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

Yes, overall, we agree with the proposed discount rate approaches for fully funded, partially funded, and unfunded plans as we believe they reflect the time value of money and will faithfully represent the reality of Canadian public sector pension plans. However, we note there will be challenges for determining expected market-based returns on plan assets where there are significant unobservable inputs, complexities with partially funded plans, and a higher dependence on actuarial specialists.

As a result of the complexities and costs with the proposed discount rate approaches in the Exposure Draft, we can also see merit in the use of market yields of high-quality debt for all plans regardless of funding status due to its simplicity and lack of subjectivity noting it reflects the time value of money but not the investment risk.

If the proposed approach outlined in the Exposure Draft is taken, we encourage PSAB to simplify reporting requirements where feasible (for example using the funding valuation to determine the status of the plan instead of the complex calculations required to make this determination outlined in the Exposure Draft).

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Yes, we foresee challenges that may result, and we disagree with the proposed approach to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation.

Determining an expected market-based return on plan assets
We anticipate challenges in auditing the "expected market-based return on plan assets" discount rate for significant investments where observable inputs may not be available and subjective assumptions are used (for example investments in private real estate, infrastructure, and private equity). We would like to see an illustrative example of how the expected market-based rate of return on plan assets would be calculated using relevant, observable, and verifiable inputs.

Annual funding status assessment for funded and partially funded plans
Paragraph .106, states "*A public sector entity should, at the end of each fiscal year-end, assess the funding status of a post-employment benefit plan to determine the appropriate rate for discounting the associated obligations.*" We challenge whether the benefits outweigh the related costs for the requirement to have this assessment performed annually. We think that PSAB should consider whether it is possible to reduce the burden on preparers and auditors to have this frequency reduced (possibly performed every three years similar to a funding valuation) or to have the requirement revised by providing indicators of when the funding status assessment would need to be performed rather than making an annual assessment in all cases. We encourage PSAB to further consider the funding valuation discount rate as a possible option. Overall, we strongly believe a less complex approach is needed. Also, the possible implications for non-traditional plans have yet to be determined and there is no guidance in the proposed standard in this regard.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

None that we have identified, however refer to question 8 for further details.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

Yes, we agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit. As noted in our deferral provisions ITC paper to PSAB, we believe immediate recognition (on the Statement of Financial Position) is the simplest approach as it provided users the most transparent and up to date information. We do not believe the deferral approach should be considered because of the complexities involved which impact users understanding of the financial statements.

With the three possible approaches for recognition on the statement of operations, we see merit in the no recognition approach (recognition of actuarial gains/ losses in other comprehensive income or net assets when they arise and are not recognized in annual surplus/deficit or profit/loss in subsequent periods). In our view, this allows for government to be more effectively held accountable for its

performance as volatile amounts in which government has no control would be isolated. It is important for us to note that the impact on non-traditional plans remains unclear.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

We think presentation and disclosure options in existing PS 1201 and proposed PS1202 are sufficient to address concerns regarding increased volatility.

However, our concerns remain with the proposed PS 1202 standard's use of the term "*Net Financial Liabilities*" and related changes within the "*Statement of Net Financial Assets/Net Financial Liabilities.*" As previously reported to PSAB by our Office, Net debt has been a topic discussed extensively both in our Annual *Reports of the Auditor General*, during our Province's Public Accounts Committee, and in the media. The need to reduce New Brunswick's net debt and set targets for net det reductions have been a consistent message from our office over the past decade. Net debt is already a hard concept for many of our stakeholders to understand. We believe the term has gained familiarity within the public and allows taxpayers to better understand the concerns our office has reported. We continue to urge PSAB to reconsider its proposal to rename net debt as this change would cause unnecessary confusion.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

No, we do not agree with the proposed transitional provisions.

In our view there is not enough time provided given PS 1202, *Financial Statement Presentation* has not yet been finalized and the significant effort that will be required with retroactive transition. We encourage PSAB to allow a modified retroactive approach which would ease the implementation burden on preparers and auditors.

We would also like to again highlight the negative impact of this multi-phased standard approach will have on non-traditional plans such as the shared risk pension plans in New Brunswick in which the accounting treatment will significantly change under this proposed standard and then may be subject to substantial additional changes once non-traditional plans are subsequently addressed. We strongly urge PSAB to delay implementation of this proposed standard until the standard on non-traditional plans becomes effective.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

In general, found the illustrative examples assist with the interpretation and application of the proposed Section.

We would also like to see illustrative examples of:

- Financial statement presentation for a defined benefit plan, assuming separate pension fund is maintained (similar to PS 3250 Appendix B- Example 1).
- Financial statement presentation for retirement allowance and worker's compensation benefits (liability for injured workers).
- How the expected market-based rate of return on plan assets would be calculated using relevant, observable, and verifiable inputs as mentioned in our #8 response.
- What is "sufficient information" to account for a multi-employer defined benefit plan using defined benefit accounting
- Category wide plans accounting and disclosure
- Sick leave obligation (similar to PS 3255 Post-employment benefits, compensated absences and termination benefits Appendix B). We are concerned the sick leave example in PS 3251.016 "*sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave*" could result in public sector entities removing material accumulating, non-vesting sick leave balances from their financial statements. In our view, sick leave obligation should be clarified and expanded upon.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Yes, in our view understandability of financial reporting on employee benefits in New Brunswick will be negatively impacted by applying the proposals as outlined in this Exposure Draft. As noted in our #12 response, non-traditional pension plans such as the shared risk pension plans in New Brunswick have not been specifically addressed in this Exposure Draft. Accounting for such plans will significantly change under this proposed standard and then may be subject to substantial additional changes once non-traditional plans are subsequently addressed. In our view, applying the proposals for non-traditional plans will result in undue effort and cost, reduced comparability year over year, and confusion for stakeholders.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Yes, applying the proposals would result in a change in decision making for employee benefits as the amortization of actuarial gains and losses would no longer be presented or budgeted for on the statement of operations. Spending implications may flow from incremental budget room available. As well restatement of prior years net debt figures on adoption of the standard may cause confusion amongst senior government and the public given the magnitude of change that may result. In New Brunswick net debt is a public accountability measure and has targets established for reduction. Accounting change in this case will likely significantly reduce net debt which could also impact capital spending decisions as net debt would then possibly be well ahead of reduction targets.

November 25, 2021

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Exposure Draft: Employee Benefits, Proposed Section PS 3251

In response to the Exposure Draft, below are the comments from the Government of the Northwest Territories ("GNWT").

Question(s)

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear?

   The GNWT Response:

   We find the scope of this standard to be clear except as described below:

   a) PS 3251.005 (c) informal practices: The existence of a liability resulting from a constructive obligation due to an informal practice requires further definition of what type of information practice should be in scope. There exists a risk that the application of professional judgement may result in different conclusions as to whether the arrangement is within scope. This in turn may lead to difficulty in comparing Public Sector Entity (PSE) year over year as well as from one PSE to another.

   b) PS 3251.006 (a) (i) social security contributions: Does the reference to "social security contributions" mean payroll liabilities such as Combined Income Tax, Employment Insurance and Canada Pension Plan contributions?

   c) PS 3251.006 (a) (iv) medical care: For the example of medical care as a non-monetary benefit, we suggest using alternative wording as medical care in Canada is an insured service and not an employer responsibility. Employers may, and do, opt to provide additional health benefit coverage through 3rd party insurance companies.

d) PS 3251.006 (b) (ii) medical care: Similar comment as per above paragraph, consider alternative language to describe the other post-employment benefit - medical care. The employer would not be responsible for post-employment medical care in Canada unless there is a direct relation between the required medical care for the former employee and the reason for the care such as a work related injury or long term disability through additional health benefit coverages.

e) PS 3251.007 settlements through provision of goods or services: The GNWT discourages settlement of payroll or any other liability through provision of goods or services. We rely, in part, on the practice not being mentioned in PSAS. The GNWT would therefore be concerned that this clause may be used as a justification to practice settlement through provision of goods or services.

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposal outlined within this Exposure Draft?

   The GNWT Response: no concerns with the definitions identified in the glossary

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment plan?

   The GNWT Response: No comment as likely no impact on the GNWT.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector?

   The GNWT Response: The guidance provided is relevant to the GNWT as it participates in Canada's Public Service Pension plan and treats this plan as a defined contribution plan.

5. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan?

   The GNWT Response: More information is required on non-traditional plans and the intent of the use of the term “sufficient information”.

6. Is the guidance on assessing funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations?

   The GNWT Response: No comment as likely no impact on the GNWT.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)?

   The GNWT Response: No comment as likely no impact on the GNWT.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs) of assessing funding status of a plan to determine the appropriate obligation discount rate?

   The GNWT Response: No comment as likely no impact on the GNWT.

9. Do you foresee any challenges that may result from the proposed approach to derive a single discount rate for partially funded plans?

   The GNWT Response: No comment as likely no impact on the GNWT.

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent reclassification to surplus or deficit?

    The GNWT Response: No comment as likely no impact on the GNWT.

11. Would alternative presentation and disclosure options assist in addressing stakeholder concerns regarding net debt volatility with the proposed approach to revaluations?

    The GNWT Response: No comment as likely no impact on the GNWT.

12. Do you agree with the proposed transitional provisions?

    The GNWT Response:

    - We have no issues with this section and adoption date of April 1, 2026 with consideration that all outstanding PSE issues and concerns are dealt with prior to the standard being implemented.

    - For clarify in PS 3251.201, we would suggest a wording change to "applied retroactively only to the earliest prior period presented in the first financial statements in which the PSE adopts this standard".

13. Do the illustrative examples assist you in interpreting and applying the standard?

    The GNWT Response: No comment as likely no impact on the GNWT.

14. Do you think applying the proposals as outlined would significantly impact the understandability of financial reporting on employee benefits?

    The GNWT Response: The GNWT believes the proposal would impact the understandability of the statements as the reader will need to have expertise on the differences between defined benefit and defined contribution plans and the associated liabilities to fully understand the impact to the PSE.

15. Do you think that applying the proposals as outlined would result in a change in decision-making for employee benefits?

    The GNWT Response: The GNWT would consider the impact of applying the proposals to future decisions. As a small government, the GNWT does not have the resources to absorb the risks associated with employee and plan administrator financial decisions that negativity impact a plan's future value. Employee contracts, union agreements and legislation would need to be reviewed to fully understanding the impacts of applying the proposal.

We appreciate the opportunity to provide our comments to the Exposure Draft.

Celestino Oh, CPA, CA
Assistant Comptroller General
Finance

BC PENSION
CORPORATION

November 25, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Response to PSAB Employee Benefits Proposed Section PS 3251 Exposure Draft

Dear Mr. Puskaric,

BC Pension Corporation is one of the largest professional pension service providers in Canada. We serve over 650,000 active and retired members and more than 1,000 plan employers, paying out $400 million in benefits each month ($5.1 billion a year) to over 212,000 retirees. We administer and provide a full suite of services to the Municipal, Public Service, Teachers', and College pension plans in BC.

PSAB standards do not directly impact the financial statements of the public sector pension plans that BC Pension Corporation administers, but they do potentially impact how the participating employers recognize their pension obligations. Our plans are multi-employer contributory, defined benefit pension plans governed by a joint board of trustees. Each board, which is independent from government and participating plan employers, is fully responsible for the administration and governance of the plan and investment of the fund.

Under the PSAB proposed revisions, we believe participating employers, as participants in a joint defined benefit plan, will be able to continue their existing practice of using defined contribution accounting standards, recording pension contributions as a pension expense in their financial statements. Further, they will not be required to directly record any future obligation for pension liabilities and will only be required to provide enhanced disclosure.

However, as PSAB begins its work on Phase 2 of the guidance focusing on non-traditional pension plans, we encourage it to look at expanding the definition of joint defined benefit plans to take into consideration the level of residual risk and the level of control participating employers have over these non-traditional pension plans. Future guidance needs to be clear that the primary rationale for the ongoing application of defined contribution accounting standards for joint defined benefit plans, such as the ones we administer, is that they are governed by an independent board of trustees that has full responsibility for the administration and governance of the plan and investment of the fund. Participating employers have no formal or unilateral claim to any pension plan surpluses, and in the event that any of the pension plans has an unfunded liability, both plan members' and plan employers' contributions will be increased equally to amortize the cost of the deficit. In this manner, unfunded liabilities are short term and contributions maintain the plan's fully funded status over time. In the unlikely event of the pension plan being wound up tomorrow, there is no entity or group of entities legally obliged to fund any shortfall. If a shortfall existed at the time of wind up, benefits may need to be pro-rated. For these reasons, any attempt by participating employers to apply traditional defined benefit accounting standards and

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disclosure requirements would be misleading and materially misrepresent the financial position, liabilities, and obligations of the employer.

Accounting standards impact the long-term viability of defined benefit pension plans. The worldwide shift to conservatism in accounting standards can be correlated with the closure of defined benefit plans worldwide. This has occurred despite defined benefit pension plans, when well governed and managed, having been proven to achieve the best outcomes for providing retirement security to society.

Please see our responses to several of your questions in the attached appendix.

Sincerely,

Allan Chen, CPA, CA
Controller, Financial Services

Trevor Fedyna, CPA, CGA
Vice-President, Strategy and Insights and CFO

cc: Riley Turnbull rturnbull@psabcanada.ca

Appendix

Responses:

1. *Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.*

BC Pension Corporation has no comments.

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?*

The Glossary is generally helpful in providing clear definitions.

Joint defined benefit plan – The definition includes many characteristics, but "shared risk" is not clearly defined and "reduced risk" to the public sector entity is not clearly reflected. Where there is reduced risk to the public sector entity due to risks being shared or limited contractually, it should be reflected in different accounting and disclosure standards accordingly.

Where a government does not control a defined benefit pension plan, it does not share in the same risks that a traditional pension plan sponsor does, as it does not have the responsibility to fund all benefit payments in the future. We have included a number of these characteristics for your consideration as you move into Phase 2 of PSAB's guidance development:

- The pension plans that we administer have trust agreements that provides options for plan sponsors other than to fully fund the unfunded liability. All the plans have this paragraph, but here is an excerpt from the Municipal Pension Plan Funding Policy (see https://mpp.pensionsbc.ca/governance-documents) paragraph 5.11.3:

  "If the assets of the Pension Fund as of the date of termination are insufficient to make full provision for all entitlements to receive a pension in respect of the Plan Members' membership in the Pension Plan to the date of termination, such shortfall will be dealt with in the manner as is then agreed to by the Signatories."

  Further, the plan's trust document explicitly provides that (e.g. Municipal Pension Plan Joint Trust Agreement {see https://mpp.pensionsbc.ca/joint-trust-agreement } paragraph 9.9):

  "Without limitation, no Plan Member, Employer, Signatory or union or association that represents any of the Plan Members shall be liable or responsible for any debts, liabilities, obligations or deficiencies of the Board, the Pension Plan, or the Pension Fund."

- Participating public sector employers have no formal or unilateral claim to any pension plan surpluses.

- In the event the pension plan has an unfunded liability, both plan members' and plan employers' contributions will be increased equally to amortize the cost of the deficit. In this manner,

unfunded liabilities are short term and contributions maintain the plan's fully funded status over time.

- As participants in a multi-employer public sector pension plan, employers that participate in the pension plan record the contributions they make as a pension expense in their own financial statements; they do not directly record any future obligation for pension liabilities in their financial statements.

- In the unlikely event the plan is wound up tomorrow, there is no entity or group of entities legally obliged to fund any shortfall. If a shortfall existed at the time of wind up, benefits might need to be pro-rated.

Standards similar to those for defined contribution accounting should be used where the contractual agreement limits the legal obligation and liability of the constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits.

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

BC Pension Corporation sees a risk of applying the concept of common control to determine accounting treatment standards for pension plans. The concept of common control by a public sector entity does not automatically translate to control over the pension plan and the associated risks when the pension plan has been legally structured to limit risk and liability to the public sector entity. Instead, we recommend guidance that examines criteria regarding the risk to the public sector entity from pension plan deficits and the control that the public sector entity has over the pension plan.

Based on the Exposure Draft guidance on these paragraphs, we interpret that the Province of BC would be required, for its consolidated accounts, to use accounting on a defined benefit basis for the pension plans of the entities that it has control over. We disagree with this guidance as the Province has no direct control over these pension plans and limited liability.

Recording all the shortfall as a commitment for future cash outflows of the Province can result in a dramatic overstatement of that liability. It also creates a moral hazard, with readers of the financial statements believing that the government backs all the liabilities of the plan.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?*

BC Pension Corporation has no comments

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

Assuming for the purposes of this question that the pension plans administered by BC Pension Corporation are multi-employer plans, we do not believe there would be any change in accounting treatment for most participating public sector entity employers. Such entities do not have sufficient information available to use defined benefit accounting, and that information is not readily available from the pension plan. Example 1 of the Illustrative Examples helps to clarify by providing sample disclosure wording indicating why defined contribution accounting is used.

The new disclosure requirements for multi-employer plans that use defined contribution accounting are generally clear and reasonable, but we found paragraph PS 3251.170 (d) (iii) confusing as disclosure of expected contributions is future oriented. We suggest either deleting this requirement or providing further guidance on how best to calculate it and the estimation error allowed.

However, the pension plans we administer also have the same characteristics as joint defined benefit plans as defined in the Glossary. Currently the guidance states that joint defined benefit plans should be accounted for in the same way as for a multi-employer defined benefit plan (PS 3251.049). When we perform the test for our employers, as discussed, we assume that they will default to defined contribution accounting standards under paragraph PS 3251.033. It is not clear in the guidance that specific disclosures required under paragraph PS 3251.171 apply if a public sector entity employs defined contribution accounting standards. It is our interpretation that this is not required, but please confirm and clarify in the standards that these required specific disclosures apply only when using defined benefit accounting standards.

We believe that using defined contribution standards and multi-employer plans disclosure by the public sector employers for the pension plans we administer will provide good information for readers presenting the risks and rewards associated with the pension plan appropriately. We do *not* agree with this guidance that defined benefit accounting is the default form of accounting, and DC accounting is only allowed if there is insufficient information available to employ defined benefit accounting.

We believe that defined contribution accounting and related disclosure standards in this guidance better reflect the risks and rewards of the public sector entities participating in the pension plans (specifically for joint defined benefit plans where the risks are shared and residual risk to plan employers are limited). We recommend that as PSAB moves into Phase two, that they develop guidance for joint defined benefit plans, where risk is shared and liabilities limited, that are similar to defined contribution plan accounting.

6. *Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

BC Pension Corporation finds the guidance to determine an entities funding status to be inconsistent and overly complicated. We support guidance that uses expected market rate of return when a pension plan is *expected* to be fully funded.

The guidance is inconsistent because in paragraph PS 3251.112 it speaks about an expectation to be fully funded, but paragraph .107 outlines a complex calculation that must be performed annually for a pension plan to prove it is fully funded. We believe this may result in pension plans that are ordinarily fully funded not being considered fully funded during economic crisis. Paragraph .110 provides better measures that examine the pension plans funding policy, actions and governance to establish whether a pension plan is expected to be fully funded or not. We also believe that paragraph .110 should be the first consideration in determining the funded status of the plan, and be made clearer to confirm that registered pension plans should be considered fully funded without a need for further analysis where there is a legislative or funding policy requirement to fully fund any deficit.

How a pension plan operates generally does not vary much annually and will continue to operate in a similar manner unless the funding policy changes or plan rules are modified. For this reason, we believe the annual test in paragraph .107 is unnecessary, complicated, and costly.

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.*

BC Pension Corporation supports the discount rate approaches taken for fully funded, partially funded and unfunded plans, and applauds PSAB for deviating from IPSAS 39 and recognizing the unique aspects of Canadian public sector pension plans and their comparative strength against other jurisdictions.

However, we do not agree with the use of the bond rate of return as a discount rate for partially funded plans. We believe that the discount rate used by pension plans should reflect, at a fundamental level, the actual investment asset mix of the securities held by the pension plan. No pension plan invests purely in bonds, and, as a result, using a bond yield as a discount rate would create artificial results and would be inaccurate. It is a commonly shared belief that the lowest risk investment portfolio is a well-diversified one, and not a portfolio that only holds bonds. Financial statements should present the most likely results and most probable valuations, and the PSAB standards should provide guidance on how to select a discount rate that reflects the expected returns of a well-diversified investment portfolio.

For unfunded plans where there is no investment portfolio, we do not oppose the use of a prescribed discount rate based on bond yields.

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to*

determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

BC Pension Corporation has no comments.

9. *Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.*

BC Pension Corporation has no comments.

10. *Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.*

BC Pension Corporation has no comments.

11. *PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.*

BC Pension Corporation is concerned with the unnecessary volatility that this guidance will have on public sector entity financial statements and the potential negative impacts it will have on the users of the statements. Pension plans are long term in nature; allowing actuarial gains and losses to be amortized when a pension plan is a going concern provides better disclosure as it better presents the impact over the long term. As media tends to focus on negative financial results, introducing volatility to government's operating results may cause public sector pension plans to appear more expensive than they are.

BC Pension Corporation uses S.4600 of the Canadian Accounting Standards to prepare the financial statements for the pension plans it administers. We have long recognized that the short-term nature of the disclosures included in those standards could create misunderstanding with readers. An example is investment returns can be highly volatile, and investment markets could temporarily push a plan into a deficit position, creating significant concern. However, market dips are usually short term and the deficit is usually erased the following period. Similarly, a very strong investment year could push a plan into a strong surplus position, leading readers to believe they could access this surplus.

To provide a long-term perspective, we include additional disclosure on the actuarial surplus/deficit from a funding basis on the pension plan financial statements. This disclosure reflects the methodology employed by our actuaries and defers investment gains and losses and other scheduled amortizations. As PSAB continues to develop new guidance, we want to ensure that the standards introduced will reflect the long-term nature of pension plans. We propose that long-term value is more important to readers, as the "long-term" is when active members retire and begin to access the funds. We also suggest that aligning disclosures with the work done by pension actuaries is logical.

12. *Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?*

BC Pension Corporation has no comments.

13. *Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?*

We found the illustrative examples helpful.

14. *Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.*

BC Pension Corporation finds that the level of disclosure required for public sector entities to be excessive—particularly for multi-employer pension plans and joint defined benefit pension plans that are required to use defined benefit accounting. The proposals are excessive to the point that they will likely create confusion regarding the risks of participating in the pension plan. Pension plans are not well understood, and the plans that are shared by many employers are even more complicated. To include lengthy disclosure requirements for every possible risk would make the financial statements incomprehensible for most readers.

Also, we consider the level of disclosure required for defined benefit accounting under this guidance as punitive to joint and multi-employer defined benefit plans. Each public sector entity would incur significant additional costs for providing this level of disclosure, which would be another significant deterrent for sponsoring a joint defined benefit pension plan versus a defined contribution plan.

