

“Employee Benefits, Proposed Section PS 3251”

Responses to Re-exposure Draft

February 2025

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Ontario's response to PSAB's Re-exposure Draft: Employee Benefits, Proposed Section PS 3251

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The following is the Province of Ontario's response to PSAB's Re-exposure Draft on
Employee Benefits, Proposed Section PS 3251

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Ontario partially agrees with the amended discount rate proposals in the Re-exposure Draft.

We support:

- determining the discount rate based on the funding status of the pension plan. We agree it is in the public interest and an appropriate deviation from IPSAS 39.
- requiring the discount rate for fully funded pension plans to be the expected investment return on the assets of the plan (paragraph .109). This discount rate represents the most specific cost of funding the future pension obligation. It reflects both entity and pension plan specific considerations and therefore is the best estimate to be used to calculate obligations of the Province.

However, we have concerns regarding the following:

- **Determination of the funding status** – Ontario considers that the funding status assessment can be streamlined.

Under Ontario Pension Benefits Act, R.S.O. 1990, c. P.8, all registered pension plans in Ontario must be funded to 100%. Any shortfalls must be covered within a specified time, or the plan risks non-compliance and even de-registration. While paragraphs .106 and .107 provide a list of primary and secondary indicators to determine whether a plan is fully funded, a plan should be considered fully funded without consideration to any other factors, if, on a going concern funding basis, the plan is statutorily or contractually required to be funded and those requirements stipulate that if there is a deficit relative to 100% funding, that deficit has to be funded by additional contributions over a specified period of time. The fully funded status of the plan should be retained as long as there is no statutory or contractual change. Updating the funding status of the plan at the end of each fiscal year-end under paragraph .103 should require only confirmation that there has been no statutory or contractual change during the year.

The primary and secondary indicators should therefore only be considered for plans where there are no clear legislative or contractual requirements to fund to 100% on a going concern funding basis.

- **Timing of the discount rate** – Ontario considers the guidance on the timing of the discount rate and the use of an early measurement date for pension plan valuations to be inconsistent.

As discussed further in response to question 4, Ontario is strongly supportive of the ability to use an early measurement date for pension plan valuations. Section 3251 however requires the discount rate be determined at the end of the reporting period (paragraphs .109 and .113). If an entity requests the actuary to carry out a valuation to measure the obligation before the end of the reporting period in accordance with paragraph .062, the entity will not be able to comply with the requirements under paragraphs .109 and .113. Ontario 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.

Ontario recommends that paragraphs .062, .109 and .113 of Section 3251 be amended to clarify that if a measurement date before the end of the reporting period is used, the discount rate should similarly be determined as of the measurement date.

- **Discount rate for underfunded plans** – Ontario considers that more specific guidance regarding the discount rate to be used for underfunded plans should be provided.

Paragraph .113 requires a discount rate to be used referenced to government bonds, high-quality corporate bonds, or by another financial instrument. Ontario is concerned that

this range of options will introduce uncertainty and audit risk. A wide range of choices puts the onus on the entity to justify their choice to their auditor while the auditor may have a different view. It is not clear why a senior government for example would reference a corporate bond rate. Additionally, it is not clear why and what type of financial instrument would be referenced.

Additional clarity should be provided to senior governments as to the rate that is most appropriate to be used. For senior governments, the government's borrowing yield curve is most appropriate as it reflects its specific cost of financing.

- **Partially funded pension plan classification** – Ontario encourages PSAB to retain the concept of a partially funded pension plan category that has been adopted by many financial statement preparers under Section PS 3250.

Paragraph .113 requires underfunded pension plans to be discounted referencing market yields on government bonds, high-quality corporate bonds, or by another financial instrument. Underfunded pension plans include those that are 0% funded to potentially over 90% funded. It is difficult to justify why using the same discount rate for a partially funded plan as for an unfunded plan is appropriate. This does not represent the true cost of funding the partially funded 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 for funding the pension plan. It is not reflecting pension plan specific factors in determining the discount rate and in valuing the pension obligation. Ontario doesn't consider the resulting obligation to be a correct valuation of the true cost of funding the obligation but instead an overstated liquidation amount. The discount rate to be used in example 14 in the Re-exposure Draft seems inappropriate when the pension plan is over 90% funded. Those assets will be used to fund the obligation. Therefore, accounting for the obligation as if the entity needs to 100% borrow seems misleading to users of the financial statements.