Also, the pension disclosure is already publicly available through the actual pension plan financial statements for jointly sponsored or multi-employer plans on a similar basis. Requiring this level of disclosures largely repeated on the public sector entity's financial statements not only is a waste of resources but also creates two sources of truth may need to be reconciled by users. We recommend that PSAB look at leveraging the actual pension plan financial statements and provide guidance that supplements disclosures that may be missing or are important enough to repeat. Otherwise, directs

readers to the actual pension plan financial disclosures. The pension plan financial statements already provide excellent disclosures that follow Canadian pension accounting standards.

15. *Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.*

Accounting should never drive a business decision, but often they do. Each public sector entity would incur significant additional costs for providing the level of disclosure required for multi-employer or joint defined benefit plans (assuming sufficient information was available for defined benefit accounting). The new disclosure requirements in this guidance would be a deterrent for public entities choosing to sponsor defined benefit pension plans, which would be a loss for employees. The pronouncements could have an unintended impact on public sector entities deciding not to offer defined benefit pensions as an employee benefit.

As PSAB continues to develop its guidance over employee benefits it needs to include explicit guidance for non-traditional defined benefit pension plans that offer the employer risks that are limited and are similar to defined contribution pension plans. The accounting standards and disclosures for these new plans needs to be not onerous and align with the lower level of residual risks to employers.

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Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

The scope is clear

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

The definitions are helpful, though it would be useful to provide examples in some cases such as an example of the asset ceiling.

Post-employment benefit – distinction between defined contribution plans and defined benefit plans .

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a postemployment benefit plan? Please explain.

This isn't applicable to our plans as they are under multiple employers but no common control

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

Not applicable to our entity

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

A decision tree would be useful in helping to assist entities in determining whether or not they have sufficient information as it depends on numerous factors. How does one balance the sufficient information requirement against accuracy, objectivity and verifiability? How much cost should be

incurred to try to get an actuarial valuation that could attempt to determine how much of the surplus or deficit belongs to a particular entity or group? There are plans where it just doesn't seem possible or reasonable to determine who "owns" the surplus or deficit, how much is the employer vs the employee, how much to each employer and how do you determine that? It depends on the number of employers, the employee groups, actuarial estimates and behavior. Also, plans can be changed over time, employees can move from employer to employer. Is the intent of this section more in the direction of making an attempt to report a proportionate piece of the surplus or deficit even if that means significant assumptions and the information may not be verifiable, objective and it may be materially incorrect or is the direction that it is better to disclose but not report a number if that number can't be verified objectively? An entity could push to not report a number due to "insufficient" information where a reasonable estimate could be made. Alternately, an organization could report a number, believing this to be most correct but that number isn't defensible. Professional judgment will be needed but this could cause a lack of comparability. Guidance around examples of what is/isn't sufficient information would be helpful.

Post-employment benefits – defined benefit plans Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount postemployment benefit obligations? If not, why?

We believe it is sufficient. For our plans, we believe it is clear whether a plan is funded, or partially funded with a rebuttal that there are clear provisions for funding status. It seems clear that, a partially funded plan without clear guidelines to ensure funding, isn't funded.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

We agree with the discount rates. This is a topic that could be debated into the future without a solution that will suit everyone. This is an example, in our opinion, where it is better to have a simple set of discount rates that are easy to determine, and comparable than a complex set of situations and rules. The one area in which we disagree is that we believe the rate should be more encompassing, i.e. "government bonds" could be defined in a broader method. One purpose, presumably, for one discount rate is to have comparability not based on the bond rating or performance of an organization, therefore, a more federal rate would be suitable rather than provincial or a generic government bond rate. Possibly, the rate could be tied to the bank of Canada rate(s).

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges. Employee Benefits, Proposed Section PS 3251 Exposure Draft — July 2021 | iv

We don't see a challenge with our current plans and agreements related to them. This is an area in which a legal opinion could be an option where it seems unclear. Could a legal opinion be found and supported to determine funding status? While accounting, actuarial science and the law are different in

their purpose and approach, and the accounting should be most relevant in financial statements, the support of a legal opinion and/or actuarial valuation could support the position and funding status of a plan.
One comment in this regard: I heard an actuarial argument related to an objection to this approach on the basis that the results could vary greatly from the private and public sector and that this difference could drive behaviour. In and of itself, I don't believe that is a reason to vary from the above approach. First, it is my belief that financial information is to provide information to decision makers who then drive behavior where possible. I don't believe it is a direct purpose of F/S to drive behavior without the accompanying experts, professional judgment and decisions of boards/council, etc. Second, if this approach means we are more "conservative" in that we are more likely to report a larger deficit than the private sector with the same set of information, within reason that seems positive to me. A public sector entity is very accountable to its staff, its constituents and should be conservative in this approach whereas a private sector organization is more accountable to profits, and shareholders. If the results are drastically different a significant amount of the time, then it could be that this section needs to be adjusted for the public sector to be more like the private sector but it is equally likely that the private sector is understating deficits and/or there is a compromise. It is also entirely possible that the different approaches are reasonable given the entities are entirely different in purpose and that is, in fact, why we have different sets of standards.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Our pension expert was able to use the example to determine a rate in a potential scenario. Once established, the spreadsheet or tool can be repeated as assumptions and facts change. An approach to try multiple rates would require the ability to accurately break out or separate several parts of a plan, apply multiple rates and would introduce unnecessary complexity, uncertainty and a lack of comparability.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized. If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

Yes, we agree with this approach.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options

should be considered, and how such options would assist in addressing concerns regarding increased volatility. Through PSAB's ongoing Conceptual Framework and Reporting Model project, this is proposed to be renamed "net financial liabilities" under proposed Section PS 1202.

Any items that show up in the new "other" category will warrant explanation to boards, councils or other stakeholders. With this approach, the results are obvious (jump out to a reader) and are then explained. Moving it into surplus or deficit each year causes its own volatility and unnecessary confusion given the intent to remove the deferral provision. If the deferral provision is moved, this approach is a good "compromise" to realizing the change right away without causing volatility throughout the financial statements and related financial ratio calculations.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

No one ever likes to restate financial statements, however, this is the best approach as it is a change in accounting policy, albeit due to a new standard and not a choice of the entity. It provides comparability between the prior year without the new standard and the prior year with the new standard and, again, prevents the volatility of accumulated surplus or deficit in this item to date to show up in one year whereas it was related to multiple prior years.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Those who prepare and explain financial statement often think in terms of specific financial statements, debits and credit or journal entries. It would be useful for those stakeholders to see examples with the related Dr./Cr on financial statements to better illustrate and explain how this will look. The examples are fairly simple and easy to follow, however, there will be more complex examples and permutations that will arise. Disclosure is also an item that will be somewhat new and examples of disclosure could be useful. Some of this might come out of discussions with auditors and preparers who may come forward with specific application questions.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

If the items went into the statements as expense/"revenue or gain" items, and into surplus/deficit and liabilities within the lines of the F/S, I believe this would seem confusing as it would increase volatility in the current year, each year. I believe the proposal to put these amounts into "other" will reduce confusion and will create an opportunity for dialogue and explanation. Further, these amounts aren't well understood now.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Accounting standards in and of themselves shouldn't be used to drive behaviour. They should be used to provide relevant, accurate financial statements. Those financial statements and related information should provide information to decision makers to help them make appropriate decisions. As long as the information is reasonable and based on "real" expenses or costs to be incurred, the decision making out of that should be sound.

A scenario I've seen is a liability attached to a pension plan that was calculated to be large. It was known the plan needed to be dealt with/changed and that there was a deficit. The choice of discount rate of government bonds in our province would have yielded a very high deficit, whereas a different rate yielded a lower deficit. Would a larger deficit have driven the required changes faster? Possibly. Would it have raised attention sooner, though? Possibly. Would the deficit reported ever be realized? No. The plan was changed such that the deficit was dealt with and the deficit/costs were never realized. That said, would a rebuttal of the unfunded plan been possible in this scenario under the new proposed standards? Possibly and that would have been a sound rebuttal since it was handled and proved to be true , i.e. that the deficit under the government provincial bond rates would have been higher than seemed reasonable. The plan is now in a surplus situation due to changes to the plan. A question to be asked using professional judgment is how likely the deficit is to materialize as opposed to being mitigated. There is risk that an entity will currently hide the true deficit by the selection of rates but there is also a risk of overstating the deficit given mitigating circumstances. No short cut here other than professional judgment to determine a fair representation.

Under the new standard, that plan would be comparable to others if a standard rate was set which would bring issues in other plans to light. This would be a positive. If more plans were shown to be risky and unfunded to their true extent, that could have driven dialogue and decision making that needed to happen and much sooner.

One concern with any long term liability of this nature is the volatility based on estimates and assumptions. How to ensure some reasonability check within a range of numbers that could be recorded based on assumptions? Professional judgment is required. With the proposed standards and rates, at least there will be comparability and repeatability. This will or should open dialogue to explain the issues to decision makers for them to make an informed decision. If the number is a shock, sometimes, that can help drive the decisions. If it is likely to be mitigated, that can be explained.

Into the foreseeable future, I don't believe this standard will change our policies, though it will require explanation.

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November 25, 2021

Michael Puskaric, MBA, CPA, CMA
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Public Sector Accounting Board
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Via email

Dear Michael,

Re: Exposure Draft – Employee Benefits, Proposed Section PS 3251

We are writing in response to the request for comments on the Exposure Draft – Employee Benefits, Proposed Section PS 3251 introduced in July 2021. We thank the Public Sector Accounting Board (PSAB) for the opportunity to comment on aspects of the Exposure Draft and the subject of employee benefits.

With almost 320 employees, working from six offices in Canada, Eckler Ltd. is the country's largest independent actuarial consulting firm. Our roots trace back to 1927, making us one of the oldest firms in the industry. While our response will incorporate some general comments regarding Exposure Draft, we will specifically address issues we feel may need further clarification or consultation before its final publication.

PURPOSE AND SCOPE

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

Short Term Employee Benefits

It is unclear where accumulating non-vesting sick leave benefits fit into the proposed standard. Paid sick leave is referenced as a specific example of short-term employee benefits, with these paid absences and their recognition further distinguished in .013 to .017 by accumulating or non-accumulating characteristics. Under the current standard, many entities with accumulating non-vesting sick leave benefits measure the obligation based on an actuarial valuation of expected future usage of excess sick leave (i.e., sick days used in a year in excess of sick days earned in a year – those accumulated from prior periods). Paragraph .016 of the proposed standard states that detailed computations may not be required and that a sick leave obligation is likely to be material if unused

sick leave may be taken as paid annual leave. It is unclear whether the intention was to permit an entity to simplify the measurement and recognition of accumulating non-vesting sick leave, or whether the intention was for an entity to treat accumulating sick leave as an example of other paid absences to be included with other long-term employee benefits. We believe that more guidance should be given as to the treatment of expected future usage of accumulated non-vesting sick leave taken as paid sick days rather than paid annual leave.

GLOSSARY

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   As commented under Q5, there is overlap in the definitions of multi-employer plan, joint defined benefit plans and category-wide plans. Simplifying the number of definitions and the disclosure requirements for non-traditional plans may lead to more efficiency, reduce the need for identifying so many different categories, and lead to less confusion for the users of the financial statements.

POST-EMPLOYMENT BENEFITS:
DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain**.

   In the case of a pension plan which is sponsored by multiple public sector entities, some of the entities may meet the definition of common control, so further clarification is needed on the intended application in this case to assess if it could have an impact on the accounting treatment.

   We strongly believe that, for jointly-sponsored pension plans, where the risks and rewards are shared between the participating employers and members, the concept of common control should not apply as no one single entity has unilateral control over the pension plan, and that this should be taken into consideration in the appropriate accounting treatment.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

We are not aware of any plans that fit the description of category-wide plans that could not also be considered multi-employer plans. Adding this additional category of plans could simply create confusion to the readers of the financial statements.

We believe that more guidance should be given as to instances where insufficient information is available for an entity to account for its participation in a multi-employer plan as a defined benefit plan. For example, paragraph .035 could be strengthened to say "this would occur if:" rather than "this may occur if:" immediately before (a).

Many of the public sector pension plans to which we consult are jointly-sponsored pension plans, whether they be single employer (either directly or through common control) or multi-employer. We strongly believe that any plan where the employer has no right to surplus nor any obligation to fund beyond the current contribution levels should be accounted for as a defined contribution plan as it better reflects the risks and risk sharing. We ask that the Board consider this when further developing guidance for jointly-sponsored risk-shared plans.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

We support this use of defined contribution accounting. As noted in our response to Q4, we strongly believe that any plan where the employer has no right to surplus nor any obligation to fund beyond the current contribution levels should be accounted for as a defined contribution plan as it better reflects the risks and risk sharing. This should be extended to joint defined benefit plans, category-wide plans and jointly-sponsored risk-shared plans.

There is overlap in the definitions of multi-employer plan, joint defined benefit plans and category-wide plans. Simplifying the number of definitions and the disclosure requirements for non-traditional plans may lead to more efficiency, reduce the need for identifying so many different categories, and lead to less confusion for the users of the financial statements.

Presentation

The disclosure requirements to justify using DC accounting for a multi-employer plan in paragraph .170 have been significantly enhanced. This will lead to additional cost, the documentation could be subjective, will add little value to the disclosure and could be confusing to the users of the statements. Paragraph .171 includes additional disclosures for joint defined benefit plans. It should be made clearer that this is in addition to the disclosures in paragraph .170 (as joint defined benefit plans may follow the same DC accounting as multi-employer plans).

POST-EMPLOYMENT BENEFITS – DEFINED BENEFIT PLANS

DISCOUNT RATE GUIDANCE

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

Discount Rate – Funding Status

We disagree with the approach that is contemplated by the proposal.

First, we believe the funding assessment should be done in a different order. The considerations contained in paragraph .110 should be the first step in the assessment. For example, if there is a formal funding policy or legislative requirement to fully fund any deficit, then that should be enough evidence that it is a fully funded plan, regardless of the current funding status. There should not be a need to do any further analysis required to assess the current and expected funding status. All registered pension plans should be considered fully funded without a need for further analysis where there is a legislative or funding policy requirement to fully fund any deficit.

If a funding assessment is required, we believe the process described in paragraph .107 proposal is overly onerous and potentially very expensive and time-consuming to prepare. Further, basing the assessment only on the current active employees ignores a very important source of funding of plan deficits – the new members who are replacing terminating and retiring members. It is common practice to determine the level of special payments on the current total payroll of active plan members (potentially considering future salary increases). The underlying assumption is that new members will replace members who are leaving and their contributions in excess of the cost of new benefits being earned will also contribute to funding any deficit. By ignoring these members, the future funding status of the plan based on the proposed methodology will build in a bias for future deficits as the future contributions towards deficits will be less than can reasonably be expected.

The proposal also suggests that this funding assessment be completed at each reporting date. The underlying actuarial valuations are sometimes completed less frequently than annually. We would suggest that any assessment be completed in conjunction with any underlying actuarial valuation of the plan.

Finally, we would suggest that the standards be less prescriptive on the process to determine the funding status and that it should be determined with due consideration to the plan and its materiality to the financial statements.

Discount Rate – Fully Funded Plans

We agree and are pleased that the proposal includes using the expected return on plan assets for the discount rate for funded plans.

Discount Rate – Partially Funded Plans

We agree that a truly partially funded plan should use a discount rate that considers the extent to which the plan is funded. As we discussed above though, the approach proposed is overly onerous. We believe it should be left to the preparers of the financial statements to determine a method to determine the funding status of the plan that is appropriate to the risks underlying the plan and the plan's circumstances, including materiality.

Discount rate – Unfunded Plans

We agree that a bond-type yield should be used to determine the discount rate for unfunded plans. However, more detail needs to be provided in order to determine that rate. For example, is a common provincial bond yield to be used in all jurisdictions, or would the bonds be specific to each province? Would there be a common source of information on the basket of bonds to use? What about non-provincial preparers of PSAB financial statements (e.g., municipalities)? Would entities in the same province all use the same set of bonds to determine their discount rates? What approach should be taken if the market for a specific province's bonds is not deep enough to generate a discount rate?

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)?**
   If not, please specify which approach you disagree with and why.

   See Q6 response.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

   See Q6 response.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so,**

please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

See Q6 response.

REVALUATIONS ON THE NET DEFINED BENEFIT LIABILITY (ASSET)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    We do not agree, as in instances where an actuarial loss is recognized, the immediate recognition will result in an increase in the accrued benefit obligation which will not subsequently be adjusted through the operating statement. Some amortization should be permitted to better align with plan funding.

    This increased obligation may impact decision makers, such as a Treasury Board, as the obligation will be recognized on the balance sheet and flow through accumulated surplus.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

    Recognition and Measurement – Plan Assets

    Many of our clients are concerned about the volatility of the accrued benefit liability (asset) under the proposed standard. One technique to reduce that volatility would be to continue to allow for asset smoothing to be used to determine the value of plan assets in the calculations. This would be consistent with the use of an expected return on plan assets to determine the discount rate. The expected return is a long-term expectation, not overly influenced by short term expectations. By use of a market value of plan assets without any smoothing, short term volatility would be recognized in

plan assets, but not in plan liabilities. Allowing a smoothing method to be used would reduce the impact of that short term volatility (while still being related to the market value of plan assets).

Components of Defined Benefit Cost

As mentioned in the previous paragraph, the volatility of the accrued benefit asset liability (asset) will increase under the proposed standard. We request that PSAB reconsider the elimination of the amortization of actuarial gains and losses in the proposed standards. Allowing for the amortization of actuarial gains and losses will significantly reduce the volatility of results, and is better aligned with plan funding.

TRANSITIONAL PROVISIONS

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

We would appreciate further information on timing of additional information for shared risk plans, as those proposals may influence our response.

ILLUSTRATIVE EXAMPLES

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

No comments.

OTHER

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

See Q10 response and the comments in the "Presentation" section of our Q5 response relating to the expanded disclosure requirements under paragraph .170.

Other comments: Post-Employment Benefits – Defined Benefit Plans

Paragraphs .065 and .066 deal with measurement of the net defined benefit liability (asset). Under the current standard, an early measurement date is acceptable. We believe that the proposed standard should maintain similar wording regarding early measurement. Meeting reporting deadlines could be challenging for some entities if there is a requirement to wait until after the financial reporting date to prepare all of the disclosures. It may take weeks to obtain all of the information necessary to determine the market value of assets and determine the appropriate discount rate to use for unfunded obligations. This could significantly reduce the time to prepare and audit the results given potentially legislated deadlines to publish financial statements. This could be especially problematic when results need to be

consolidated before release. Paragraph .088 would also need to be modified if early measurement were allowed.

Paragraph .078 deals with the attribution period to use in determining the defined benefit obligation and service cost. The proposed attribution period requirement is a significant departure from the current standard for plans where future service does not result in material future benefits beyond the eligibility period. An example of this is post-retirement health benefits. A plan may provide post-retirement health benefits to any employee who is vested in the pension plan. Under the proposal, such benefit would be attributed over the period to full vesting in the pension plan as that is when the employee becomes eligible to receive the post-retirement benefits (even if those benefits aren't payable for many years in the future). The current standard would allow the benefit to be attributed over the period to when the benefit becomes payable (e.g. at retirement). For a 30-year-old, that would potentially change the attribution period from 30 years under the old standard to 2 years under the proposed standard. For a member who is vested in the pension plan, the benefit would be fully attributed regardless of age. This would result in a significant increase in obligation on transition to the proposed standard.

We thank you again for the opportunity to provide our comments on Exposure Draft – Employee Benefits, Proposed Section PS 3251. Should you have any questions on the topics discussed above or wish to discuss any other aspect of Exposure Draft, please feel free to contact Catherine Robertson at crobertson@eckler.ca or 604-673-6082

Regards,

ORIGINAL SIGNED

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Michael Puskaric, CPA, CMA
Director, Public Sector Accounting Board
Sent via email to: mpuskaric@psabcanada.ca, and
Submitted via PSAB website

25 November 2021

Subject: Exposure Draft – Employee Benefits, Proposed Section 3251

Dear Mr. Puskaric:

We are pleased to provide our response to the Exposure Draft: Employee Benefits, Proposed Section PS 3251. Mercer provides actuarial services to many organizations currently reporting under the requirements of Sections PS 3250 and PS 3255. We are providing our comments from the perspective of organizations we support in preparing to apply these requirements.

Executive Summary

We support the majority of the proposals in the Exposure Draft. However, we believe the Board should consider several enhancements:

- More explicitly allow defined contribution accounting for organizations that participate in joint defined benefit plans;
- For plans classified as fully funded under the proposed Standard, provide an option to use a funding valuation for accounting purposes, similar to what is allowed for not-for-profit organizations under Section 3463 in Part III of the CPA Canada Handbook. This could both save time and reduce costs of preparing reporting under this proposed Standard, while being substantially consistent with its requirements;
- Require that the assessment of a plan's funded status start with the guidance contained in paragraph PS 3251.110. The detailed projections of funded status outlined in the Exposure Draft will be time consuming and expensive to prepare, and will be redundant if, at the outset, the criteria contained in paragraph PS 3251.110 are met and the plan is deemed a fully funded plan;
- Create consistency in the calculation of a partially funded plan's funded status, discount rate and benefit obligation by ensuring that contributions and benefit payments are in respect of accrued service and exclude contributions that are intended to fund future service accruals. This adjustment to the included contributions will ensure consistency with benefit payments used in the projection that only consider accrued service in accordance with the projected unit credit method;
- For all unfunded plans or benefits, base the discount rate on a pan-Canadian provincial bond yield curve to create a discount rate basis that minimizes reflecting entity-specific credit risk, particularly for individual provinces; and

- More explicitly state that organizations be allowed to use an early measurement date for measuring plan obligations and fair value of assets.

We are pleased to expand on the above considerations, along with providing our response to the questions posed in the Exposure Draft.

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   We find the scope of the Standard to be quite clear and consistent with other similar standards in the private sector.

   However, the accounting for accumulating non-vesting sick leave benefit plans could be clarified. This type of benefit plan is prevalent in the public sector and often has significant obligations. Such plans are included in the scope of the Exposure Draft; however, we believe they would now be classified as other long-term employee benefits. Under the current section PS 3255, these plans are accounted for in the same manner as envisioned in the Exposure Draft for post-employment benefits. If accounted for as long-term employee benefit plans, the revaluations of the obligation will be included in operations each year rather than being reported directly in net assets. This has the potential to create significant volatility in reported expense each year, which is contrary to the stated objective of stabilizing annual expense. We recommend making it explicitly clear, if it was so intended, that these plans be classified as post-employment benefits rather than allowing them to inadvertently fall under the other long-term employee benefit classification.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   We have no concerns with the definitions contained in the Glossary.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   No comment.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   We believe the guidance for category-wide plans could become relevant for the Canadian Public Sector, and this leaves room for future developments.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   The material in the *"In Brief"* document that accompanied the Exposure Draft indicated that the intention is to have the accounting currently being performed by joint defined benefit plans not be impacted by changes to the current Standards. We understand this will be addressed in future phases of the project. The language in paragraph PS 3251.033 of the Exposure Draft does not allow for the automatic use of defined contribution plan accounting methodology as is the case under the current Standards. As a result, there arises the potential for a change to the current accounting practices being applied to joint defined benefit plans. We recommend updating the Exposure Draft to more explicitly allow defined contribution accounting methodology for organizations that participate in joint defined benefit plans that are not the sponsoring government.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

   The proposed detailed cash flow methodology to determine the funding status is complex and unusual. This process will increase the time and cost of preparing financial reporting information. Therefore, if this complex process can be avoided in clear situations where the plan can be considered fully funded, we recommend this step be eliminated. Please see our response to question eight (8) for a revision that will reduce the compliance burden of the requirements spelled out in the Exposure Draft.

   In our view, the guidance in paragraphs PS 3251.105-.110 is generally clear, except for paragraph PS 3251.107. This paragraph should be modified to avoid any inconsistency between the asset and liability projected cash flows.

Consistent with paragraph PS 3251.107(b), where the benefits included in the projection are based on accrued service determined in accordance with a projected unit credit method, so should paragraph PS 3251.107(a) be clear to include contributions with respect to accrued service, only. We recommend adding the following text (shown in bold) to PS 3251.107(a):

For this funding status assessment, the projected plan assets balance would include projected cash flows related to current plan members **in respect of service accrued** *as of the funding assessment date (e.g.,* **contributions in respect of past service** *for current plan members in each projected future period). It would exclude projected cash flows related to future plan members (e.g., projected contributions from future plan members intended to satisfy projected post-employment benefits for current plan members).*

If the identified inconsistency between contributions and benefit payments persists, then the determination of the funded status will likely lead to an unintended outcome and the discount rate determined in accordance with PS 3251.116, consequently, will be affected.

Having an internally consistent approach reflecting accrued service benefit cash flows in the funded status assessment, discount rate determination and benefit obligation determination will make the proposed Standard more consistent with the requirements for other accounting standards that require cash flows only related to accrued service be used in the determination of the discount rate and benefit obligation.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   For partially funded plans, we recommend the adjustment noted above in our response to question six (6).

   For unfunded plans, we recommend basing the discount rate on a pan-Canadian provincial bond yield curve. This would allow entities, such as individual provinces, sponsoring unfunded plans to meet the requirements of PS 3251.119 and avoid reflecting entity-specific credit risk. It would also result in more consistent measurement of unfunded arrangements across Canada.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges**.

   We strongly recommend that the guidance contained in paragraph PS 3251.110 to assess whether a plan is fully funded be the first step performed by an organization each year rather than the detailed cash flow projections. The detailed projections of funded status outlined in the Exposure Draft will be time consuming and expensive to prepare, and will be redundant, if, at the outset, the criteria contained in paragraph PS 3251.110 are met. We believe this change will save organizations considerable time and expense in applying the Standard.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

   In addition to the issue noted in our response to question six (6), we recommend that more guidance be provided with respect to the provincial bond yields used in the derivation of the discount rate for partially funded and unfunded plans. As described in our response to question seven (7), we recommend a pan-Canadian yield curve be applied to determine the discount rate for unfunded plans and the unfunded portion of partially funded plans. Clarification on this point would enhance consistency in financial reporting among entities and permit for compliance with paragraph PS 3251.119.

Revaluations on the net defined benefit liability (asset)

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    This is consistent with the underlying accounting standards covering similar benefits, on which this Exposure Draft is based. This is also a reasonable approach, on the premise that all assumptions used are best estimate assumptions.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.**

    No comment.

Transitional provisions

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

    The transition provisions are reasonable. We agree that the long lead-time to adopt to the Standard is appropriate given the broad nature of the required changes.

Illustrative examples

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

    Other than the issues noted in our response to question six (6) regarding the inconsistency of including benefit payments for accrued service while including contributions related to future service in the assessment of funded status, the illustrative examples will be of assistance in interpreting the Standard.

    Regarding additional guidance, we point out that due to the similarities of the Exposure Draft to IAS 19, preparers may look to guidance from material issued by the IASB to assist in interpreting the proposed Standard. Examples of such guidance are IFRIC 14 regarding the determination of the limit on defined benefit asset, or the paper issued by IFRIC in May 2021 regarding applying the attribution requirements set out in IAS 19. The Board may wish to consider providing direction indicating the applicability of such guidance in this section of the Standard.

Other

14. **Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.**

    The changes brings the Standard closer to those in the private sector and may serve to enhance understandability for the majority of the plans covered by the Standard.

15. **Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.**

    No comment.

Additional Comments

Early measurement date

Many of our clients are concerned that the language in the Exposure Draft will not allow for the use of an early measurement date resulting in a significant change in their processes to deliver timely financial reporting information. During the PSAB roundtable discussing the Exposure Draft, it was noted that the Board believes there is sufficient room to interpret the Standard to allow for the use of an early measurement date. To avoid the potential for auditors interpreting the Standard differently than the preparers of financial statements in this regard, we recommend that clear language be included in the Standard allowing for the use of an early measurement date, as is presently the case in PS 3250.

Non-investment expenses

The Exposure Draft is largely silent on the treatment of non-investment related administration expenses. The Board should consider providing more explicit guidance in the Standard on this point. For example, the basis for conclusions for IAS 19 indicates non-investment related administration expenses should be included in annual profit and loss as incurred (other than those included in the measurement of the plan's obligations – e.g., the claim handling costs of medical benefits). The treatment of administration expenses is also explicitly addressed in the current PS 3250 Standard.

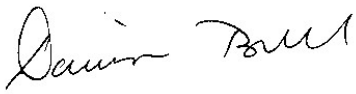
Use of a funding valuation

For plans that are classified as fully funded under this proposed Standard, consideration could be given to the use of a funding valuation for accounting purposes, similar to what is allowed for not-for-profit organizations under Section 3463 in Part III of the CPA Canada Handbook. This could both save time and reduce costs of preparing reporting under this proposed Standard, while being substantially consistent with its requirements.

We appreciate your consideration of the above response. If you have further questions or require clarification, we would be pleased to respond.

Sincerely,

Edith Samuels, FSA, FCIA
Principal



Darrin Bull, CPA, CA
Principal

SHEPP
People. Pensions. Results.

November 25, 2021

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Mr. Puskaric:

We are writing to provide responses to PSAB's questions regarding PS 3251, Employee Benefits. Our response to the questions to the Exposure Draft are provided below.

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer, jointly-sponsored defined benefit pension plan with over 60,000 active and retired members employed by 50 participating employers in Saskatchewan. SHEPP does not follow PSAB, rather our Plan follows Accounting Standards for Pension Plans, Part IV of the CPA Handbook; however, several of our participating employers do follow PSAB standards.

Further to our responses to the exposure draft questions we have provided other general comments.

Canadian pension plans have evolved over the past two decades with new forms of pension plans being developed. PS 3251 needs to continue evolving with the pension plan changes to ensure that Canadian public pension plans remain stable and are able to provide retirement income security to Canadians. Well managed and governed defined benefit plans provide income that reduce the reliance on publicly funded retirement income programs.

Accounting standards should not have a negative impact on the operation of defined benefit plans. It is our view that calculating a benefit obligation for an employer of a multi-employer public pension plan will prove to be challenging, despite the allowance of simplification and reasonable approximation, and will result in significant additional costs to the reporting entity and the multi-employer plan servicing it. As such there needs to be clarity in the standard as to when government should use defined benefit accounting for a multi-employer plan.

Thank you for the opportunity to respond to this exposure draft and provide our input. We look forward to the future developments of the Employee Benefits.

Sincerely,
Dale Markewich
Dale Markewich, Chief Financial Officer

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RESPONSES TO EXPOSURE DRAFT QUESTIONS

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   No comment on this question.

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   The definitions contained in the Glossary are helpful, however the following additional definitions would be beneficial.

   Sufficient Information Available – This is referred to in the exposure draft, but what is the determination of sufficient information? Employers will not have the information necessary to record their share of the pension obligation and will request this information from their respective pension plans. Calculating a benefit obligation for an individual employer of a multi-employer public pension plan will be very complex and expensive. This could lead to inconsistencies across the country if some employers are able to obtain this information and others are not.

   Plan Expenses – Administrative and investment expenses should be defined as they are incurred to operate a pension plan that would be paid by using assets held within the fund.

   Multi-employer plans – This definition should be expanded upon as it may cause confusion when applying the definition of a defined benefit plan that shares risks between public sector entities under common control. As mentioned earlier, SHEPP has 50 participating employers some are public sector entities that are under the control of the Saskatchewan government and some are not-for-profit or for-profit entities that are not under the control of the government of Saskatchewan. As such SHEPP is clearly a multi-employer pension plan as there are various entities that are not under common control. What is not clear is whether SHEPP meets the definition of a defined benefit plan that shares risks between public sector entities under common control.

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   As noted above, more clarity is required to define what a benefit plan that shares risks between public sector entities looks like before determining if the net defined benefit cost related to the benefit plan should be recognized.

   An entity should not recognize its share of the accrued benefit obligation of the pension plan when it participates in an independent multi-employer plan for which it has no financial responsibility other than making periodic contributions while it participates in the plan. However, where a public sector employer has a single employer pension plan, looking through the structure of the pension plan and recognizing that the employer ultimately has the responsibility of paying pensions to its employees makes sense, and is a desirable outcome. It also makes sense that where **all** the

participating entities in a multi-employer plan are controlled by the government, that the government has assumed the risks of providing retirement benefits to all of the employees of the participating entities. This is not the case for an independent multi-employer plan like SHEPP.

The exposure draft does not address pension plans that may not be public entities which nevertheless service the public sector. Rather, it assumes that a public sector pension plan is simply an extension of the government or public sector enterprises it serves. This is not correct. The correct approach is to ask in what circumstances should a pension plan, with its own management and independent governance structure, servicing employers and employees in multiple sectors, be treated as an independent service provider versus an extension of the public sector that must be consolidated.

Most multi-employer public sector plans are jointly trusteed and are governed by a Trust agreement agreed to by the settlors of the plan. The boards of trustees of these plans are typically made up of equal numbers of trustees appointed by the employers and the employees through their unions, with neither group having a deciding vote. These boards are thus in fact and in law not controlled by the employers or governments who appoint the employer trustees, and to treat them as such is a fundamental error. Rather, these plans are independent of, and at arm's length to, government and the employers and should be treated as independent service providers.

When an employee retires, an employee ceases to be an employee and becomes a retiree. The obligation to pay the pension rests with the pension plan not the employer in a multi-employer pension plan. As a result, one can consider that the obligations of the employer are not to the members of the pension plan, but rather to the independent pension plan itself. An independent and professionally managed plan exists to take the risk from the individual employer and manage that risk to provide sustainable retirement benefits to its members.

Within the current PASB standards, when a single employer plan merges into a multi-employer plan there is a change in accounting for the employer. The employer moves from defined benefit accounting to defined contribution accounting even though there may be little change in the accrued benefit obligation. It is our opinion this change in accounting reflects the transaction that has occurred – the outsourcing of the plan to a professionally managed, independent pension entity. Similar to any other government outsourcing arrangement, the ongoing accounting for the arrangement is the ongoing expense to the outsourced entity. Such mergers offer significant benefits both to the employer and its employees, and with pension legislation becoming more open to such mergers, they are expected to continue to occur. Careful consideration should be made prior to enacting standards that are substantially different than other jurisdictions, and which would potentially hinder plan merger which have substantial benefits to society.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   No comment on this question.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed**

paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

There needs to be a clear definition of sufficient information not being available to use defined benefit accounting for a multi-employer defined benefit plan so that it is consistently applied across entities.

Calculating a benefit obligation for an employer of a multi-employer public pension plan will prove to be challenging despite the allowance of simplification and reasonable approximation and will result in significant additional costs to the reporting entity and the multi-employer plan servicing it.

By design, multi-employer plans allow employers to come and go and employees may work for multiple employers of the same plan over their careers. Also, when member retires or terminates employment (becomes a deferred member) there is no longer a need to associate these former employees to an employer. All of this will make it very difficult for a multi-employer pension plan to accurately divide the pension obligation among the employers. For example, if an employee worked for three different employers of the same plan it would be difficult to divide the pension obligation by employer. Also, if an employer leaves the plan it would be difficult to determine who is responsible for the obligation for the employees or pensioners that are still in the plan.

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

   The process for determining the status for identifying the appropriate rate to use is not clear. If a pension fund is currently partially funded, but has a plan is in place to be fully funded, does that suffice as being fully funded? A pension plan would not change regularly between being fully funded and partially funded without a plan in place to be fully funded. A proper plan would have the appropriate contribution rates using the future expected return on assets of the Plan to be fully funded. If a pension plan makes zero attempt to being fully funded, changes to the plan would be required (i.e., the benefits to members would need to be adjusted accordingly).

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   The proposed discount rate approaches appear appropriate.

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

Yes, potentially the determination of what funded status a plan would fall into. See the response to question 6.

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

   No, we do not see any particular challenges.

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

    No comment on this question.

11. **PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered**, and how such options would assist in addressing concerns regarding increased volatility.

    No comment on this question.

12. **Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?**

    Early adoption should not be permitted to avoid potential confusion for the users of financial statements if some employers of a multi employer pension plan decided to early adopt and others did not. Financial statements would not be comparable in this case.

13. **Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?**

    An example of the note disclosure requirements should be included to provide assistance when preparing financial statements. A decision tree for deciding which method of accounting for the plan (defined benefit vs defined contribution) to follow would be beneficial.

14. **Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.**

    There may be confusion regarding when to use the defined benefit versus defined contribution disclosure for public entities participating in a defined benefit pension plan.

Specifically, where a multi-employer plan is acting as an independent service provider to public sector and other employers, the risk borne by the reporting entity is different than that of a single employer defined benefit plan in that the reporting entity's obligation is not to its employees participating in the plan, but instead to the plan itself, and therefore should be subject to different accounting.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Employers who are part of an independent multi-employer pension plan may not want to participate anymore if they are required to account for their participation on their own financial statements due to the additional potential recording of liabilities and note disclosure requirements. A public sector entity participating in a multi-employer plan might never be able to record a pension asset, while being required to record a liability. Such asymmetrical accounting is undesirable and would mean that participation in a multi-employer plan could only ever potentially result in liability for an employer.

In addition, we believe it is not economical to create an accurate split of the pension obligation among the employers in a multi-employer pension plan. Any allocation back to a single participating entity by definition would be arbitrary and may lead to accounting disputes between government, individual employers and the auditors.

November 25, 2021

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Puskaric:

Employee Benefits, Proposed Section PS 3251

Thank you for the opportunity to provide input on the Employee Benefits Exposure Draft. We have provided our responses to the questions from the Exposure Draft below. For context, and as requested in the Exposure Draft, the response was drafted from a pension administration aspect with input from budget, treasury and financial statement preparation. Möbius is the administrator for five plans, including a defined contribution plan, a long-term disability plan, a jointly sponsored multi-employer defined benefit plan, a closed defined benefit plan and a target benefit retirement plan.

In addition to responding to the specific questions, we also offer the following general comments. Pension plans have evolved over the last few decades. Defined Benefit Plans have faced numerous pressures, and this has resulted in plans re-examining their design. Many governance and funding rules are based on shared-risk principles whereby assets and liabilities are not attributable to individual employer groups. Plan deficits are funded through a combination of design changes and/or contribution increases shared by all participants, versus what was seen traditionally. Given these changes, we agree that the current Section 3250 needed to be reconsidered in consultation with stakeholders while keeping Canada's unique pension plan legislation in mind.

Any change to the standards requires fulsome stakeholder consultation with meaningful integration of the resulting feedback. Given the multi-phase approach to Employee Benefits, it will be important to continue to gather feedback and ensure that all phases can be reviewed and commented on in their entirety once the standard is complete.

Standards are not a public policy tool, but they have the potential to impact public policy. Governments and stakeholders have carefully considered the evolution and development of the Canadian retirement system to build a system that provides adequate income for citizens in retirement. Public sector defined benefit plans play an integral part in that system. In addition, considerable effort has been expended to increase coverage under the Canada Pension Plan. Changes to the accounting standards have the potential to undo that work. The Standards should support, not supplant these efforts.

We appreciate this opportunity to share our observations, and we look forward to reviewing the next phases of the Employee Benefits project.

Sincerely,

Colyn Lowenberger
President & CEO
Mobius Benefit Administrators Inc.

RESPONSES TO EXPOSURE DRAFT QUESTIONS

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Nothing to note with this question.

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

The Glossary is generally helpful. Möbius notes the following:

- **In categorizing the types of defined benefit plans shown throughout the standard, a decision tree would help in the classification of DB plans, highlighting control factors (e.g. structure) as a key point. Control of a pension plan should remain a key determinant of how a plan is classified and recognized within public sector financial statements. A decision tree would also highlight the accounting approach to take. This will also be important in the next phase of the project which will address non-traditional pension plans.**

- **Reference should be made under "assets held by a long-term employee benefit fund" to include administrative and investment expenses, as these costs are paid out of plan assets in addition to benefits.**

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

This section would not impact the accounting treatment for the plans we administer. However, we think the section "Defined benefit plans that share risks between public sector entities under common control" would be improved by adding further explanation and a more clear definition, as well as examples for clarification like Example A1.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

No comments on this question.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Based on our understanding of the exposure draft section, Möbius does not believe there would be a change in accounting treatment for the plans we administer.

Requiring public sector entities in multi-employer pension plans to record their share of assets and liabilities would result in complex calculations and additional costs to plan administrators, sponsors, members and governments. It is important that the complexity

and related costs of implementation and application of standards must not outweigh the benefits and objectives of the standards.

Although estimates could be made to simplify the approach, applying an overly simplistic approach to attributing a portion of the obligation to individual employers would diminish the reliability and relevance of the information while only reducing the associated costs. Estimates still require substantial effort and increased costs.

We are of the opinion that there is a risk of inconsistent application of the accounting treatment among employers in individual plans such that two employers in the same plan account for their proportional liability in different ways creating the potential for confusion among users.

There is also a challenge that the aggregate liability recorded by employers does not match the liability recorded by the pension plan.

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

It is unclear what the correct order is when determining a partial or fully funded status. It is desirable to determine which category a plan will fall into without first completing the detailed quantitative calculation as shown in the illustrative example. The preferred approach would be able to jump directly into the rebuttal process without formally completing the calculations while considering the most recent actuarial valuation assuming contributions are in line with actuary's recommendations. In addition, we would also encourage PSAB to consider whether there are less onerous options for determining the plans funding status.

The illustrative example was clear and easy to follow, however inputs would likely need to be verified from an actuary as these inputs would affect the blended rate calculated (and could materially affect the obligation). This assistance would also increase the administrative costs to the plan.

PSAB could consider revising the requirement of determining funded status to be in line with valuation years or when a significant event occurs.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

The proposed approach makes sense. Refer to previous question.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Same as question #6.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

No challenges to note.

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

There are good considerations for and against the classification, where this topic has been debated and discussed in previous ITCs. No further comments on this question.

11. PSAB acknowledges the potential increased volatility in net debt[4] that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

No specific comments on this question.

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

The transition date should be locked into a specific date with no early adoption allowed, given there can be multiple entities involved.

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

The illustrative examples assist with the interpretation and application of the proposed Section. "Example 13 – Determining the funding status" was appreciated and well documented.

Under the old PS 3250 standard, illustrative example 1 could be updated to reflect the changes within the new standard (e.g. removing deferral provisions, highlight the flow of revaluations).

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

The disclosure requirements within the Exposure Draft are very heavy and detailed. It is encouraged that PSAB consider the "should" disclosures versus the "could" or "may" disclosures (e.g., .159), and revisit what has been included to consider the must have disclosures. Plan financial statements are often made available to the public and can be used as a source for a more detailed source of information for those users that require specific information (e.g., .161(b), .164). In our opinion, "should" disclosures include: .161(a)(c)(d), reconciliations in .162 & .163, significant inputs within DBO & sensitivity analysis.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

No comments on this question.

THE DISTRICT MUNICIPALITY OF MUSKOKA

December 1, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Michael Puskaric:

Re: Letter of Support for MFOA's Submission Exposure Draft – Employee Benefits, Proposed Section PS 3251

I am writing to provide comments in support of the Municipal Finance Officers Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on Employee Benefits, Proposed Section PS 3251.

As the Treasurer for The District Municipality of Muskoka, I believe it is important that public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. Financial reporting should promote transparency and understandability to the financial statement reader, while balancing the resources required to complete the financial statements in adherence with Public Sector Accounting Standards.

As identified in MFOA's submission to PSAB, the proposed changes within the Exposure Draft cause a significant burden on municipal staff due to the resources required to develop appropriate note disclosure and actuarial valuation calculations. Additionally, Ontario municipalities who are members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer defined benefit plan, will be required to include additional note disclosures well beyond what is currently reported. Some of the proposed note disclosure requirements relate to information that is not currently provided by OMERS, while the remaining multi-employer plan disclosures would be quite onerous for municipalities to develop.

As highlighted in the MFOA submission to PSAB, the Employee Benefits proposed standard is one of many accounting standard changes to be released within a few years, in which implementing these changes require increased staff resources, potentially additional costs for consultants or software changes, and may delay the completion of the audited financial statements. We encourage PSAB to take a more

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Email: info@muskoka.on.ca **Website:** www.muskoka.on.ca

wholistic approach to establishing new or significantly revising standards, keeping in mind the broader impact to the public sector, from a resourcing and regulatory perspective.

To successfully update the Employee Benefits, I support MFOA recommendations:

1. Clarify the application of the standard to specific defined benefit plans, such as OMERS.
2. No further note disclosure requirements should be specified in relation to the net debt volatility, as this should be at the discretion of the public sector enterprise.
3. Valuation changes resulting from retroactive application should be flowed through remeasurement provisions and not through a surplus or deficit account.
4. Illustrative examples should represent a more practical application to assist financial statement preparers in determining the requirements of the standard.

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed.

Should you wish to follow up on this letter, please contact Suzanne Olimer, B.Com, CPA, CMA at Suzanne.Olimer@muskoka.on.ca.

Sincerely,

Suzanne Olimer
Commissioner of Finance and Corporate Services

November 25, 2021 489207

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2
mpuskaric@psabcanada.ca

Dear Michael Puskaric:

RE: Exposure Draft: Employment Benefits, Proposed Section PS 3251

Thank you for the opportunity to provide comments on the Exposure Draft titled "Employment Benefits, Proposed Section PS 3251". The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards.