Ontario encourages PSAB to retain the partially funded category for pension plans and to require using a weighted average discount rate based on the portion of the pension plan funded at period end. Doing so will result in the discount rate reflecting the true cost to a government of funding its partially funded pension obligations.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

Ontario does not agree with the requirement to disclose the benefit obligation of a fully funded pension plan using an underfunded discount rate. Ontario would propose disclosure of such calculations be made optional.

Section PS 3251 requires a public sector entity to determine whether a defined benefit plan is fully funded or alternatively underfunded and then to use the prescribed discount rate. After a pension plan has been determined to be fully funded, paragraph .168 of Section PS 3251 then requires a public sector entity to calculate and disclose the defined benefit obligation applying an underfunded discount rate.

Ontario considers such sensitivity analysis to be:

Misleading to financial statement users

These pension plans are fully funded. Analysis was performed to support this classification. The pension obligation reflects that assets have been set aside to fund this obligation. To then require thorough disclosure the cost of funding this obligation if these assets were to disappear is not appropriate and misleading to financial statement users including the public. This is not sensitivity analysis. Sensitivity analysis is meant to understand the effect of fluctuations in selected variables on your entities surplus/deficit. It is meant to communicate possible feasible scenarios. For the pension plan to go from fully funded to unfunded does not seem plausible.

BC.94 indicates PSAB considers it prudent to disclose such information. Prudence is defined in Chapter 7, paragraph .45 of the conceptual framework as

“.. the exercise of caution when making judgments under conditions of uncertainty. Exercising prudence means not understating or overstating the financial statement elements. Any deliberate understatement or overstatement can lead to invalid assessments of accountability and suboptimal decisions. The concept of neutrality within the qualitative characteristic of faithful representation is supported by the exercise of prudence.”

There is no condition of uncertainty. The pension plan was determined to be fully funded. The funding status determination is similar to the assessment of control under Section PS 1300. We don't require disclosure of financial information for controlled entities as if they were non-controlled or vice versa. We determine an entity is controlled and our accounting reflects this determination. The proposed disclosure is similar to requesting liquidation value of assets and liabilities be disclosed when an entity is a going concern. It is a worst-case scenario that is not likely and is misleading to financial statement users.

Calculation provides no benefit to financial statement users

PSAB in paragraph BC.94 indicates it considers the additional cost of requiring expanded discount rate sensitivity disclosure to be outweighed by the expected benefit to financial statement users to whom public sector entities are accountable. Ontario doesn't consider there to be any benefit to financial statement users of disclosing the defined benefit obligation calculated using the underfunded discount rate. This higher amount doesn't represent the cost of funding the obligation to the Province. It doesn't represent the financial condition of the pension plan. Ontario doesn't see the benefit of disclosing the valuation of an obligation under hypothetical conditions. It will be confusing to the public and only reduce understandability of the financial statements. It is in no way improving accountability of the Province. The Province has demonstrated accountability by fully funding its pension plans.

The calculation will also be too complex for financial statement users. Included in the calculation are conditional benefits for defined benefit pension plans whose provision depends on the funded status of the plan, for example a cost-of-living adjustment for inflation is only payable if the plan is in a surplus position. If a fully funded plan is to be valued using a rate for an underfunded plan (e.g., the provincial bond rate) as the discount rate and if the plan is therefore in a deficit position, these conditional benefits in this sensitivity analysis scenario will no longer be payable. As a minimum, to address this matter, Ontario recommends the following sentence be added to the end of paragraph .167 to improve the clarity of the note disclosure: "For the purpose of the sensitivity analysis, plans may exclude any conditional benefits that are conditional on plan funded status."