Concerns regarding the sequence of review

It is important to first consider the nature and context of the Canadian pension environment because of the broad continuum of obligations resulting from government participation in pension and benefit plans. Understanding these various plans will then provide the needed background to comprehensively discuss the discount methodology, recognition of actuarial gains and losses and application of guidance to shared risk plans. By assuming all benefit plans are similar, PSAB has placed comparability above all other objectives of financial statements.

We understand that PSAB is taking a multi-phase approach to revise the proposed guidance with a future phase focusing on guidance for non-traditional pension plans. There are significant differences between the public and private sector pension plans, and between pension plans in Canada that need to be considered when contemplating an approach for Canadian public sector jurisdictions. It is important to assess the landscape upfront for understandability and applicability. Confirming the scope of application until after the initial guidance is implemented may interrupt the continuity of employee benefit recognition across future accounting periods.

Impacts on plan sponsors

The immediate recognition method noted in the exposure draft will introduce significant volatility into the financial statements that will not inform the plan sponsors or the public of the true nature of the pension plan obligation. Shared-risk pension plans will not be accounted for in a way that reports how effectively fully funded pension plans operate over the long settlement period. In combination with a prescriptive discount rate, this accounting could result in unintended consequences in pension plan management. Plan sponsors may view the increased volatility as a reason to change the nature of the pension and benefit plans, even when, historically, the cost has shown to be less than the projected obligation.

Consideration for the users of financial statements

Immediate recognition of the actuarial gains/losses will introduce significant volatility that may undermine the usefulness of public sector financial statements. This is particularly the case for British Columbia's large, fully funded pension plans where volatility can significantly impact the accumulated surplus. Accumulated surplus may then misrepresent the actual resources available to deliver government programs.

Volatility dilutes the informative value of government's financial statements. There is a risk that results will not be easily understood by financial statement users or comparable to the government's budget. This will be a significant obstacle under a legislated balanced budget regime that supports government's transparency and accountability to the public.

Discount rates that reflect the nature of the benefit

The exposure draft recognizes that discount rates should be different based on the funded status of various benefit plans. We agree with that principle; however, we are concerned that the prescribed discount rates may not align with the nature of the benefit plan. It may be more representative to have an actuary familiar with the benefit plan determine a blended rate to use when applying the discounting technique. Further clarity is also requested for the application of a discount rate when a fully funded plan temporarily becomes partially funded.

Responses to specific questions posed in the exposure draft are attached. Should the Public Sector Accounting Standards Board have any comments or questions, please contact me at 250-387-6692 or by e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.

On behalf of the Government of British Columbia,

Sincerely,

Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia, Canada
Encl.

cc: Michael Pickup, FCPA, FCA
Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Comments Requested:

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear?**

   We find the scope to be clear for the types of employee benefits outlined in the proposed standard. The scope includes relevant sections of PS 3250 and PS 3255 while following the structure of IPSAS 39.

   The exposure draft does not fully consider the evolution of the current Canadian pension environment. The characteristics of senior government pension plans and accumulating or vesting benefits vary widely between plans and between jurisdictions. Pension plans have become increasingly complex since PS 3250 and PS 3255 come into effect. Retirement benefit accounting now goes beyond just the difference of defined benefit and defined contributions, to arrangements of joint trusteeship, risk sharing, post sponsorship, target benefit and fully sponsored plans. This proposed standard should also consider the economic substance of those different plan designs and that one method may not fit all arrangements.

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it related to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   The definitions in the glossary are clear and understandable and provide sufficient support in interpreting the standard.

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   There is no expected change to the BC Government's accounting treatment as there are no defined benefit plans that share risks between public sector entities under common control.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   The BC government does not have any category-wide plans in the government reporting entity. Guidance on category-wide plans is likely of limited relevance to Provincial governments, however, may have greater relevance for local or federal plans.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   Applying the guidance provided in proposed paragraphs PS 35251.033 and PS 3251.035 of this Exposure Draft will not change the accounting treatment for the BC government.

   The guidance to allow participating employers without sufficient information to follow standards for defined contribution plans is reasonable. However, this may result in unintended consequences and require onerous additional documentation for some employers to ensure sufficient documentation is not available. This may cause increased cost and time as well as disagreements between governments/employers and their auditors.

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

   The guidance is clear and sufficient on fully funded and unfunded plans, however, the guidance on the discount rate to use for partially funded plans may impact the understandability of the obligation and may not reflect the intent of the plan in years where a net accrued pension obligation occurs. *(see further discussion under question #9 below)*

   The guidance discusses determining the 'projected' plan assets and benefit payments but is not clear on the time horizon of that projection *(e.g., EARSL)*. In our opinion, it would be prudent to incorporate further guidance on determining the projected values to help ensure a consistent approach is taken.
   One other area the guidance is not clear is how often the funding status must be determined. Determining the funding status on an annual basis would be onerous and costly. We recommend that guidance be included to allow the funding status to be determined at each valuation date (for example, once every 3 years).

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

For fully funded plans:

The expected market-based rate of return is required. However, market-based return might be impacted by short-term events at the end of a reporting period, thereby impacting the accrued benefit obligation (asset). In such instances, the actuary's professional judgement should be allowed to determine a reasonable merit-based rate.

For partially funded plans:

The guidance may be too prescriptive and may not reflect the specific intent and circumstances of the plan. For example, shifting to the weighted average cost of borrowing when the projected benefit payments are not currently covered by the plan assets may not clearly reflect the intent or actual obligation and may not be practicable. Instead, in these cases, the actuary's professional judgement should be used to determine a rate. For example, a blended rate between the return on plan assets and government's cost of borrowing should be considered.

The guidance requires that a 'single weighted average discount rate that reflects the estimated timing and amount of benefit payments' be used. Further guidance should be included to explain what rate bases are reasonable to use (e.g., Provincial government WACC, Gov't of Canada bond rates, etc.)

For unfunded plans:

We generally agree with the use of Provincial government bonds to determine the discount rate used for unfunded plans. In our opinion, it would be the best to rely on the expertise of the actuary to determine an appropriate rate based on plan requirements.

For municipal and federal governments, the use of Provincial government bonds may not be the most indicative of their actual discount rate and could be challenging for these governments to obtain accurate and current data

8. **Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.**

The guidance discusses determining the funding status using 'projected' plan assets and 'projected' benefit payments. However, the guidance is not clear on the time horizon to consider for these projections (e.g., the plan EARSL). This may lead to inconsistent determination of funding status between organizations. More guidance should be added to explain what the 'projected' time horizon should be.

For unfunded plans, there should be some interpretation of the estimated timing of future benefit payment resulting in different weighted average cost of borrowing being used for some plans (e.g., a closed plan expected to have no members left in 15 years – should an adjusted weighted average cost of borrowing be used for bonds reflecting 15 years?)

9. **Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.**

The use of a single discount rate for partially funded plans may misrepresent the true obligation to the public in instances where the market yields of provincial government bonds are used for periods where the balance of plan assets is not expected to cover projected benefit payments. This is especially true in the current historically low bond rate environment.

In addition, the use of a single discount rate does not allow for the actuary's professional judgement to be used for the specific circumstances and substance of the plan.

PSAB should instead allow for actuary's professional judgement to be used in these instances. The BC government supports using the expected rate of return for plan assets as calculated by the plan actuary as the most appropriate rate for estimating the fulfillment value of the accrued benefit obligation. We would also be supportive of a blended discount rate (between expected rate of return and market yield of risk-free debt instruments) if that is what the actuary determined.

10. **Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.**

We do not agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit. Please see our rationale below.

- **Impacts on plan sponsors**
  - Immediate recognition will introduce significant volatility into the financial statements that will not inform the plan sponsors of the true nature of their pension plan obligations. This accounting could result in poor decisions and undesirable behaviours in pension plan management. Pension plans will not be accounted in a way that reports how effectively our fully funded pension plans really operate.
- **Undermining representational faithfulness**
  - By moving to a solvency-based estimate for obligations, we are not faithfully representing the going concern of pension plans in the financial statements. By ignoring the economic substance of pension activities, governments could be grossly overstating their pension obligations and misrepresenting the true cost of pension plans. No consideration has been given to addressing the contingent nature of plan sponsor guarantees and whether that would better represent certain pension plan characteristics to the users.

- **Consideration for the users of financial statements**
  - The introduction of volatility undermines the expectations of the public interest. In very large, fully funded plans, volatility can easily swamp the accumulated surplus causing pension plans to look more expensive than history has shown us they really are. Volatility dilutes the informative value of government's financial statements. While the proposed changes will not have an impact on operating results, it will show significant volatility in the accumulated other category. There is a risk that results will not be easily understood by financial statement users or comparable to the government's budget.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

Yes, additional disclosure options would be beneficial to explain the net debt volatility to financial statement users. For example, it would be useful to include further disclosure on the nature of actuarial gains and losses and what inputs are included in the determination.

This additional disclosure would assist in explaining to financial statement users that actuarial gains and losses are based on experience and further estimates and therefore, will highlight their volatility.

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

The proposed transitional provisions will provide sufficient time for public sector entities to prepare for the transition. The retroactive restatement will help with the comparability of financial statements.

As PSAB is taking a phased approach to revising this standard, we are concerned that these subsequent revisions may impact the transition by requiring significant additional changes to pension and benefit plan accounting.

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes, the illustrative examples are detailed and clear to understand the complexities in the proposed standard.

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

The guidance on assessing the funding status and determine the discount rate to use for these plans will be beneficial for consistency and comparability between financial statements.

The immediate recognition method will change the understandability of financial reporting on employee benefits as it will not inform the plan sponsors or public of the true nature of their pension plan obligations. Governments could be overstating their pension and benefit obligations compared to the existing guidance. In addition, the introduction of volatility from immediately recognizing actuarial gains and losses can easily swamp the accumulated surplus causing poor understandability, which can cause poor decision-making from users. This volatility will increase the complexity in clearly explaining the true pension or benefit obligation to the plan assets.

BC's main pension plans are considered fully funded as any unfunded portion is required to be addressed through future contributions from employers and employees. Therefore, any unfunded liability will be short-term in nature. While paragraph 3251.110 partially addresses instances of short-term changes in a plan's funding status, there is a risk that some ambiguity may cause disagreements between preparers and auditors.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

The proposed guidance may result in a change in decision making by senior government officials. For governments working under balanced budget legislation, senior government officials may need to change funding decisions where there are significant increases to the benefit obligation even when the obligation is short-lived.

We do not expect applying the proposals outlined in the exposure draft would result in a change in decision making for pension plan administrators. For BC government joint-trusteed pension plans, all plans are fully funded and managed by an independent board of trustees with support from actuaries and investment managers. Therefore, we do not anticipate any changes to the management of the pension plans or decision making in funding, financial management, or contribution rates.

December 8, 2021

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

Re: Employee Benefits, Proposed Section PS 3251 – Exposure draft

We are pleased to respond to the Exposure Draft on *Employee Benefits, Proposed Section PS 3251* (the ED) issued by the Public Sector Accounting Board (PSAB or the Board). We are supportive of PSAB addressing the need to update guidance relating to the discount rate and use of the deferral methods in measuring defined benefit plans. We understand that this Exposure Draft is phase one of a two phase project that will also re-examine the guidance for non-traditional plans. We encourage the Board to consider how the two phases will interlink and allow for preparers to be able to implement all the changes concurrently if they are significantly affected by both phases.

Our responses to the specific questions in the ED are included below.

1. ***Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.***

   Yes, we find the scope of this standard to be clear.

2. ***Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?***

   The definition of a "multi-employer plan" includes that the plan pools the assets contributed by various entities that are not under common control, with a separate definition and accounting being prescribed for those entities that share risks among public sector entities under common control.

   We observe that there are a number of defined benefit plans that share risks among various public sector entities under common control but also accept participating employers that are not public sector entities under common control. In some cases, the public sector entities that are under common control employ a significant majority of the members that participate in the plan (e.g., > 80%) whereas in other cases the number of members from participating employers under common control is significantly less.

   We are unclear on whether the proposed standard would direct these plans to be accounted for as defined benefit plans that share risks between public sector entities under common control or as multi-employer plans. This distinction is most relevant for the controlling public sector entity, as

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applying the guidance in proposed paragraph .040 to a controlling public sector entity would potentially be different from consolidating the impact of the subsidiary participating employers applying the guidance on multi-employer plans in paragraph .035.

We believe the Board should clarify the definition of multi-employer plans to be clear if and when entities under common control can participate in a plan that would be otherwise classified as a multi-employer plan, without it being classified as a plan that shares risk between public sector entities under common control. The Board could consider setting thresholds (e.g., number of participating employers, proportion of active members or other metric) to determine when a plan is not classified as a multi-employer plan, but as a plan that shares risk between public sector entities under common control. However, we believe that assessing the governance of the plan is a more appropriate consideration for determining this classification. For example, a plan could be classified as a plan that shares risk between public sector entities under common control when the decision-making of the plan itself is controlled (or control is shared with parties representing plan participants in the case of a joint defined benefit plan) by the controlling public sector entity, even when there are members employed by employers that are not under common control with other public sector entities. Conversely, even if a majority of participating employers are under common control of a public sector entity, if the plan has an independent governance structure where the controlling public sector entity does not have control over the plan itself, this could be classified as a multi-employer plan. For this assessment, control should be assessed on a basis aligned with Section PS 1300, *Government Reporting Entity*.

We note that the definition of a "joint defined benefit plan" refers to a "public sector entity" in the singular. However, we see a number of plans where there is more than one participating public sector entity, such that the plan would meet the definition of a "multi-employer" plan, but also the governance structure is such that when considering the role of the public sector entities as a group, the characteristics of a joint defined benefit plan are also met, in that there is a sharing of control, risks and contributions between the employers (or those parties that represent them) and the plan participants (or those parties that represent them). In other words, a multi-employer plan may share risks between the participating employers, but may also share risks with plan participants. We believe that the standard should clarify whether the two definitions are mutually exclusive (that is, use of 'public sector entity' in the definition of a joint defined benefit plan should be read only in the singular) or whether a plan may meet both definitions. If the Board takes the latter view, this should be clarified in the standard, for example, by changing the definition to "A joint defined benefit plan is a contractual agreement between one or more public sector entities, or parties representing one or more public sector entities, and other parties representing plan participants that has all....".

We observe that in relation to the proposed PS 3251, the multi-employer plan guidance would apply first in order to determine whether defined benefit accounting can be applied by the public sector entity, and that only if defined benefit accounting is applied would the guidance on risk sharing that is applicable to joint defined benefit plans become relevant. However, we also note that phase two of the planned employee benefit project will provide additional guidance for non-traditional plans, and this should consider how entities that are multi-employer plans with

characteristics of joint defined benefit plans should apply any future guidance. We further note that phase two may require modifying the definitions in the glossary or adding types of plans in order to adequately address the need for additional guidance in this area. We encourage the Board to consider how the two phases will interlink and allow for preparers to be able to implement all the changes concurrently if they are significantly affected by both phases.

3. ***Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a postemployment benefit plan? Please explain.***

We believe this question is best answered by preparers.

However, we note that the response will also depend on which plans are classified as "defined benefit plans that share risks between public sector entities under common control", which we believe is not clear, as set out in our response to Question 2. For such plans that are classified as sharing risks between public sector entities under common control, this could be a change in practice if there are arrangements within the group for recharges of defined benefit obligation cost.

4. ***Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?***

We note the definition of category-wide plans are "plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation". Based on our experience, we are not aware of any such plans in our client base that cover all entities in a particular economic category in Canada.

5. ***Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.***

As noted in our response to Question 2, it is unclear whether some plans will be categorized as multi-employer plans or as defined benefit plans that share risks among entities under common control.

In our experience there are some multi-employer plans where there are distinct groups of employees that do not move between the participating employers of the plan. In these cases, where both the active and inactive members can be associated with a particular employer throughout their participation in the plan, and a reasonable allocation of plan assets to each participating entity can be obtained, we believe there may be circumstances when there is sufficient information available for the public sector entity to apply a defined benefit model, even though they ultimately share actuarial and investment risks with the other entities in the plan. Such situations where there is sufficient information is rarely seen in practice, however.

More commonly we see multi-employer plans where members may, and frequently do, move between participating employers in the plan. We believe this makes it significantly more difficult to obtain sufficient information regarding the share of the plan that should be attributed to any individual participating employer. In addition, we observe that proposed PS 3251.035 (a) notes that if there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan, there would not be sufficiently reliable information for accounting purposes. We believe there are a number of situations where it may be challenging to provide a consistent and reliable basis for allocating the net pension cost and funding position to an individual participating employee. For example, the deficit is funded based on active members at the time the increased contributions are determined. As such, the actual share of any deficit that is related to past service of active or retired members is not necessarily paid by the entity that employed that member at the time the past service was provided. In addition, applying defined benefit accounting for the costs of the benefits promised to an individual that has moved between entities over his or her career can be complex.

Therefore, unless the multi-employer pension plan administrators themselves determine they can provide sufficient information that also provides a consistent and reliable basis for allocating the information to participating employers, we believe this will not result in a significant change in accounting for most participating employers in existing multi-employer plans. We believe, however, that some new plans being developed may be impacted where the necessary information could be gathered and may be sufficient and reliable enough to result in DB accounting by participating employers.

6. ***Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount postemployment benefit obligations? If not, why?***

Yes, we believe it is sufficiently clear.

7. ***Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.***

Yes, we agree with the approaches proposed in the context of the proposed standard as a whole. We believe the proposed solution represents a compromise between the established concept that time value of money for a liability should factor in only the risks specific to that liability and consideration that the liability may be economically matched by assets that fund that liability. Overall, we agree the proposed approaches allow for consistency across the Canadian public sector for similar funding circumstances. However, we have concerns that the application of the guidance in paragraph 118 may not be applied consistently. The basis of conclusions paragraph 50 explains the Board intends judgment to be applied as to specific methodology. However, we also note there is useful guidance within the basis of conclusions that we suggest should be included in the standard to drive a more consistent interpretation of the guidance. Specifically, the reference to a deep market of established provincial government bonds, and that the objective is to use rates that are comparable across entities without regard to entity specific factors.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

No.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

No.

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

We believe that a model that recognizes revaluations in surplus and deficit provides better accountability to governments on the ultimate cost of defined benefit promises over time. However, we acknowledge that recognizing revaluations in net assets without subsequent recognition is consistent with other accounting standard setters such as IPSAS and IFRS and can provide useful information regarding the changes to the net defined benefit asset or liability over time while allowing to present the complete position of a defined benefit plan at the statement of financial position reporting date.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and

losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

We agree that the proposals may result in increased volatility in debt as compared to the current approach in PS 3250. In our view, allowing or requiring preparers to separately present revaluations that have been recorded directly in net assets during the year and cumulatively would provide useful information to readers of the financial statements. We observe that under the proposed PS 1202 including the removal of the statement of changes in net debt, there are more limited options available to present the impacts of revaluations on net debt.

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

The proposed changes to the discount rate may significantly change the net interest cost and the current service cost for a defined benefit obligation compared to the current Section PS 3250. The proposed standard also requires that revaluations are recognized outside of surplus or deficit and, based on proposed Section PS 1202 would be recognized and accumulated in "accumulated other component of net assets". A full retroactive application of the proposed standard would require an entity to determine what is the appropriate split between the accumulated other component of net assets and the accumulated surplus/deficit. This may be extremely costly to determine and would not add significant value to users. We suggest that a modified retroactive approach be available. Under this approach a net defined benefit liability or asset would be measured in accordance with the new standard as at the opening balance sheet date, and any adjustment between the previous carrying value of the net defined benefit liability or asset (if any) would be recorded as the opening balance of the accumulated other component of net assets (or equivalent category depending on the finalization of PS 1202).

If our suggested modified retrospective method is accepted by the Board, we note that the provision in paragraph 202 (a) would be unnecessary.

We support the inclusion of the provision in paragraph 202 (b) to not present comparative information in relation to sensitivity disclosures for the comparative period.

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes.

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

We believe that the proposal to remove the deferral of actuarial gains and losses and market-related asset smoothing will improve the understandability of financial reporting of the employee benefit asset or liability, as the asset or liability presented on the balance sheet will be a truer representation of the asset or liability as at the balance sheet date.

We also believe that a consistent approach to determining a discount rate will provide more comparability between similar entities and this will increase the understandability of financial reporting across the sector as the asset or liability presented on the balance sheet will be a more fair representation of the asset or liability as at the balance sheet date.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

We believe this question is best answered by preparers of financial statements.

We would be pleased to respond to any questions you might have. Questions can be addressed to Lucy Durocher (lucy.durocher@pwc.com), or Michael Walke (michael.walke@pwc.com).

Yours very truly,

Chartered Professional Accountants

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November 30, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric:

Re: PSAB Exposure Draft: Employee Benefits, Proposed Section PS 3251

We would like to thank the Public Sector Accounting Board for the opportunity to comment on the exposure draft (ED) *Employee Benefits, Proposed Section PS 3251.*

The Government of Manitoba (GOM) agrees with most of the proposed section, and is responding to this ED on behalf of all of Manitoba's government reporting entities. However, the GOM does not agree with the revaluations of the net defined benefit liability (asset), which include actuarial gains and losses. These are recognized immediately on the statement of position within the net defined benefit liability (asset); and the accumulated other component of net assets. Further, the revaluations of the net defined liability (asset) are not "recycled" to surplus and deficit in a subsequent period.

As requested we have responded to the questions in the ED. Should PSAB have any comments or questions, please contact me at 204-471-5760 or via e-mail: Andrea.Saj@gov.mb.ca, Treasury Board Secretariat, Office of the Provincial Comptroller.

On behalf of the Government of Manitoba,

Yours truly,

Andrea Saj, CPA, CGA
Provincial Comptroller
Province of Manitoba

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

   The scope of the standard would seem to be comprehensive and clear.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

   The definition contained in the Glossary help in applying the proposals as outlined in the Exposure Draft.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a postemployment benefit plan? Please explain.

   No. The GOM already accounts for its civil service pension plan in this manner. The plan is extended to most of the controlled entities. The GOM accounts for the plan as a defined benefit pension plan while most of the controlled entities account for the plan as a defined contribution. This is guidance that will be quite helpful to the GOM.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

   We do not believe that the guidance on category-wide plans are relevant to the public sector in Manitoba as we do not have any.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

   No, it would not change the accounting for any of our multi-employer plans.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount postemployment benefit obligations? If not, why?

   Sections .105 .110 are clear and sufficient to determine the funding status of a plan. However this sounds like an actuary would be required at an early stage to determine the funding status and determine the proper discount rate.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

   The GOM agrees with all 3 approaches but determining the discount rate for a partially funded plan will require the assistance of an actuary at an early stage of the Public Accounts. The work of the actuary will have to be completed sufficiently early to permit the completion of the pension file.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

   The challenge will be determining a single discount rate that reflects the period's plan assets are projected to be greater than the projected benefit payments and the period the balance of the assets are not projected to be greater than the projected benefit payments. It may be best to include the determination of a single discount rate as part of the actuary report.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

   I believe that it will be a challenge to determine the discount rate for unfunded plans. The section recommends using a discount rate equal to the market yields of provincial government bonds. It is not clear if you should use your jurisdiction's bonds, or another province, or possibly a pool of bonds.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs

PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

No, the GOM does not agree with the proposal that the reevaluations on the net defined benefit liability (asset) without subsequent recognition in the surplus or deficit. This appears to be inconsistent with the new proposed conceptual framework which features *accountability and transparency as key characteristic. The net defined benefit liability (asset) is correct. But under the proposed section the full pension expense is not being correctly reflected in the statement of operations.*

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

    Net debt is one of the primary financial performance measures that GOM has used annually in the Public Accounts and quarterly forecasting. Volatility of the net debt due to accounting entries is quite concerning to GOM. Our preference would be to highlight the actuarial gains and losses on the Statement of Remeasurement Gains and include a line item in the Statement of Change in Net Debt and we would likely include an explanatory schedule to the financial statements in Public Accounts. This accounting treatment presents a significant challenge when explaining results to the public and the legislature as the major users of the financial statements. It forces an accounting discussion with non-accountants, and introduces confusion for those trying to understand government's performance.

    GOM's concurs with reflecting the "correct" pension expense in the audited financial statements. The GOM actuarial gains and losses for all pension plans combined was not significant when compared the effects of the financial instruments standard on net debt, however the impacts of the new standard and the potential volatility materiality are unknown at this time. The GOM believes for the sake of accountability and transparency, actuarial gains and losses should be expensed immediately to operations, rather than parked in net financial assets.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

    The GOM agrees that the prior balances should be restated. However, the disclosures on the sensitivity analysis for the periods prior to the implementation on April 1, 2026 need not be disclosed.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

    The illustrative examples in the section are helpful and cover many possible situations under the standard.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

    No, the GOM does not believe that this proposed section will improve the general public's understanding on reporting on employee benefits. If anything this new section may create more misunderstanding as the reported pension expense may be consistent, but the net defined benefit liability may be volatile.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

    No, the GOM does not believe that the proposed section would affect decision making for employee benefits. The pension expense will likely be consistent with the budget from year to year, but the general public and elected officials will not be able to properly evaluate or understand the government's management of pensions.

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Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Puskaric:

SUBJECT: Employee Benefits, Proposed Section PS 3251

Thank you for the opportunity to comment on the Exposure Draft (ED) *Employee Benefits, Proposed Section PS 3251*. Our responses to the specific questions to which we would like to express our views are provided in Appendix A below.

In addition to our responses to the specific questions posed, we noted various issues with the proposed guidance related to:

- Other long-term benefits

  We find the rebuttable presumption in paragraph PS 3251.177 too restrictive, as it applies only to long-term disability payments. The Government of Canada sponsors different types of other long-term benefits that are subject to the same degree of uncertainty as the measurement of post-employment benefits. Some of the benefit plans include both disability and other future benefits. Consequently, we recommend that the rebuttable presumption be expanded to include all types of other long-term benefits. This would increase consistency with respect to the application of the measurement basis and improve understandability for users of the financial statements.

- Accumulated sick leave entitlements (not expected to be settled within 12 months)

  We believe that certain issues encountered in the measurement of accumulating non-vesting sick leave benefits were not addressed by PS 3251, where the benefits are not expected to be settled within 12 months. There is only one actuarial valuation method, the projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method), that is identified in PS 3251.064 and PS 3251.075. The Government of Canada uses another methodology, an accrued benefit method (sometimes known as an accumulated unit credit method), to measure the sick leave entitlements accumulated by its employees. This results, in our opinion, in an obligation that better reflects the substance of the sick leave arrangement, the way that sick leave benefits are earned and the balance of accumulated sick leave entitlements at the measurement date. We encourage PSAB to provide more fulsome guidance that would support the use of a methodology other than the projected unit credit method to measure accumulating non-vesting sick leave benefits. Additional

guidance to estimate future usage of sick leave entitlements, such as the last-in first-out (LIFO) methodology recommended in IFRS's basis for conclusion, should be included either in the standard or PSAB's basis for conclusion.

- Plan amendment, curtailment and settlement

  Paragraph PS 3251.126 requires an entity to recognize past service cost when the plan amendment or curtailment occurs, and paragraph PS 3251.133 requires an entity to recognize a settlement gain/loss when the settlement occurs. In addition, paragraph 3251.145 requires an entity to determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to revalue the net defined benefit liability (assets).

  We disagree with the proposed guidance as there could be numerous in-year valuations and cost adjustments. For example, a benefit change could be tied to the collective bargaining process and, for an entity that has numerous bargaining agents, a new actuarial valuation would be required each time a collective agreement reflecting the benefit change is signed during the year. Also, the settlement of a benefit could occur over a period of time during the fiscal year which would make the measurement as of a specific date difficult. These revaluations and adjustments require significant time and resources. Therefore, we encourage PSAS to consider a simplified and more practical approach to account for the cost of benefit changes, such as the one stated in the current standard PS 3250.066 ("The cost of plan amendments related to prior period employee services should be accounted for in the period of the plan amendment").

- Short-term paid absences

  The cost of non-accumulating sick leave, short-term disability, maternity or paternity leave and jury duty is to be recognized when the absences occur. Per paragraph PS 3251.017, the underlying principle for this accounting treatment is that employee service does not increase the amount of the benefit.

  We agree with the accounting treatment for short-term non-accumulating paid absences. However, we believe the underlying principle is not well explained and is inconsistent with the principles of long-term disability benefits where benefits are accrued on an event driven basis. Per paragraph PS 3251.181, "if the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability". We encourage PSAB to review the underlying principle, resolve the inconsistency, provide better explanation and, if necessary, review the guidance for the recognition of short-term paid absences.

  To avoid any confusion regarding sick leave entitlements, we recommend that the example provided in the short-term employee benefits section paragraph PS 3251.016 be deleted ("For example, a sick leave obligation is likely to be material

only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave"). The Canadian experience could be different for short-term benefits since it has been demonstrated that the long-term obligations related to accumulated sick leave entitlements were material in many instances.

- Disclosure

We find the disclosure requirements to be quite extensive for post-employment benefits. We feel excessively long disclosures affect the understandability of the financial statements. We have noted that this is a trend with current standards and recommend that PSAB consider more broadly the level of disclosures that are warranted in a public sector entity's financial statements.

We disagree with the proposed disclosure on the discount rate basis outlined in paragraph PS 3251.161(d), specifically regarding:

(i) The relevant supporting information for the determination of the funding status of the plan; and

(ii) The key assumptions and estimates used in the projection of the plan assets balance and projected benefit payment amounts.

We believe this information to be important for the preparation of the financial statements but too detailed to be disclosed in the notes to the financial statements.

If you have any further questions related to these comments, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at Diane.Peressini@tbs-sct.gc.ca (613-301-1057).

Yours sincerely,

Diane Peressini, FCPA FCA
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roch Huppé, Comptroller General of Canada

Monia Lahaie, Assistant Comptroller General, Financial Management Sector

APPENDIX A

Responses to Questions Posed

Purpose and scope

1. *Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.*

   We find that the scope of the standard is not clear and suggest the following clarifications:

   - In our opinion, it should be clearly outlined in the scope of PS 3251 that this standard does not deal with benefits provided by the Canada Pension Plan (CPP) which operates in all parts of Canada except Québec, and the Québec Pension Plan (QPP), as they are compulsory and contributory social insurance programs.

     We believe this statement would help avoid any confusion that may be caused by paragraph PS 3251.005 (b) which states that "the employee benefits to which this Section applies include those provided… under legislative requirements, or through industry arrangements, whereby public sector entities are required to contribute to national, provincial or territorial, municipal, industry, joint defined benefit plans or other multi-employer plans".

     We also believe this statement would help streamlining and clarifying the description of what category-wide plans are or are not in PS 3251.044.

     We noted that the IPSAB clearly mentions what is not included in the scope of IPSAS 30 Employee Benefits. In particular, paragraph #3 states that "this Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities".

     Consequential changes should be made to replace references to "public pensions" by "social benefit programs such as the CPP/QPP", in PS 3251.091(e) and 3251.099.

   - In our opinion, accumulating sick leave entitlements (not expected to be settled within 12 months) should be included in the list of examples provided for other long-term employee benefits in paragraph PS 3251.006 (c) and 3251.175.

     We believe the example is relevant for the Canadian public sector. The Government of Canada's accrued benefit obligation for accumulated sick leave entitlements amounted to $2,060 million as at March 31, 2020.

Glossary

2. *Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?*

   Yes, the definitions contained in the Glossary help to interpret and apply the standard.

   To avoid any confusion, we recommend the text in paragraph PS 3251.063 be aligned with the definition of "assets held by a long-term employee benefit fund" contained in the glossary. Consequently, the text at the end of the first sentence in PS 3251.063 should reflect the following wording "from which the employee benefits are paid <u>or funded</u>".

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. *Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.*

   Not to our knowledge.

4. *Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?*

   Yes, the guidance on category-wide plans is relevant for the Canadian public sector. The public service pension plan sponsored by the Government of Canada falls under this category as it covers substantially all the employees of the federal public service, as well as certain Public Service corporations as defined in the *Public Service Superannuation Act* and territorial governments. Note that territorial governments are not controlled by the federal government. Therefore, the guidance would be applicable to all entities participating in the federal public service pension plan.

   In our opinion, the definition or scope of category-wide plans provided in paragraph PS 3251.044 should be revised and clarified. As mentioned in our response to Question #1, we believe that clearly stating the exclusions in the Purpose and Scope Section of the standard would help to streamline and clarify the definition of category-wide plans.

   In our opinion, the guidance provided in paragraphs PS 3251.043, .045 and .046 could be clearer. The first step in determining the proper accounting treatment is to classify a category-wide plan as a defined contribution plan or a defined benefit plan under the terms of the plan. The second step, which applies only to defined benefit plans, is crucial and considers whether the entity has an obligation to pay future benefits or not. The third step is the recommended accounting treatment under the circumstances. Therefore, we believe references to accounting for multi-employer

and defined contribution plans should be included only in the third step and not presented as the first element of the guidance for category-wide plans.

The Government of Canada reports the accrued benefit obligation for the federal public service pension plan as a whole, which includes the obligation pertaining to employees of entities that are not controlled by the Government of Canada. The participating entities, other than the plan sponsor, account for their participation in the public service pension plan on a defined contribution basis.

Therefore, we believe the terminology used in paragraph 3151.046 should be revised. The term "controlled entity" should be replaced by "participating entities" as not all participating entities are controlled by the plan sponsor and to ensure consistency with other sections of the standard. The term "controlling entity", which refers to the sponsor, should be revised.

5. *Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.*

   The Government of Canada does not have multi-employer plans.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. *Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?*

   We believe PSAB needs to reconsider its guidance on assessing the funding status of a plan for the purpose of identifying the appropriate discount rates. Our comments are as follows:

   - As mentioned in paragraph PS 3251.110, "a fully funded post-employment benefit plan may not consistently have 100 percent of the benefit obligation funded. Given the long-term nature of benefit obligations, temporary funding shortfalls may imply a short-term change in a plan's funding status…".

     The legislations applicable to the defined benefit pension plans sponsored by the Government of Canada recognize that fact. They require a funding shortfall, derived from a triennial actuarial valuation prepared for funding purposes, to be amortized over a period of fifteen years or less from the date the actuarial funding report is tabled in Parliament.

Consequently, we believe that the order of the two-step assessment approach outlined in paragraphs PS 3251.107 and 3251.109 of the standard should be reversed.

- The first step should be the presentation of persuasive evidence to support a fully funded status classification, even in the case of funding shortfalls. The classification should respect the intent behind the pension plan and the funding policy, as well as the legislative requirement to fund shortfalls over a reasonable period. The ability to use the same discount rate methodology (the expected market-based rate of return on plan assets) over time would bring some level of stability and improve understandability of the information for users of the financial statements.
- The second step would only be required if the fully funded status classification could not be supported by persuasive evidence. The second step would entail going through detailed calculations to assess the funding status. Detailed calculations require significant time and resources and, therefore, should only be required at a later stage and as applicable.

- We believe the wording used in paragraph PS 3251.110, to outline the factors to be considered when gathering persuasive evidence to support a fully funded plan classification, should be less prescriptive and more principles based allowing for the use of professional judgment. Items (b)(i) corrective actions, (ii) accuracy in assessing historical fluctuations and (iii) historical actions should be provided as examples instead of criteria that must be met. Also, there must be room for reasonable variation when assessing projections as projections are based on assumptions; the terms "accuracy/accurately" seems to be in contradiction with this concept. Furthermore a requirement to be assessing the accuracy of estimates can be onerous and costly to perform with minimal added value to the ultimate users of the financial statements. Therefore we question if it is in the public interest have prescriptive requirements to assess accuracy of historical fluctuations.

- The standard requires an annual assessment of the plan's funding status.

  We agree that a periodic assessment should be made but we believe the timeframe should be more reasonable. A timeframe of 3, 4 or 5 years should be considered. For example, the timeframe for the assessment could be aligned with the one for the actuarial valuation for funding purposes. There are costs incurred, for example actuarial time, for annual funding assessment which given the long term nature of pension plans is not an effective use of public money given the many competing priorities of governments.

- Paragraph A32 in the example states that "the assumptions used in determining the projected benefit payments are consistent with the

assumptions used to determine employee and employer contributions based on payroll for current members".

Employee and employer contributions are derived from the actuarial valuation for funding purposes, which in turn is based on a different set of assumptions. Therefore, the current text creates some confusion. We suggest stating that the assumptions used in determining the projected benefit payments be internally consistent and, therefore, align with the assumptions used to determine the accrued benefit obligation at the end of the reporting period.

- Paragraph PS 3251.107 states that "the projected plan assets balance would include projected cash flows related to current plan members … (e.g., contributions for current plan members in each projected future period)". The approach is mentioned again in paragraph A33 of the example which states that "cash inflows relating to projected contributions for current plan members, made by both the employees and employer," are included in the balance of plan assets.

  The reasoning for the inclusion of future contributions in the balance of plan assets when determining the funding status of the plan is not explained. We believe this approach is inappropriate. Future contributions relating to future services should not be included in plan assets as future services are not part of the accrued benefit obligation at the end of the reporting period. However, future contributions relating to past services (sometimes known as special funding payments) should be included in plan assets.

- As previously mentioned, the detailed calculations are costly and time consuming. Maybe, the actuarial valuations for funding purposes could be used in some way or leveraged for the assessment of the funding status required in PS 3251.

7. *Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.*

   We agree with the proposed discount rate approach for fully funded plans.

   We agree with the principle behind the proposed discount rate approach for partially funded plans. However, we believe some nuances are required in practice. There is a big difference between a plan that is 90-95% funded and is intended to be fully funded versus one that is 60% funded and is never intended to be fully funded. The nuances would be important in cases where there are differences of opinion amongst preparers and auditors as to the persuasive evidence that exists to rebut a presumptive partially funded status. Also, the difference in the accrued benefit obligation of using a single discount rate approach versus a two-discount rate approach may not be material. The added complexity and cost of using a two-

discount rate approach may not result in more relevant information, may reduce the understandability of the financial reports, and will be more costly to implement.

We do not agree with the proposed discount rate approach for unfunded plans for the following reasons:

- In our opinion, risk-free rates are the most appropriate discount rates to reflect the time value of money. There is a deep market in Government of Canada bonds which many consider to be the most risk-free debt instruments. Provincial government bond rates incorporate the credit risk of the issuer and these rates tend to be higher than Government of Canada bond rates. We also noted that the use of risk-free based discount rates is aligned with IPSAS.
- The Government of Canada currently uses risk-free rates derived from Government of Canada bonds to measure its unfunded benefit obligations. Changing the discount rate approach to one based on provincial bond rates would lower the value of these unfunded benefit obligations. It would also create inconsistencies where the Government of Canada uses a present value technique to measure environmental liabilities, asset retirement obligations, provision for contingent liabilities, capital leases and loans receivable.
- Paragraph 88 in IPSAS 39 *Employee Benefits* states that "an entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high quality corporate bonds, or by another financial instrument". The discount rate is expected to represent a risk-free rate, but the guidance is non-specific to allow for jurisdictional differences, such as the presence or absence of a deep market in government or corporate bonds.
- IFRS guidance refers to high quality corporate bonds whereas PSAS 3251.118 refers to provincial government bonds in general and makes no mention of any quality level in its requirement. Paragraph 50 in PSAB'S basis for conclusions states that "the Board did not prescribe a single curve or specific methodology that would be applied to all public sector entities in order to allow public sector entities to use their professional judgment in determining the appropriate basket of provincial government bonds that reflects the circumstances of their post-employment benefit plans". However, as entity-specific credit risk is not to be reflected in the discount rate, we believe PSAS should specify the quality level it requires for provincial government bonds. This clarification would improve comparability between entities within the public sector. It should be noted that Government of Canada bonds are considered high quality.
- Paragraph 50 in PSAB'S basis for conclusions also mentions that discount rates determined by reference to provincial government bonds achieve comparability as the rates are "not impacted by public sector entity-specific factors and closely approximates the cost of borrowing available for most

public sector entities". Note that provincial government bond rates do not reflect or approximate the Government of Canada's cost of borrowing.

For the reasons stated above, we believe that PSAS 3251 should allow an entity to establish its discount rates by reference to federal or high quality provincial bonds.

8. *Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.*

The detailed calculations currently required to assess the funding status of a plan at year-end are time consuming and, therefore, will put additional pressure on already very tight timelines to produce financial reports. Furthermore, the additional resources required for minimal additional value do not warrant the investment. Proposed modifications to the guidance are outlined in our response to Question #6. Note that we are not able to provide further comments at this time as we have not performed the calculations.

Revaluations on the net defined benefit liability (asset)

10. *Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.*

We agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit, with one exception. We believe that the accumulated impact of revaluations should be recognized in surplus or deficit when the plan ends or ceases to exist. When a plan no longer exists, there is no corresponding net defined benefit liability (asset) recognized in the statement of financial position and, therefore, there is no need to keep track of the related revaluations in accumulated other component of net assets. The recognition of the accumulated revaluations at the end of a plan would have accountability value and improve the understandability of the financial statements.

Transition provisions

12. *Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?*

We agree with the proposed transition provisions to apply PS3251 retroactively.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

We find that the illustrative examples provided in the Appendix are not sufficient and suggest adding an example on the actuarial valuation method and attribution of benefit to periods of service for non-vesting accumulating sick leave entitlements. We suggest PSAB refers to paragraphs BC25 to BC27 in the Basis for Conclusions on IAS 19 *Employee Benefits* (incorporating editorial corrections at March 2015).

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Yes, we believe that applying the proposals would improve the overall understandability of financial reporting on employee benefits. Recognizing the full accrued benefit obligation and fair value of plan assets and, thereby, eliminating deferrals, presents amounts that are relevant as they have accountability value, are more comparable and are more understandable to users. However, relevance may be compromised given the lack of predictive value due to the resulting volatility in the statement of financial position, particularly affecting the net debt indicator. Also, the complexities of having different discount rates for a partially funded plan could reduce the relevance and understandability of the information. Furthermore, aligning with the practice in the private sector and various other public sector accounting frameworks will result in financial statements being more comparable to others, thus also more understandable to users.

Service des finances
Direction de la comptabilité et des informations financières
630 René Lévesque Ouest, 3è étage
Montréal (Québec) H3B 1S6

PAR COURRIEL

Le 25 novembre 2021

Monsieur Michael Puskaric, MBA, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Objet : Commentaires sur l'exposé-sondage intitulé « Projet de chapitre SP 3251, « Avantages sociaux » »

Bonjour M. Puskaric,

Même si la ville de Montréal participe aussi au groupe de travail technique Secteur public – comptabilité dans le secteur public de l'Ordre des comptables professionnels agréées du Québec, nous avons décidé quand même de réponse à l'exposé-sondage intitulé « Projet de chapitre SP 3251, « Avantages sociaux » » étant donné les impacts financiers majeurs que cet exposé sondage pourrait apporter sur les finances de la Ville de Montréal.

Veuillez agréer, Monsieur Puskaric, mes meilleures salutations.

Raoul Cyr CPA,CA
Directeur

RC/rk

p. j.
c. c.

Objet et champ d'application

1. Trouvez-vous que le champ d'application (paragraphes SP 3251.004 à .008) de la norme proposée est clair? Dans la négative, veuillez décrire les situations pour lesquelles le champ d'application manque de clarté.

Le champ d'application proposé nous paraît clair, à l'exception de certains termes ou notions abordées dans celui-ci pour lesquelles des précisions seraient nécessaires.

Ainsi, l'inclusion à l'alinéa .006 a) i des salaires et cotisation de sécurité sociale dans le champ d'application semble indiquer que ces types d'avantages sociaux pourraient être considérés ultimement comme des avantages sociaux futurs alors qu'ils ne le sont pas actuellement et représentent plutôt des charges courantes. Cela nous amène à nous interroger sur la volonté du CCSP de changer le champ d'application de la norme SP 3255.

Aussi, au paragraphe .006 c) ii, nous pensons que l'ajout d'un exemple de ce que sont les "autres avantages liés à l'ancienneté" améliorerait la compréhension de ce paragraphe.

Glossaire

2. Les définitions qui figurent dans le glossaire facilitent-elles l'interprétation et l'application de la norme proposée dans le présent exposé-sondage? Dans la négative, quelles autres précisions ou définitions serait-il nécessaire d'ajouter?

Nous sommes d'avis que les définitions présentées ci-dessous devraient être présentées au glossaire plutôt qu'aux paragraphes dans lesquels ces derniers sont précisés. Ces définitions sont les suivantes:

- "*Salarié*" présentée au paragraphe .008.
- "*Régimes multi-employeurs*" et "*régimes à administration groupée*" (aussi appelés régimes à employeurs multiples) mentionnées au paragraphe .037.
    - Il est à noter que les termes « multi-employeurs » et « à employeurs multiples » sont très similaires. Une précision dans le glossaire de ces termes avantagerait le lecteur.
- La section sur les régimes multi-employeurs, aux paragraphes .031 à .038 n'exclut pas spécifiquement les régimes sous contrôle commun, contrairement à la définition. Nous pensons que celle-ci manque de clarté et gagnerait en précision si un arbre de décision permettait leur classification.
- Le « *coût des services passés* » présenté au paragraphe .125.
- "*Régime pleinement capitalisé*" présenté au paragraphe .108.

Actifs détenus par un fonds d'avantages à long terme – actifs (autres que des instruments financiers non transférables émis par l'entité du secteur public)

Selon les exigences du paragraphe .137, les "actifs du régime" sont composés des actifs détenus par un fonds d'avantages à long terme ainsi que des contrats d'assurance éligibles.

Les “actifs détenus par un fonds d’avantages à long terme”, quant à eux représentent des actifs autres que des instruments financiers non transférables émis par l’entité du secteur public. Cette dernière définition est problématique car plusieurs villes, à l’instar de Montréal, ont émis des obligations dans le passé afin de financer les cotisations aux régimes de retraite. Cette nouvelle définition aurait donc comme conséquence de ne pas permettre la catégorisation de ces régimes comme des régimes partiellement ou pleinement capitalisés. Ce qui aurait comme conséquence de comptabiliser ces instruments au coût plutôt qu’à leur juste valeur ou à totalement les exclure des états financiers du régime. De plus, cette façon de faire aurait un impact important sur les taux d’actualisation à utiliser, car bien que cette pratique ne soit plus permise, la majorité de ces obligations sont toujours détenues dans ces régimes et arriveront à échéance dans plusieurs années. À titre illustratif, la Ville de Montréal gère 4 régimes de retraite de ce type totalisant 184 556 000$ et échéant en 2043, et un autre régime de 119 174 000$ échéant en 2045.
Finalement, il n’est pas impossible qu’une telle pratique redevienne permise dans le futur afin d’aider les municipalités à financer leurs régimes de retraite. Par conséquent, la valeur de ces obligations fait partie des actifs des régimes et doit être considérée dans la détermination des actifs d’un régime.

Avantages postérieurs à l’emploi – Régimes à prestations définies
Indications concernant le taux d’actualisation

6. Les indications à suivre pour l’appréciation de la situation de capitalisation d’un régime afin de déterminer le taux qu’il convient d’appliquer pour actualiser les obligations au titre des avantages postérieurs à l’emploi (paragraphes SP 3251.105 à .110) sont-elles suffisamment claires et détaillées? Dans la négative, pourquoi?

Les indications aux fins de déterminer si un régime de retraite est entièrement capitalisé ou partiellement capitalisé nous apparaissent floues et sujettes à interprétation. Un régime à prestations définies enregistré auprès d’une autorité législative provinciale ou fédérale et soumis à des exigences de financement devrait être considéré en tout temps comme un régime pleinement capitalisé. Par exemple, au Québec, les promoteurs de régimes enregistrés auprès de l’organisme réglementaire Retraite Québec sont tenus de verser des cotisations d’équilibre afin de financer les déficits actuariels existants selon des règles établies et doivent mettre en place une politique de financement à cet égard.

Bien que l’alinéa SP 3251.110 apporte certaines précisions quant à la détermination de la situation d’un régime, il nous apparaît qu’une grande subjectivité demeure afin de déterminer si un régime est pleinement ou partiellement capitalisé. Qui plus est, l’alinéa SP 3251.110 ne fait pas état des cotisations d’équilibre pour financer les déficits qui peuvent être requises par les participants (et non le promoteur), ce qui est le cas pour les régimes municipaux au Québec à la suite de l’adoption en 2014 de la *Loi favorisant la santé financière et la pérennité des régimes de retraite à prestations déterminées du secteur municipal*.

Aussi, pour les régimes non capitalisés, il est proposé l’utilisation du taux des obligations provinciales sans cependant préciser s’il s’agit du taux d’une seule province en particulier, de plusieurs provinces ou de l’ensemble des provinces. Par ailleurs, les motifs du choix du taux des obligations provinciales en lieu et place des autres types d’obligations (fédérales ou municipales par exemple) ne sont pas explicités ou clairement indiqués. Nous nous questionnons sur la

pertinence par exemple d'utiliser le taux d'obligations transigées activement sur un marché ou transigées sur un marché actif.

7. Les approches proposées en ce qui concerne le taux d'actualisation à appliquer aux régimes entièrement capitalisés (paragraphes SP 3251.111 à .114), aux régimes partiellement capitalisés (paragraphes SP 3251.115 à .117) et aux régimes non capitalisés (paragraphes SP 3251.118 à .120) vous conviennent-elles? Dans la négative, veuillez préciser l'approche qui vous pose problème, avec motifs à l'appui.

Nous sommes d'accord avec les approches proposées dans le cas des exigences en ce qui concerne le taux d'actualisation à appliquer aux régimes entièrement capitalisés. Cependant, il conviendrait de définir adéquatement et au préalable ce qu'est un tel régime comme nous le précisons à la question 2.

Par ailleurs, suivant notre précédent commentaire au point 6, il nous apparaît évident qu'un régime à prestations définies, sujet à des exigences de financement d'un organisme législatif provincial ou fédéral ne devrait pas devoir modifier sa façon de calculer le taux d'actualisation d'une année à l'autre selon la situation financière de capitalisation du régime. En effet, une telle pratique entraînerait des fluctuations importantes au taux d'actualisation utilisé et par le fait même, aux éléments du coût des services rendus et de la charge d'intérêts compris dans le coût des prestations définies, augmentant la volatilité de la charge de retraite d'une année à l'autre.

Finalement, nous sommes d'avis que l'Institut canadien des actuaires (ICA) dont les membres majoritairement mis à contribution pourrait proposer ou être consulté dans la détermination des taux d'actualisation à utiliser par les organismes du secteur public.

8. Entrevoyez-vous des difficultés relativement à l'approche proposée (paragraphes SP 3251.105 à .110) pour l'appréciation de la situation de capitalisation du régime aux fins de détermination du taux qu'il convient d'appliquer pour actualiser l'obligation au titre des avantages postérieurs à l'emploi? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées aux indications proposées pour atténuer ou éliminer ces difficultés.

Un régime à prestations définies soumis à des exigences de financement prescrites par une autorité législative provinciale ou fédérale devrait être considéré un régime pleinement capitalisé. En outre, si l'objectif des exigences de financement est la pleine capitalisation, le régime devrait être considéré en tout temps comme un régime pleinement capitalisé.

Il devrait être précisé qu'un régime partiellement capitalisé est un régime pour lequel l'objectif de financement n'est pas d'atteindre nécessairement un degré de capitalisation de 100 % ou pour lequel des cotisations additionnelles pour financer entièrement le déficit ne sont pas obligatoires.

9. Entrevoyez-vous des difficultés relativement à l'approche proposée aux paragraphes SP 3251.115 à .117, qui consisterait à appliquer un taux d'actualisation unique dans le cas des régimes partiellement capitalisés? Dans l'affirmative, veuillez expliquer ce qui pourrait causer des difficultés et préciser quelles modifications pourraient être apportées pour atténuer ou éliminer ces difficultés.

Le travail annuel requis pour déterminer le taux d'actualisation unique dans le cas d'un régime partiellement capitalisé nous apparaît laborieux et coûteux. Des balises additionnelles devraient être disponibles pour les promoteurs (entités participantes) afin de les guider dans l'établissement de ce taux selon les caractéristiques de leur régime. De plus, l'exposé-sondage devrait préciser laquelle ou lesquelles des obligations provinciales doivent être utilisées. Par souci d'uniformité dans les hypothèses, si c'est le taux des obligations provinciales qui est retenu, nous pensons que les taux de toutes les provinces devraient être utilisés.

Aussi, si la définition de "régime pleinement capitalisé" ne prend en compte les exigences de financement réglementaire imposé par exemple au Québec, cela impliquerait de réévaluer annuellement ces régimes afin de s'assurer qu'ils ne deviennent pas non capitalisés (partiellement capitalisés). Cela entraînera un surcroît de travail démesuré pour les actuaires et les promoteurs, en plus d'engendrer beaucoup de volatilité dans les résultats des entités et de la difficulté à comparer les régimes entre eux. La préparation des budgets (taxation des citoyens) s'en trouverait grandement complexifiée.

Réévaluations du passif (de l'actif) net au titre des prestations définies

10. Êtes-vous d'accord que les réévaluations du passif (de l'actif) net au titre des prestations définies devraient être comptabilisées dans l'actif net sans être ultérieurement reclassées dans l'excédent ou le déficit (alinéa SP 3251.064d) et paragraphe SP 3251.144)? Dans la négative, veuillez expliquer pourquoi et indiquer comment, selon vous, ces réévaluations devraient être comptabilisées.

Nous comprenons qu'ultimement la somme des réévaluations (gains et pertes) constatée au cours des années tendra à être nulle. L'enjeu principal que nous constatons avec cette mesure est lorsqu'une réévaluation constitue une perte permanente, par exemple lors d'un changement d'hypothèse de mortalité reflétant un accroissement de l'espérance de vie. Dans un tel cas, cette perte, qui devra être financée dans le régime, ne sera jamais taxée aux fins du coût des prestations définies, créant ainsi un manque de liquidité pour la Ville.

Par ailleurs, cette méthode de comptabilisation créera un déséquilibre (écart) entre le financement supplémentaire du régime (par exigence règlementaire) et la taxation des écarts temporaires récurrents.

Dans un autre ordre d'idées, nous nous questionnons quant au traitement des frais d'administration. À l'alinéa SP 3251.154, il est mentionné que dans le calcul du rendement de l'actif, les coûts de gestion doivent être déduits, mais que les frais d'administration ne doivent pas l'être. Par conséquent, le traitement prévu pour les frais d'administration nous apparaît absent à la lecture de l'exposé-sondage.

12. Êtes-vous favorable aux dispositions transitoires proposées (paragraphes SP 3251.200 à .202)? Dans la négative, quels changements apporteriez-vous à ces dispositions et pourquoi les apporteriez-vous?

Basé sur le fait que d'autres normes devront être mises en application au cours des prochaines années, la période proposée par le CCSP pour l'application du chapitre SP 3251 pour les

exercices ouverts à compter du 1er avril 2026, soit l'exercice 2027 pour les municipalités est idéale.

Pour les municipalités du Québec, comme nous devons déposer nos rapports financiers via une plate-forme électronique standard à l'ensemble des municipalités du Québec, il sera très difficile pour une municipalité d'appliquer cette nouvelle norme de façon anticipée si l'ensemble des municipalités n'optent pas pour cette orientation.

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December 15, 2021

VIA https://www.frascanada.ca
Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

RE: Public Sector Accounting Board ("PSAB" or the "Board") Exposure Draft: Employee Benefits, Proposed Section PS 3251 (the "Exposure Draft")

Dear Mr. Puskaric:

Our comments to the specific questions posed in the Exposure Draft are included below alongside some additional technical comments at the end of this letter.

Comments on Specific Questions Posed in the Exposure Draft

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

Responses:
In our view, the definitions included in the Glossary help with the interpretation and application of the standards.

We noted that the plan assets are now defined as ***"Assets held by a long-term employee benefit fund** are assets (other than non-transferable financial instruments issued by the public sector entity) that....."*

Explicitly excluding assets that are non-transferable financial instruments issued by the public sector entity has a significant impact for certain public sector plans in Prince Edward Island. More specifically our two largest public sector pension plans use the accounting assets and liabilities to determine the level of conditional benefits and contributions in a given year. If promissory notes are excluded from the accounting assets it will have a real-world impact on the level of benefits and contributions in the plans without any real experience gains or losses. Alternatively, they will have to re-work different pieces of legislation and plan governance documents to facilitate a contribution and benefit policy which maintains the design and objectives which came from our extensive reform process in 2014. This would be an expensive and time-consuming process. It is important that PSAB understands what may be a significant and unintended consequence of the parenthetical language "(other than non-transferable financial instruments issued by the public sector entity)".

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Post-employment benefits – distinction between defined contribution plans and defined benefit plans

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Responses:
We believe that applying the guidance of PS 3251.033 and PS 3251.035 could change the accounting treatment in certain circumstances. PS 3250 generally allows all participating employers to use defined contribution accounting treatment. PS 3251.033 and PS 3251.035 remove the assumption of insufficient information, requiring participating employers to assess what information is available to them, which may in certain circumstances require a change from defined contribution to defined benefit accounting treatment.

We do not necessarily disagree with the guidance of PS 3251.033 and PS 3251.035. However, given the goals of the multi-phased employee benefits project, we believe that it is not the intention of the Board to cause a change in accounting treatment for participating employers of multi-employer plans at this time. It is our understanding that accounting for these types of plans will be addressed in the next phase of the employee benefits project. To avoid the possibility that a participating employer will have to change its accounting treatment for these types of plans during this phase of the employee benefits project and then have to change it again during the next phase of the project, we would suggest adjusting the guidance of PS 3251.033 and PS 3251.035 to allow for the presumption of insufficient information like in PS 3250.109.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

Responses:
We do agree with the proposed recognition of revaluations in net assets without subsequent recognition in surplus or deficit. We believe this is consistent with the International Accounting Standards and removes the volatility in annual surplus or deficit that would have occurred if revaluations were recognized, either immediately or subsequently, in annual surplus or deficit.

However, we would suggest that the recognition of revaluations in net assets without subsequent recognition in surplus or deficit be extended to Other Long-Term Employee Benefits as well. Proposed paragraphs PS 3251.176 to PS 3251.180 require revaluations for Other Long-Term Employee Benefits to be recognized in annual surplus or deficit. PS 3251.177 does allow revaluations for long-term disability benefits to be recognized in net assets rather than annual surplus or deficit if it can be proven that their measurement has the same degree of uncertainty as Post-Employment Benefits. We would suggest that the measurement of other types of Other Long-Term Employee Benefits, such as accumulating vesting or non-vesting sick leave benefits, have a degree of uncertainty similar to, or greater than, long-term disability benefits.

To promote consistency in the treatment of one long-term disability plan to the next, and in the treatment of all Post-Employment and Other Long-Term Employee Benefits plans, we would suggest revising PS 3251.176 to PS 3251.180 to allow recognition of revaluations in net assets without subsequent recognition in surplus or deficit, without the need to prove the degree of measurement uncertainty. Failing this change, the ability to rebut the degree of measurement uncertainty should be extended to more than just long-term disability benefits and guidance around what constitutes proof of the degree of measurement uncertainty would be helpful.

In addition, the treatment of asset ceiling outlined in PS 3251 is not defined as clearly as under PS 3250 when setting limits on carrying amounts of an accrued benefit asset. We believe that to promote consistency in practice, the treatment should be clearly defined.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Responses:
In our view, it is quite possible that the proposals could lead to a change in decision making around employee benefits, due to:

- Increased volatility that can be expected in net assets/debt, entities may look to settle employee benefits or move from defined benefit plans to defined contrition plans, to get the volatility off their books.
- The introduction of a divergence of accounting treatment for Other Long-Term Employee benefits such as Sick Leave

Additional Technical Comments

Classification of Accumulating Paid Absences

The proposed paragraph PS 3251.006 suggests that the difference between Short-Term Employee Benefits and Other Long-Term Employee Benefits is whether or not the benefits are settled within 12 months following the reporting period in which the employee rendered the related services. Accumulating paid absences, both non-vesting and vesting, are typically not settled within 12 months following the end of the period in which they were earned, but rather years later when usage increases due to increased health issues at older ages, or at retirement if a vesting benefit. Changing guidance on accumulating paid absences from the Short-Term Employee Benefits section to the Other Long-Term Employee Benefits section would clarify the accounting treatment of such benefits.

Regards,

Judy Killam, CPA, CGA
Comptroller
Department of Finance
Province of Prince Edward Island

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

January 7, 2022

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

RE: EXPOSURE DRAFT – EMPLOYEE BENEFITS, PROPOSED SECTION PS 3251

Thank you for providing us with the opportunity to comment.

Our Office supports PSAB's project to revise the employee benefits standard with the objective of improving the understandability and accountability value of public sector financial statements in Canada.

We continue to believe the market yield on high quality debt instruments is the most appropriate approach for estimating the value of the accrued benefit obligation, regardless of a plan's funding status. The market yield on high quality debt instruments is based on verifiable, third-party data, effectively reducing subjectivity, limiting opportunities for preparer bias, and promoting comparability between public sector entities. The simplicity of a market observable discount rate is also more transparent and understandable, the latter of which is central to the stated intent of the proposals in the Exposure Draft. The proposal to have the discount rate driven by a plan's funded status adds considerable complexity and annual cost to financial statement preparation in exchange for increased mathematical precision in the determination of the estimated discount rate for partially funded plans. We also see marginal benefit to financial statement understandability in the discount rate proposals compared to the status quo practices under PS 3250.044.

We continue to be supportive of moving away from deferral mechanisms and we believe that the consequences of economic events should be included in a government entity's reported financial results on a timely basis. Deferral accounting under PS 3250 is one of the more challenging aspects of current accounting for employee future benefits that we find is a hurdle for many users' understanding of public sector financial statements. However, we do not support the use of the "accumulated other" component of net assets in accounting for employee future benefits, or more generally the practice of recognizing amounts directly to net assets. In our view, public sector accountability is reduced by accounting principles that allow entities to bypass the annual surplus or deficit by directly recognizing revaluations in net assets.

Notwithstanding our view on the use of "accumulated other" generally, if PSAB ultimately decides to record revaluations on the net defined benefit liability (asset) directly in net assets, we propose a modification to this treatment in our response to Question 10. Our proposed alternative would be for PSAB to consider recording revaluations to net defined

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benefit *liabilities* in annual surplus or deficit and recording revaluations to net defined benefit *assets* (before any asset ceiling valuation allowances) in net assets through the "accumulated other" component.

Lastly, with employee benefits project's shift to the principles in IPSAS 39 (which itself is drawn primarily from *IAS 19, Employee benefits*), we were surprised that this Exposure Draft did not contain detailed guidance for calculating the limit on the carrying value of accrued benefit assets. We believe that direct guidance on this topic should be developed similar to that provided in *IFRIC 14, IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction* for the private sector. The complexity of risk-sharing plans in the public sector, coupled with their strong funding positions and the materiality of these plans to sponsoring governments, make this accounting guidance particularly relevant to the Canadian public sector. From discussions during PSAB stakeholder outreach, we understand that this topic is among those slated for future phases of the employee benefits standard development. We look forward to considering and commenting on this and other topics in future exposure drafts.

Responses to Requests for Specific Comments

Our responses to the specific matters you requested comments on are set out below.

Purpose and Scope

Question 1

Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Yes, the scope of the standard is clear.

Glossary

Question 2

Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

We think the definition of a *joint defined benefit plan* (JDBP) requires clarification. The definition is limited to contractual agreements between public sector entities and other parties representing plan participants. The definition should be expanded to include jointly sponsored defined benefit plans that have been established under legislation and would exhibit the characteristics listed in the remainder of the definition as currently worded. This change would be consistent with paragraph .005(b), which states that the scope of the proposed section PS 3251 includes employee benefits where public sector entities are legislatively required to contribute to joint defined benefit plans.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

Question 3

Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a postemployment benefit plan? Please explain.

No, applying the guidance in paragraphs PS 3251.039-.042 would not result in a change in accounting treatment for our direct involvement in post-employment benefit plans.

We participate in the Public Service Pension Plan (PSPP) which is a defined pension plan for employees of the Province and other agencies. The Province, which is the sole sponsor of the PSPP, determines participating employers' annual contributions into the plan. Under the existing section PS 3250, *Retirement Benefits*, the PSPP is classified as a multiemployer pension plan. As a result, the participating employers follow the standards for defined contributions plans and recognize their annual contributions paid or payable as an expense in their statements of operations. This accounting treatment is consistent with the proposed guidance in paragraph PS 3251.040.

Question 4

Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

We believe that the guidance on category-wide plans would be relevant to the extent that such plans exist in the Canadian public sector. In our role as legislated auditors, we have not observed any public sector entities that participate in a benefit plan that we think would fall neatly under the proposed definition of a category-wide plan. In Ontario, we observe that most benefit plans would fall under the proposed definitions of a defined benefit plan, a multi-employer plan, or a defined benefit plan that shares risks between public sector entities under common control.

In examining the definition of category-wide plans, we noted that there is a specific requirement for such plans to cover all entities in "economic categories" laid down in legislation. We find the term economic categories vague and open to varying interpretation. In practice, some plans may not cover all entities in an economic category (e.g., a homogenous group in the broader public sector), plans may have minority participation that extends beyond the public sector to include private sector membership within the same "economic category", or plans may have membership based on unionized labour representation across multiple economic categories.

For these reasons, we do not believe that the guidance on category-wide plans is relevant to the public sector entities in Ontario. Further, we find the distinction between multi-employer plans and category-wide plans to be confusing and of limited use considering the Exposure Draft ultimately calls for the same accounting (i.e. proportionate share) for both.

Question 5

Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

This question is not applicable to our involvement in any of post-employment benefit plans. However, based on our experience, the guidance in proposed paragraphs PS 3251.033 and PS 3251.035 would not likely change the accounting treatment used by public sector entities in Ontario to account for their involvement in multi-employer plans. We observe that public sector entities typically do not have readily available, cost-effective access to information about their involvement in a multi-employer plan that would be sufficient to use proportionate defined benefit accounting.

We previously addressed paragraph 3250.109 in our response to PSAB's 2018 Invitation to Comment – Employment Benefits – Non-traditional Pension Plans. We maintain and reiterate our view that the defined contribution accounting exemption currently afforded to participating employers is a sound administrative expedient when a controlling entity (e.g., a sponsoring government) records the full amount of the accrued benefit obligation for participating employers under common control. The value-for-money achieved by such an exemption is more beneficial to the public interest than the extra costs of attempting to reflect the risk and costs related to defined benefit plans at a granular, participating employer level.

We do note, however, that multi-employer pension plans may exist where there are multiple sponsoring employers that are not under common control (e.g., municipalities). In these cases, there would not be one reporting entity reporting all or virtually all of a net defined benefit liability (asset) with respect to a pension plan. In these instances, we are supportive of the proposed guidance under PS 3250.109 such that employers' net defined benefit liabilities (assets) in the pension plan are collectively reported by those participating employers in their respective financial statements.

<u>Post-employment benefits – defined benefit plans discount rate guidance</u>

Question 6

Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount postemployment benefit obligations? If not, why?

Yes, we believe that the guidance is clear. However, we think PSAB should consider providing clarification on whether the funding assessment required under paragraph PS 3251.105 is a full actuarial funding valuation, or, for example, if it is acceptable for public sector entities to use an extrapolation in the years between full funding valuations for the purposes of PS 3251. We believe it may be onerous for public sector entities to perform a full valuation for all of its post-employment benefit plans on an annual basis at the funding assessment date.

Question 7

Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111- .114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

We do not agree with the proposed discount rate approaches for fully funded, partially funded, and unfunded plans. As we stated in our response to PSAB's 2020 – Invitation to Comment – Employment Benefits – Discount Rate Guidance, we believe the market yield on high quality debt instruments is the most appropriate approach for estimating the value of the accrued benefit obligation, regardless of a plan's funding status. The market yield on high quality debt instruments is based on verifiable, third-party data, effectively reducing subjectivity and facilitating comparability between public sector entities.

In addition, we believe the proposed three-pronged approach to determining discount rates will result in greater complexity, subjectivity, and added costs with limited benefit to users of the financial statements. Public sector entities will need to incur additional costs to assess their funded status in accordance with proposed paragraphs PS 3251.105-.110 and, for partially funded plans, to determine the discount rate. We also believe that weighing the discount rate based on funding cash flows of a benefit plan may result in increased volatility in the revaluation of the net defined benefit liability (asset) and, in turn, the net debt indicator.

If PSAB decides to move forward with its proposed approach for partially funded and unfunded plans, we believe it should provide additional guidance on how a public sector entity should determine the market yields of provincial government bonds referenced in paragraphs PS 3251.116(b) and PS 3251.118. As stated, the proposed guidance implies that public sector entities are free to use the market yield of a single or a mix of provincial government bonds of their choosing to determine their discount rate. As a result, public sector entities in the same province may use the market yields from different provinces or even different benchmark bonds within the same province. We believe that this may lead to an increase in opportunity for preparer bias and a reduction in the comparability of public sector entities' financial statements.

Question 8

Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If

so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Yes, we believe that public sector entities may encounter challenges due to the additional costs associated with preparing annual funding assessments. In addition, in situations where the public sector entity is not the plan sponsor, we anticipate that some entities will experience difficulties in obtaining agreement from plan administrators to conduct these annual funding assessments. We suggest that PSAB adjust the proposed guidance, taking into consideration the additional burden created by these proposed annual funding assessments.

We also note that paragraph .110 introduces a significant layer of professional judgment into the determination of a plan's funded status for the purposes of determining the discount rate. In particular, the determination of whether a funding shortfall is temporary for an historically fully funded plan increases audit risk for discount rates for post-employment benefits, which is usually identified as a significant estimate by preparers. Additional guidance as to the time horizon over which a loss of fully funded status would be considered temporary would be useful.

Question 9

Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Yes, we believe that the proposed approach results in greater complexity, subjectivity, and cost with limited benefit to users of the financial statements. As we noted in our response to Question 7, we do not support the proposed discount rate approaches for funded, partially funded, and unfunded plans.

If PSAB decides to move forward with this proposed approach, we suggest that it provide additional guidance or illustrative examples addressing what would be considered "persuasive evidence" sufficient to rebut a presumptive partially funded plan cited in paragraph PS 3251.110.

<u>Revaluations on the net defined benefit liability (asset)</u>

Question 10

Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

We do not agree with the proposed approach that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus

or deficit. As we stated in our response to PSAB's Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector, we do not support the proposed "accumulated other" component of net assets or the broader practice of recognizing amounts directly to net assets. To demonstrate accountability for the resources entrusted to them, we believe that all public sector entities should produce financial reports that show how they have used those resources in any given financial period. An approach that allows entities to bypass the annual surplus or deficit by directly recognizing revaluations in net assets does not achieve the accountability that is vital to financial reporting in the public sector. As a result, we believe that revaluations on the net defined benefit liability (asset) should be recognized immediately in surplus or deficit. While this approach will increase the volatility of public sector entities' annual surplus or deficit, the proposed note disclosure in paragraph 3251.163(c) will enable users of the financial statements to determine the financial impact of revaluations on the net defined benefit liability (asset).

Notwithstanding the view expressed above, if PSAB ultimately decides to record revaluations on the net defined benefit liability (asset) directly in net assets, we propose a modification to this treatment. As an alternative, PSAB could consider recording revaluations to net defined benefit liabilities in annual surplus or deficit and recording revaluations to net defined benefit assets (before any asset ceiling valuation allowances) in net assets through the "accumulated other" component. For greater clarity, under this proposal, revaluations for plans that were fully funded as at a measurement date would flow through accumulated other and revaluations for plans that were partially funded or unfunded would flow through annual surplus or deficit.

Generally, recording revaluations on the net defined benefit liability (asset) directly in net assets relieves annual surplus and deficit from the inherent volatility associated with changes in actuarial assumptions for long-dated calculations. Fluctuations in the market value of plan assets and changes in long-term actuarial assumptions have a real economic impact to government entities through the contribution cash flows determined by funding valuations. In our view, in the context of employee future benefits, the public interest is best served when governments fulfill their defined benefit pension promises (i.e. an unwavering commitment to provide eligible public servants with a predetermined level of retirement income) and the cost of those promises is transparent to legislators and the public.

Significant changes in the health of a pension plan may be overlooked when they are excluded from annual surplus and deficit, which is the financial statement line item historically afforded the most attention by users of government financial statements. This outcome is especially concerning in a situation where a government entity is making resource allocation decisions (where budgeted annual surplus or deficit is typically a significant consideration) and a pension plan is not fully funded. In short, the benefit of this proposed treatment would be to highlight the volatility of pension plans to users and decision-makers when a plan is less-than-fully funded, while still providing relief from accounting volatility when a plan is fully funded and requires less short-term attention. Additionally, under this treatment, a public sector entity with a growing plan surplus would avoid distorting the reported resources available for government decision-makers to allocate in their annual fiscal planning.

Lastly, we note that this proposed treatment would comply with PSAB's proposed Conceptual Framework. In the absence of the "accumulated other" exceptions in PS 3251.064(d), pension revaluations would necessarily default to annual surplus or deficit. Our proposed asymmetric treatment of pensions revaluations between annual surplus or deficit (i.e. default treatment) and "accumulated other" (i.e. designated treatment) on the basis of funding position would be consistent with PSAB's ability to designate specific transactions or events at a standards level under proposed PS 1202.144.

Question 11

PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

No, we believe the current presentation framework in section PS 1201 and the disclosures proposed in section PS 3251 are sufficient to enable users to understand the financial impact of revaluations of net defined benefit liabilities (assets) on the net debt indicator. To further address concerns regarding net debt volatility, senior governments and public sector entities may use supplementary financial information, such as an annual report or a financial statement discussion and analysis, to highlight the financial impact of these revaluations on the net debt indicator and the surplus or deficit.

Transitional provisions

Question 12

Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

While we support the requirement for public sector entities to apply the proposed standard retroactively, we do not agree with the proposed effective date referenced in paragraph PS 3251.200. In line with its strategic objective of developing timely and relevant accounting standards, PSAB should prioritize the completion its new employee benefits standard, and require entities to adopt the finalized standard sooner. With the exception of the additional costs associated with obtaining funding assessments, we do not foresee any significant practical challenges in adopting the standard that would necessitate a later adoption date.

Illustrative examples

Question 13

Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes, however, we believe that PSAB should add the following illustrative examples:

- **Accounting for a multi-employer plan using defined benefit accounting –** PSAB should provide an example of how a public sector entity should account for a multi-employer plan assuming it had sufficient information to use defined benefit accounting. The example should demonstrate acceptable methods a public sector entity could determine its proportionate share of the multi-employer plan (e.g., pensionable salary dollars by employee group, actuarial liability and/or service cost allocated to each employer, permitted use of rolling averages, etc.), as well as key factors that support whether it has sufficient information to use defined benefit accounting.

- **Accounting for joint defined benefit plans –** given that many Canadian public sector entities use the existing joint defined benefit guidance in section PS 3250, PSAB should provide an example of how a public sector entity should account for a joint defined benefit plan. Similar to the above example, PSAB should explain the interaction between the proposed guidance for joint defined benefit plans and the plan contexts listed in paragraph PS 3251.030, where applicable.

- **Calculation of the asset ceiling test –** the proposed section PS 3251 contains limited to no guidance on how to calculate the asset ceiling test. To address this issue, we suggest PSAB provide a detailed example of how to calculate the asset ceiling test (PS 3251.072-.073) with considerations for the contexts of multi-employer plans and joint defined benefit. Illustrative examples to a similar level of detail as the additional guidance afforded to determining a plans funded status and calculating the discount rate (i.e. Examples 13 and 14) should be provided.

Other

Question 14

Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

See our introductory comments.

Question 15

Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Not applicable. As outlined in Question 3, our participation in employee future benefit plans is dictated by legislation. Decisions around funding, benefits, and administration rest with the sole sponsor of the plan.

Thank you for the opportunity to provide comments on behalf of my Office.

Sincerely,

Bonnie Lysyk
Auditor General of Ontario

December 15, 2021

Michael Puskaric,
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael,

The Canadian Association of University Business Officers (CAUBO) is pleased to provide you with feedback on the Public Sector Accounting Board (PSAB) ***Exposure Draft, Employee Benefits, Proposed Section PS 3251*** dated July 2021.

CAUBO is a non-profit professional organization representing the chief administrative and financial officers at over 100 universities and affiliated colleges in Canada. CAUBO promotes professional management and provides support to member institutions in a broad range of administrative functions.

CAUBO has a broad membership, comprised of universities located in all regions of the country and of varying sizes and specialties. As such, CAUBO university members follow different accounting standards. Across Canada four provincial jurisdictions apply Public Sector Accounting Standards (PSAS), three do not apply PS 4200 and one does apply PS 4200. The remaining six provincial jurisdictions are not government controlled and therefore apply Accounting Standards Board (AcSB), part III using either the restricted fund method or deferral method.

We appreciate that a number of questions were outlined for comment, however, the comments provided are focused on one question in particular. The comments enclosed reflect CAUBO's national membership who apply PSAB, as well as those members that follow the AcSB framework.

Sincerely,

Nathalie Laporte
Executive Director,
Canadian Association of University Business Officers

350, rue Albert Street – Suite/pièce 315
Ottawa, ON
K1R 1B1

COMMENTS REQUESTED

Revaluations on the net defined benefit liability (asset)

11. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets[1] without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

While CAUBO members agree that revaluations of the net defined benefit liability (asset) should be recognized on the statement of financial position as a liability or asset with a corresponding recognition in the other accumulated portion of net assets, we ask the Public Sector Accounting Board to carefully reconsider the proposed approach of not having subsequent recognition of these revaluations in surplus or deficit.

Immediate recognition of revaluations of the defined benefit liability (asset) in the statement of financial position is important information for the users of the financial statements in understanding the value of assets and liabilities of a public sector organization at a specific point in time. CAUBO members also agreed with the proposal to place the immediate recognition of revaluations within the other accumulated portion of net assets as the in-year volatility due to asset returns and actuarial assumptions relate to the costs of the defined benefit plan relating to a longer period that the plan participants experience and earn their benefit over.

The Basis of Conclusions paragraph 26 suggests "not reclassifying amounts into the statement of operations will result in more volatility in net debt in the short term…" CAUBO members believe the reclassification of revaluations into the statement of operations does not impact the net debt financial indicator – this indicator is already impacted through the immediate recognition of the revaluations of the defined benefit liability (asset) within the statement of financial position including the accumulated other component of net assets. As such, CAUBO members are hoping the impacts to net debt are not a consideration in whether the revaluations should be reclassified to the statement of operations or remain as permanent differences within accumulated other net assets. The decision for reclassification should be driven by assessing whether the permanent difference within accumulated other is within the Canadian Public Interest.

The Basis of Conclusions paragraph 26 also states "… through recognition of current service cost in the statement of operations, a public sector entity would accurately reflect the cost of the defined benefit obligations and the underlying assumptions." While this is a correct statement in that the proposed approach accurately reflects a calculation of cost based on the estimates relating to the defined benefit obligations and underlying assumptions, it is not initially clear how the proposed approach accurately reflects the costs/reductions of costs associated with differences between estimates and actual performance/experience (e.g. estimate of plan asset returns vs actual returns). Differences between estimates and actual performance/experience do have an impact on the cost of providing defined benefits to plan participants and as such should be reflected in the statement of operations, surplus/deficit, and ultimately accumulated surplus/deficit of a public sector organization.

In the proposed PS 1202, paragraph .132 outlines how only in exceptional circumstances that a revenue or expense arising in a period could be recorded outside that period's surplus or deficit. CAUBO members feel that the exceptional nature of using this section applies to all components of the section, including the creation of balances within accumulated other that do not have a mechanism for reclassification to the statement of operations. For example, Financial Instruments includes concepts for reclassification. The proposed approach for revaluations of defined benefit obligations (assets) suggests an assumption that over time the revaluations may be offsetting, however this may not necessarily be the case. While the basis for conclusion states "deliberations also identified the difficulty in determining

[1] If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

an appropriate, systematic and rational basis by which to reclassify revaluations of the net defined benefit liability (asset) into the statement of operations" one could suggest that the revaluations stemming from differences between estimates and actual performance/experience for plan participants should pertain to the period the plan participants are expected to earn their benefits. Reclassifying these revaluations to the statement of operations could therefore occur on a go forward basis over the estimated remaining service life as an example of a clear and objective basis for identifying the period in which the reclassification should occur and the amount that should be reclassified (proposed PS1202.135).

CAUBO members ask the Public Sector Accounting Board to consider using a reclassifying methodology to best reflect defined benefit plan costs based on calculations using estimates and differences between estimates and actual performance/experience. The result could be a more accurate reflection of how defined benefit plan revaluations do not create permanent differences between surplus deficit, accumulated deficit, and defined benefit obligations/assets, and that costs associated with providing defined benefits to plan participants are more completely recorded in surplus/deficit over the time individuals earn the benefits. CAUBO members recognizes the above request will introduce some volatility within surplus/deficit, however the goal is not to remove volatility from surplus/deficit, but to best reflect full cost of provision of service along with related impacts to surplus/deficit and accumulated surplus/deficit.

A comment has been submitted:

Language: English
Board/Council: PSAB
Doc for Comment: psab-employee-benefits-ps-3251
Name: Mary-Jane Dawson
Title: Principal
Organization:
Email:
mjldawson@outlook.com
Phone: Keep Private: No
Comments:
Thank you for the opportunity to respond to this important exposure draft. I have the following comments:
1. PS 3251.111- .120 I agree with the proposed methods of calculating the interest rate as I think they ultimately best reflect the economic burden of the entity. I agree with the Government of Canada that…"when plan assets have been segregated and legally restricted for funding future benefit payments, the economic burden
of the entity is the net benefit liability rather than the accrued benefit obligation."
(https://url.avanan.click/v2/___https://www.canada.ca/en/treasury-boardsecretariat/corporate/reports/review-methodologies-determine-discount-rates.html___.bXQtcHJvZC1hdi1jYS0yOmNwYWM6YTpvOmZiYTQyMTQ5YzViMTg4NGQzY2U0ZjdmYjMzOWM
wNzI1OjU6ZjQ0ZTpjNTBmYzkzYTE5Mzc2MzY0MjVlMmE5ZmIwYjg0OTAwZTc5OTMyOGM4ZDg1ODFkYzkyYTJk
MGUzNWQyNjBhNTk3OnQ
2. PS 3251.064d – I agree with actuarial gains and losses not being deferred. I understand that PSAB is proposing another statement presentation for the Statement of Financial Position in the conceptual framework project and that presentation includes an "accumulated other" category in net assets. The change in actuarial gains/losses is planned to flow through this category because it is difficult to budget for actuarial gains and losses. However, I am concerned that with this approach elected officials and the public will not understand what the annual results of operations are because the results will appear in two different financial statements. I would prefer that government financial statements include a statement of comprehensive income with the total of the budgeted revenues and expenses and then the unbudgeted revenues/expenses such as changes in actuarial gains and losses appearing underneath with a final comprehensive income total for the year of operations. 3. PS 3251.031-.038 and A1 Example 1 The difficulty with multi-employer plans is that there is no consensus across Canada as to what constitutes sufficient information for individual entities to use defined benefit accounting for these types of plans. The risk is that a multi-employer plan could be in a substantial deficit and none of the individual entities responsible will indicate any share of this deficit in their statement of financial position. To be helpful the exposure draft should give an example of what constitutes sufficient information. For example, if an entity knows its total contributions and the percentage its contributions are of total contributions is that sufficient information to do a proportionate consolidation of the pension plan? If not, the example should indicate this. Also if not, what would constitute sufficient information?

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Ontario Nurses' Association
85 Grenville Street, Suite 400, Toronto, Ontario M5S 3A2
TEL: (416) 964-8833 FAX: (416) 964-8864

November 26, 2021

Mr. Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric,

Re: Public Sector Accounting Board (PSAB) Exposure Draft – *Employee Benefits, Proposed Section PS 3251*

I write on behalf of the Ontario Nurses' Association (ONA). ONA is the union representing 68,000 registered nurses and health-care professionals across Ontario and in every sector of health care. Our membership includes approximately 60,000 front-line nurses and health-care professionals in the hospital, Ontario Health – Home and Community Care Support Services and other health care organizations that participate in the Hospitals of Ontario Pension Plan (HOOPP or the Plan).

ONA is one of the original Settlors of HOOPP and the protection of our members' pensions is of paramount importance to these professionals. We fought hard in the early 1990's for the establishment of HOOPP as an independent, arms-length jointly governed pension plan alongside our brothers and sisters represented by the other three settlor unions (SEIU, OPSEU and CUPE – together the Settlor Unions). The Board of Trustees - the fiduciaries responsible for the administration of HOOPP - are appointed equally by the Hospitals and the Settlor Unions. ONA and each of the other Settlor Unions appoints two trustees to the Board, and a total of 16 Trustees.

We have had the opportunity to review HOOPP's submissions to the PSAB on the above-referenced Exposure Draft regarding the treatment of financial reporting of employee benefits (Exposure Draft) and support the comprehensive analysis, concerns, views and suggestions made on behalf of HOOPP and its more than 400,000 active, deferred and retired members. In particular, we share the concern that the Exposure Draft does not adequately address or even acknowledge HOOPP's unique structure and position as a defined-benefit multi-employer jointly sponsored pension plan (JSPP) for which Ontario has no direct legal funding obligation.

We highlight below the key features of HOOPP which must be properly recognized in any new applicable accounting standards:

1. The Government of Ontario is not the sponsor of HOOPP, nor is it responsible for its funding. It does not make contributions to the Plan. Neither has it made any pension promise to HOOPP members, nor retain legal liability under the *Pension Benefits Act* for ensuring that it is met.

   In these circumstances, the accounting rules must ensure that Ontario is not required to account for HOOPP on a defined benefit (DB) basis as if it were a DB pension plan sponsor with all the attendant legal obligations.

2. HOOPP is a private – not public - pension plan, in which both public and private entities participate as employers. There are some 600 entities participating in HOOPP, and each of them is responsible for remitting contributions to the Plan for their employees based on a percentage of pensionable earnings prescribed by the Trustees. This contribution obligation is their **sole obligation** to the Plan and its members. As HOOPP notes in its submissions:

   > "Their sole obligation is to remit monthly contributions, which are a percentage of employees' pensionable earnings (exactly like a defined contribution pension plan). For this reason, **defined contribution accounting is appropriate for the participating employers** and to reflect anything other than their obligation to pay contributions would be misleading and, would not be an accurate representation of the participating employers' obligations.

   The HOOPP participating employers do not bear the full risks and costs of funding shortfalls as they would in a traditional DB plan; rather, the costs and risks are shared equally between employers and members, both of whose contributions can be increased if necessary, and:

   - accrued benefits may be reduced on a wind-up if the Plan is underfunded; and
   - members do not have the protection of the Ontario Pension Benefits Guarantee Fund (PBGF).

   As part of their fiduciary and legal obligations, the HOOPP Trustees are responsible for investing and managing the pension fund - member and employer contributions and the income they generate - to ensure that pensions can be paid now and into the future.

A good well-managed DB pension plan is our members' best hope for a sense of certainty and security in retirement. The PSAB's Exposure Draft threatens to add unnecessary burden to entities who account for DB pension plan obligations. That is, to say the least, unwelcome in this time of economic uncertainty and in an environment where DB pension plans are under attack.

Please listen to our requests, and carefully consider these and the submissions provided by HOOPP. Our members' pensions and retirement security depend on it.

Sincerely,

ONTARIO NURSES' ASSOCIATION

Vicki McKenna, RN
President

C: Cathryn Hoy, ONA First Vice-President
Beverly Mathers, ONA Chief Executive Officer
HOOPP

MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

MFOA Response to PSAB Exposure Draft: Employee Benefits, Proposed Section PS 3251

Introduction

About MFOA

The Municipal Finance Officers' Association of Ontario (MFOA), established in 1989, is the professional association of municipal finance officers with more than 4500 individual members. We represent individuals who are responsible for handling the financial affairs of municipalities and who are key advisors to councils on matters of finance policy. MFOA promotes the interests of our members in carrying out their statutory and other financial responsibilities through advocacy, information sharing, networking opportunities, and through the promotion of fiscal sustainability. We also provide members with training and education to enable continuous professional development and to support excellence in municipal finance.

The following submission is made in partnership with MFOA's Committee on Accounting and Financial Reporting, consisting of municipal finance officers across Ontario. Please note that MFOA has attempted to address the questions from a broad Canadian context. However, in many circumstances, we have narrowed our responses to address the Ontario context only. Where this occurs, we have specifically noted that the response is from that specific Ontario context.

Overview

In general, MFOA supports the proposed standard with the view that it will improve the reporting of potential liabilities and risks, keeping in mind that understandability of such disclosure is paramount. We have significant concerns with respect to the resource requirements to develop appropriate note disclosure and actuarial valuation calculations. This will be a significant burden on municipal staff, especially in the first year with the need to prepare an appropriate note to the financial statements.

It should be noted that, in the Ontario context where most municipalities are members of the Ontario Municipal Employees Retirement System (OMERS), a significant portion of the proposed standard will not be applicable. OMERS is a multi-employer plan where resources are pooled under agreement between OMERS and the member municipalities. With OMERS, control and risk are entirely borne by the administering body and not by the employers or the employees. OMERS does not track actuarial gains and losses by employer, as that is contrary to the nature of a multi-employer plan. As such, OMERS employers will likely account for the pension plan in much the same way as is the current practice, using the defined contribution plan methodology. MFOA recognizes this will increase the note disclosure requirements for OMERS employers.

We also take this opportunity to encourage PSAB to take a more wholistic approach to establishing new or significantly revising standards. It is challenging and administratively burdensome for municipal finance officials to redevelop their financial statements and update related processes multiple times within a few years for different standards. For example, under the conceptual framework, PSAB is investigating transitioning traditional budget documents to be presented on the same basis as the financial statements. Proposed PS 3251 requires the inclusion of post-employment benefits in financial statements on a more fulsome basis than under the current standard. However, by regulation, it is not mandatory to include postemployment benefits, along with a number of other categories, within the approved budget. These rapid changes require increased staff resources, may incur additional costs for consultants or software changes, and may delay the completion of the audited statements. Additional forethought when developing or revising a standard as to regulations or other upcoming standards and how one may impact the other would be of great benefit to all involved with implementation.

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

The scope of the standard is clear for the most part. However, there is some confusion as to the application to specific defined benefit plans, such as the Ontario Municipal Employees Retirement System (OMERS) plan in Ontario. Municipalities in Ontario and the OMERS administrators believe that the provisions for defined benefit plans under this standard do not apply based on the definition of multi-employer plans wherein there is no shared risk or control between OMERS and the public sector entities.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?

We found the glossary to be informative and assisted with the interpretation of the standard.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

As previously stated, the Ontario municipal circumstance of a defined benefit plan through OMERS does not involve individual employer control of assets nor does it share any risks, in general, if there is a shortfall in the plan. There are no obligations required from Ontario municipalities that contract with OMERS for any payments beyond those required from regular payroll deductions. If there is no pay issued, there are no payments required.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

MFOA cannot comment on this section as we have limited knowledge of other pension plan arrangements across Canada.

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

In Ontario, under the OMERS plan, there would be no change in the accounting treatment for pension plan contributions. All contributions are accounted for on a monthly basis and any amount owing at the end of a fiscal year is set as an accrued liability and an expense for that fiscal year.

However, the disclosure requirements set out in s.170 are well beyond what Ontario municipalities currently report on pensions. This may prove to be quite onerous in developing appropriate and auditor-acceptable wording across all Canadian municipalities. Further, there are significant information requirements such as funding methodology, allocations between employers, and plan surpluses and deficits and how these implicate future contributions. Much of this information is not available nor even achievable without great expense on the part of pension providers.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

The guidance is clear and sufficient.

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

The discount rate approaches in these sections seem reasonable. MFOA supports the proposed position of not including risk in determining the appropriate discount rate.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

The requisite in-house skill sets to accomplish large sections of the proposed standard are lacking in most municipalities, especially small municipalities. Proper analysis will require expert advice, adding costs to the reporting and administration of the standard.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

As stated in the previous question, the requisite in-house skill sets to accomplish large sections of the proposed standard are lacking in most municipalities, especially small municipalities. Proper analysis will require expert advice, adding costs to the reporting and administration of the standard.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized. If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

MFOA agrees that any revaluation resulting in changes to the net asset or liability of the plan should not flow through to subsequent surpluses or deficits of the entity. PSAB's proposal to recognize the change through PS 1202 (if passed) or through accumulated remeasurements of net assets (if PS 1202 is not passed). Revaluations may fluctuate from year to year and it is inappropriate to recognize any gains or losses due to remeasurement in the entity's operating surplus or deficit as they may not be realized in full or in part in the future.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately

in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility. Through PSAB's ongoing Conceptual Framework and Reporting Model project, this is proposed to be renamed "net financial liabilities" under proposed Section PS 1202.

Volatility is an inevitable consequence with the various remeasurement gains and losses arising from various new standards including Asset Retirement Obligations, Financial Instruments, and now this proposed standard. Continual changes in reporting pushes the learning curve for end users and diminishes the understandability of the financial statements. As such, no further note disclosure requirements should be specified in this area; rather, clarification of the changes should be at the discretion of the municipalities.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

MFOA supports a single year, retroactive application upon initial adoption of the proposed standard. It is assumed that any valuation changes that result from the retroactive application will be flowed through the remeasurement provisions and not through a surplus or deficit account.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

MFOA finds the illustrative examples as helpful with interpretation but do not go far enough for practical application.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

In the Ontario context, MFOA does not think that applying this proposal will improve understandability of employee benefits as there are no future obligations or benefits for OMERS employers. However, in the broader Canadian context, where pension plans may hold postemployment obligations, the application of this proposal will assist with better reporting and accounting of future obligations.

MFOA is of the opinion that understandability will not improve as very few, if any, councillors or members of the public explore the financial statements to this depth. Budget documents, along with in-year and year-end reporting on overall results are relied on far more heavily than the audited financial statements.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

MFOA does not anticipate any change in decision making for employee benefits for Ontario OMERS employers.

5161 George Street
Royal Centre, Suite 400
Halifax, Nova Scotia
B3J 1M7

Auditor General of Nova Scotia

December 13, 2021
Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Exposure Draft – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for providing my office with the opportunity to provide feedback as it relates to this Exposure Draft. It is our hope that based on our experiences and observations as a legislative audit office, our opinion will provide PSAB with applicable feedback.

Please refer to the comments we have attached in the appendix to this letter. We wish to highlight our concerns as they relate to the proposed Section PS3251.

Although we do agree with several areas of the proposed standard, we'd like to highlight concerns with some key areas.

We disagree with aspects of the proposed method of determining discount rates, requirement to determine funded status, and have concerns surrounding the potential impact of the proposed change in accounting for actuarial gains/losses. In our opinion the requirement to assess the funding status of a post-employment benefit plan and the discount rate approach for partially funded plans result in additional incremental work for both preparers and auditors while adding little value to stakeholders. We also believe that not including actuarial gains/losses in a Government's statement of operations reduces understandability of the financial statements including of the changes to these material liabilities.

We implore PSAB to consider different approaches for determining discount rates and what the impact of not recognizing actuarial gains/losses will have on senior governments.

Areas of concern are further detailed in the attached appendix to this letter.

Sincerely,

Kim Adair, FCPA, CA, ICD.D

Auditor General of Nova Scotia

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APPENDIX

Question #6: Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why??

No, we do not think that the guidance on assessing the funding status of a plan is clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations in the majority of circumstances.

We wish to raise concerns relating to the assessment of the funding status of a plan. We think that more detailed guidance should be provided in relation to whether a threshold could be applied to the calculation when assessing the plan's funding status. We would also like to express our concern relating to the time pressures that this calculation may create as preparers will be required to determine the funded versus unfunded status based on a new calculation at yearend, and then determine a new blended discount rate to be used. This calculation in many cases may require the use of an expert adding to costs. The resulting calculation of funded status would require assessment by the auditors resulting in significant incremental work by both preparers and auditors. We question the value of this incremental work for what may be minimal change to a conceptual discount rate.

We would also suggest if PSAB is steadfast in their decision to retain this calculation that they consider the frequency of the requirement to assess the funding status of a plan. Currently valuations are required at minimum every three years, having the funding the assessment occur the same year as a valuation may reduce some of the issues around time pressures.

Question #7: Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

No, we do not agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120).

Fully Funded Plans: The discount rate based on expected market-based return on plan assets differs from the approach commonly used internationally. This includes IFRS which uses a 'market yield' base creating no distinction in the accounting based on a plan's funding policy. We suggest PSAB consider if a similar approach for public sector would allow for increased comparability and understandability of the financial statements. It could also reduce complexity. Determination of expected market-based returns could be quite subjective for plans whose assets include unobservable inputs.

Partially Funded Plans: As mentioned in Question #6 we would like to stress that this change will result in increased work for both preparers and auditors and likely require use of an expert to calculate the funded status. We question whether the value added by a using a 'blended' discount rate outweighs the

additional work and costs to perform this new calculation. At the end of the day these are long-term obligations to government and are not settled at yearend. As noted under fully funded plans, we note that other international standards follow a more simplified approach.

Unfunded Plans: In the exposure draft the proposed discount rate for unfunded plans is based on Provincial Government Bonds. We ask that PSAB provide additional guidance including whether Provinces are required to use only the Provincial Government Bonds from their respective jurisdiction or an index of the Canadian Market of Provincial bonds. We would also like clarification as to the reasoning for excluding Government of Canada bonds. An example of this in practice would be helpful.

We ask that PSAB consider the above issues and add additional guidance for clarification.

Question #8: Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Yes, we do foresee challenges that may result from the proposed approach to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation.

As indicated in our answers to Question 6, we foresee challenges related to the frequency and time required to calculate, and then audit, the funded status and discount rate for partially funded plans. We also note that it is likely that these calculations will require the use of an expert to complete.

Question #9: Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Yes, we do foresee challenges that may result from the proposed approach to apply a single discount rate to partially funded plans.

As indicated in our answers to Question 6, 7, and 8 we foresee challenges related to the guidance provided related to:

- Calculating and subsequently auditing the discount rate for partially funded plans; and
- The frequency and timing of calculating the funded status and discount rate for partially funded plans.

Question #10: Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS

3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

No, we disagree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit. This would result in actuarial gains/losses which have a significant immediate impact on material liabilities to a Government's statement of financial position, now never being recognized on a Government's statement of operations. While this proposed approach results in less volatility in the annual surplus/deficit, we do not feel it is appropriate that revaluation adjustments are not captured on the statement of operations. There is a risk that recognizing these amounts outside of annual surplus/deficit would reduce accountability for Governments especially if no budget component is present. It would also reduce understandability of the financial statements as transactions resulting in material changes to liabilities would never impact the statement of operations.

We also note that this approach has potential to impact management's bias with revaluation adjustments never impacting annual surplus/deficit.

Question #11: PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

We acknowledge that there will be increased volatility in net debt and accept that as reasonable as it will result in the liability being more accurate. Existing disclosure proposed in PS 3251 should adequately explain the impact. Year-over-year changes and volatility could be further explained by Government in sufficient detail in their financial statement discussion and analysis.

Question #13: Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes, the illustrative examples (Appendix) assist us with the interpretation and application of the proposed Section. However, the exposure draft does not provide sufficient examples related to the overall financial statement presentation, including the proposed changes for accounting for actuarial gains/ losses as they would appear on a set of Financial Statements. We ask that PSAB include examples of complete FS disclosures to assist preparers. We also note other areas where illustrative examples could be added including:

- Examples of category-wide plans
- Example that illustrates what would be considered sufficient information to account for a multi-employer plan using defined benefit plan accounting

- Examples illustrating how provincial government bonds would be used to determine a discount rate in the case of an unfunded plan for both a government and other public sector entities
- Discount rate for fully funded plans (PS 3241.111-.114), PSAB has not provided examples as to how exactly the new requirements to determine a discount rate based on expected market-based returns differ from existing requirements under PS 3250.044. Examples could include how the new concept would be applied for plans having significant assets that require use of unobservable inputs.

Question #14: Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Yes, we think that applying the proposals as outlined in this Exposure Draft would result in a change in understandability of financial reporting on employee benefits.

- Immediate recognition of actuarial gains and losses in the net defined benefit liability is much easier to understand versus the current deferral approach.
- Removal of the smoothing effect for plan assets previously allowed in PS 3250.035 allows for less complexity for preparers and better understandability. Removal of smoothing more faithfully represents the value of assets set aside to fund future employee benefit obligations.
- The proposed discount rate approach will add complexities and decrease understandability, particularly in comparison to that used internationally (IFRS).
- Removing recognition of actuarial gains and losses from the statement of operations may reduce understandability of the impact of these significant changes to the liability since they would never appear on the statement of operations or annual surplus/deficit.

Question #15: Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Yes, we think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits. Liabilities would be more accurately reported and better represent the plan position at the end of the reporting period. This should allow for better understandability of the liabilities for employee future benefits and improve decision making.

There is the potential for Governments to change their behavior as a result of not having to recognize actuarial gains and losses on the Statement of Operations as volatility is reduced and surplus/deficit is not impacted. Some jurisdictions have begun to move away from defined benefit to defined contribution or other plans. With volatility removed and revaluations not impacting annual surplus/deficit Governments may be more willing to take on the risk associated with defined benefit plans and increase benefits to employees when bargaining as the impact on Statement of Operations is now reduced. If so the financial impact would not be reflected as it should.

Other Considerations:

Sick leave

We note that paragraph 3251.016 provides an example of when sick leave balances are likely to be material. Specifically, the example states (emphasis added) “a sick leave liability is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.” Under current standards it is our experience that many public sector entities record material accumulating, non-vesting sick leave balances in their financial statements, even when it is not used as annual leave. If it is PSAB’s intention to remove recognition of these types of liabilities from the financial statements we would recommend PSAB be more explicit within the standard or accompanying explanatory guidance.

In our experience the liabilities recorded currently for accumulating, non-vesting sick leave are generally not well understood. Keeping recognition to circumstances where the leave is vesting or where it is being taken as annual leave may improve understandability of financial statements and reduce the burden for preparers.

PSAB Employee Benefits Exposure Draft

Saskatchewan Response

Purpose and scope

1. **Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.**

   Yes.

   We note though that there may be inefficiencies resulting from the employee benefits project being split into phases. Some public sector entities may be required to implement significant changes to their employee benefits standards twice. Consideration should be given to allowing for early adoption of the standard but making the effective date far enough into the future so that a decision could be made to wait to adopt all new employee benefit standards at the same time.

Glossary

2. **Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions are necessary?**

   Yes.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. **Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.**

   No. There are no contractual agreements in Saskatchewan that charge defined benefit costs to controlled public sector entities.

4. **Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?**

   There are no category-wide pension plans in Saskatchewan. We support including guidance for these types of plans in the standard if category-wide plans are relevant for other Canadian public sector entities.

5. **Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.**

   Maybe. We have two multi-employer defined benefit plans for which we follow defined contribution plan accounting under current standards. We will need to work with the plan administrators and actuaries of our multi-employer plans to determine whether there would be any impact to our accounting treatment.

   Following defined benefit plan accounting will result in increased effort by plan administrators and actuaries on an annual basis. Consideration should be given to whether the benefit of reporting multi-employer plans as defined benefit plans outweigh the efforts and related costs.

   It is possible that auditors may view the proposed standard as requiring efforts to be made to change plan administration and reporting systems to obtain sufficient information to follow defined benefit plan accounting. If this is not the intent, clarification should be added to the standard indicating that changes of this nature are not expected.

Post-employment benefits – defined benefit plans
Discount rate guidance

6. **Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?**

   Yes.

7. **Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.**

   No.

   We agree that an approach to using a different discount rate to measure funded and unfunded plans is appropriate. The nature and substance of funded and unfunded benefit plans are not the same and as such, the funding level should be considered in the determination of the discount rate.

   For unfunded plans, we believe that using the market yield of provincial government bonds is appropriate. Use of a consistent market yield rate increases comparability of pension obligations among unfunded plans. As well, it avoids having entities with lower credit ratings reporting a lower pension obligation as a result of their higher cost of borrowing.

We believe there should be flexibility in selecting an appropriate basket of provincial government bonds allowing for the ability to remove outliers. The basis of conclusions references using professional judgement in determining the appropriate basket of bond rates. This flexibility should also be referenced in the accounting standard to avoid potential disagreement with actuaries and auditors.

For funded plans, we believe that an 'average market-based return on plan assets' would be a better option than an expected market-based return on plan assets. An average market-based return on plan assets would be based on an average rate of historical actual returns, and perhaps expected returns. This alternative would reduce subjectivity in determining the discount rate and reduce the potential where higher risk investment strategies are used by entities resulting in higher discount rates and lower pension obligations.

For partially funded benefit plans, we agree with using a single blended rate based on a plan's funding status. As the calculation to use a single blended rate for partially funded plans results in additional work, consideration should be given to adding clarity in the standard that professional judgement can be used in applying a threshold for when a plan may be considered unfunded or fully funded. For example, an unfunded discount rate could be used for simplicity for a plan with assets that are only sufficient to cover plan benefits payments for a couple of years. Alternatively, a plan that is nearly fully funded (e.g., 95 per cent) could use a fully funded discount rate for simplicity.

We believe that there should also be some flexibility in selecting the discount rate based on an average of historical and/or projected rates rather than requiring the use of a current rate. Although a current rate is observable and simple to use in practice, there is no support indicating a current rate provides more accurate or predictive information.

The proposed standard refers to using a rate 'at the end of the reporting period'. Beginning in 2020-21, Saskatchewan changed to using a 10-year average discount rate to reduce volatility. While the proposed guidance for the revaluations on the net defined benefit liability (asset) removes volatility on the statement of operations, the volatility for net debt significantly increases. Net debt is a key accountability measure. Allowing for the use of an average discount rate would result in less volatility in the pension liability and net debt. It would also provide a more appropriate reflection of the long-term nature of the pension liability that fluctuates from changes in actuarial assumptions that are tentative in nature.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

Yes.

The requirements for an annual funding assessment at the end of the reporting period will result in significant actuary work and associated costs and delays in the timing of actuarial reports. The benefits of an annual assessment would not likely exceed the effort and costs. We expect that the funding status of a plan is unlikely to substantially change from year to year.

Funding assessments will require information on the market value of assets at the end of the reporting period. This will delay the determination of the discount rate and the work in preparing an actuarial extrapolation report. For our plans, actuarial extrapolation reports are typically completed within two weeks of the end of the reporting period. Any significant delays in the timing of extrapolation reports will impact our ability to release our Summary Financial Statements (SFS) on a timely basis. We typically release our SFS by June 30 of each year.

Consideration should be given to requiring the funding status assessment to coincide with the timing of actuarial valuations. This would allow actuaries to complete this work less frequently (e.g., every three years) and at times other than year end.

We understand that paragraph 66 of the proposed standard is intended to allow for early timing of valuations consistent with current practice. However, the wording in the proposed standard is not clear and is slightly different than the existing guidance. The proposed standard should be clarified to ensure the intent to continue allowing for early timing of valuations.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

No.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

No.

As noted in our response to the proposed PS 1202 Financial Statement Presentation, we believe that there is not sufficient, conceptually based justification for the accumulated other component. We understood that the accumulated other component would be used in rare circumstances.

We do not agree that gains and losses are never recycled to the statement of operations. At the very least, the balance within accumulated other should be removed when a plan is settled and the government entity has no further risk or liability associated with a plan. Options to remove the accumulated other balance could include recycling gains and losses to the statement of operations or moving the accumulated other balance to the accumulated surplus/deficit on a periodic basis or on plan settlement.

While the proposed standard assists with reducing volatility on the statement of operations, it does reduce accountability. The statement of operations is a key statement in demonstrating accountability and comparing budget to actual results. While volatility is a concern from a budgeting perspective, accountability is equally important for public sector entities.

The proposed standard increases the volatility in the pension liability and net debt. Net debt is also a key accountability measure. It does not make sense to have significant volatility arising from actuarial gains and losses that are tentative in nature related to a pension liability that has a long-term time horizon.

Two of Saskatchewan's defined benefit plans have been closed for about 40 years, resulting in the expected average remaining service life (EARSL) for the two plans to be approaching zero. Small changes in the discount rate have resulted in significant volatility in pension liabilities for our closed plans. As noted in our response to question seven, volatility in net debt could be partly mitigated by allowing for the use of an average discount rate. Volatility could also be mitigated by valuing assets at market-related values. Market-related values closely approximates fair value and more accurately represent the ongoing value of assets. Market value is not the most relevant indicator since there is typically no intention to liquidate the entire asset base when there is still a long settlement period.

The use of the accumulated other component and never recycling gains and losses to the statement of operations are inconsistent with the current guidance for financial instruments. Realized gains and losses on financial instruments are recorded in surplus/deficit. Unrealized gains and losses (changes in fair value) are recognized in a statement of remeasurement until the financial instrument is derecognized. Justification for a different treatment of pension assets and liabilities compared with financial instruments should be provided. We could not think of anything that supports this difference.

The proposed standard also reduces the accountability for selecting appropriate actuarial assumptions given that the impact of changes in assumptions are only reported on the statement of financial position. This could be resolved by recording actuarial gains and losses arising from changes in assumptions on the statement of remeasurement and then recycling experience gains and losses (e.g., differences between actual and expected results) to surplus/deficit.

The experience gains and losses could be recognized over a reasonable period as there is still future uncertainty related to actuarial changes, over the long-term. An appropriate amortization may be a weighted average of EARSL and expected average remaining life of superannuates (EARLS). Use of this alternative amortization period would be suitable for all plans (i.e., open, recently closed, or long-time closed). EARSL only contemplates active working members of the plan and does not reflect the long-term nature of plans that includes members into their retirement. For all closed plans, a weighted average of EARSL and EARLS deferral period would appropriately decrease over time as plan members decline.

11. PSAB acknowledges the potential increased volatility in net debt that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

No.

We have no suggested presentation or disclosure options that could assist with addressing concerns regarding net debt volatility. Suggestions for different accounting treatments to address concerns regarding volatility are included in questions 7 and 10 above.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Adoption of a new standard effective April 1, 2026, is reasonable if:

- accounting standards for the conceptual framework and reporting model are applicable effective April 1, 2024, as identified in the related exposure drafts, and,
- phase two of the Employee Benefits project is completed sufficiently in advance of the effective date to allow for flexibility and efficiencies in adopting all new employee benefits accounting standards at the same time.

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Yes.

Illustrative examples for asset ceiling and multi-employer plans accounted for as a defined benefit plan would be helpful. A multi-employer illustrative example should include the types of information that would be sufficient to follow defined benefit plan standards.

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

Yes.

Pension accounting is complex and not easily understood by the average user of the financial statements. The proposed standard increases the complexity by introducing an accumulated other component that never recycles to the statement of operations. The proposed changes will result in more complex presentation and disclosure of employee benefits in reconciling the liability, expense and accumulated other balances. The increased volatility in pension liabilities and net debt also adds complexity.

As outlined in PS 1201.17, excessive detail, vague or overly technical descriptions, and complex presentation formats can result in confusion and misinterpretation. An increase in complexity reduces the understandability of financial reporting.

The proposed standard increases the disclosure requirements that may also decrease the understandability of financial reporting. For example, we believe that disaggregating the fair value of plan assets into main asset classes could result in substantially increased disclosure for funded pension plans. As well, details on how the discount rate is determined including methods, assumptions and calculations introduces additional complexity in the financial statement disclosure. Consideration should be given to whether the benefit of the proposed additional disclosure outweighs the potential risk of reducing the understandability of financial reporting.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

Maybe.

The introduction of significant volatility in pension liabilities and net debt may result in changes in decisions to reduce the volatility, including plan settlements or curtailments.

The removal of the impact of actuarial gains and losses from the statement of operations reduces the accountability for employee benefits. This could result in decisions to increase pension and other benefits instead of salaries given that the pension and other benefits would have a lessor impact on the statement of operations.

The increased effort and complexity in calculating funding status may result in changes in decisions on how plans are funded (e.g., changes in investment strategies and/or borrowing decisions).

Other Comments

While we agree with the approach to using a different discount rate based on a plan's funding status, we are not sure that the Canadian pension environment being different is sufficient justification for the departure from IPSAS guidance.

We understand that IPSAS was largely derived from IAS 19 (IFRS) standards. IFRS standards are applicable to the private sector. An alternative supportable justification for a departure from IPSAS guidance could be that the public sector pension environment is different given the long-term stability of government entities compared with the private sector.

In addition to considering the funding status of plans in determining the discount rate, we believe a departure from IPSAS should also be considered for revaluations given the public sector's unique budgeting and accountability requirements compared with the private sector.

Paragraph 84(b)(iv) of the proposed standard includes reference to 'taxes payable' as an example of financial actuarial assumptions. We question whether 'taxes payable' is applicable to public sector entities.