By disclosing an obligation valuation as if it did not fund its plan is discouraging accountability. The Province will need to explain that if it took out all the assets from the pension plan (which it is not entitled to do), this would be the amount of the pension obligation. We do not understand how this is providing any benefit to financial statement users.

Disclosure will be timely and costly to implement

PSAB in BC.94 acknowledges the additional cost (and time) of requiring expanded discount rate sensitivity disclosure. This is one of many additional requirements included in Section PS 3251. Some of the new requirements that will take considerable time and effort to implement are included in our response to question 3. Ontario doesn't consider that the additional disclosure being required (including this sensitivity analysis) will improve understandability and is good use of public funds. Spending time and money on making this hypothetical calculation for all our fully funded pension plans on an annual basis where PSAB has not demonstrated there to be any benefit to financial statement users is not considered appropriate and to be a poor use of public funds.

Inconsistency in the discount rate

Paragraph .113 requires a discount rate to be used referenced to government bonds, high-quality corporate bonds, or by another financial instrument. Ontario is concerned that this range of options will introduce uncertainty and audit risk, as well as incur significant costs to provide such information. It is not clear why a senior government for example would reference a corporate bond rate. Additionally, why and what type of financial instrument would be referenced. This range of options will reduce comparability and consistency.

Ontario proposes such calculations be made optional. If there is truly a need or benefit to providing this calculation, users will request this information and governments will choose to include this disclosure. If not, such disclosure is not necessary as it provides no useful information to the public and will only lead to confusion, complexity, and the unnecessary use of public funds.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Ontario does not consider the transition time to be sufficient. PSAB is proposing a three-year retroactive transition. Ontario is requesting PSAB consider the totality of the additional reporting and disclosure requirements being introduced through Section PS 3251 and the resulting time that will be required by preparers to implement this standard. Ontario is therefore proposing a five-year implementation time period and an effective date of April 1, 2031, for senior governments. Earlier adoption is still permitted.

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.

Ontario considers that it will take considerable time and effort to implement Section PS 3251 considering the following requirements:

- **Classification analysis** - A detailed analysis of the legal documentation for each pension plan will need to be performed in relation to the classifications in Section PS 3251 and removal of the term “sponsor”.
- **Funding analysis** - PSAB acknowledges significant professional judgement may be involved in determining whether a pension plan is fully funded or underfunded. Such analysis will need to be communicated and agreed by our auditors. This will take time due to the detailed and unique nature of each pension plan.
- **Discount rate sensitivity calculation** – Separate analysis and calculations will need to be performed for all our fully funded pension plans. A discount rate will need to be determined. There is lack of clarity of the discount rate to be used as a range of options are included in paragraph .113. Determination of the discount rate and calculation will require the involvement of our actuary and discussion with our auditor. It will take time to develop a process due to the complex nature of each pension plan and its pension calculations. Ontario has expressed in response to question 2 considers this sensitivity analysis to be of little value to our financial statement users.
- **Substantial disclosure** – PSAB acknowledges the disclosure being proposed is more detailed than current requirements in Sections PS 3250 and PS 3255. Pension disclosure is very detailed and technical already. 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. It is always easy for standard setters to require more disclosure be provided. We would challenge standard setters to work at streamlining disclosure requirements to improve clarity and understandability, and to reduce complexity. Ontario strongly encourages PSAB to reconsider the excessive disclosure being required and whether it really is providing information of value to the users of government financial statements.
- **Retroactive application** – Given that retroactive application with restatement of prior periods is required where the total cumulative effect of the change in accounting policy on prior periods can be reasonably determinable, the calculations of prior period amounts will require resources and time especially given that Ontario’s Public Accounts include 5 years trend tables.

Implementation of a new accounting standard is an onerous process involving significant education, analysis, process changes, system changes, policy and legislative updates, planning and appropriation changes, budget changes, opening balance adjustments, comparison chart restatements, reporting changes, etc. Implementation of Section PS 3251

will not be the sole focus of Ontario over the next three years. 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 governments and its consolidated entities.

A three-year transition is too short given the complexity of pension accounting. This standard has been under development for many years. A more reasonable effective date would be 2031 allowing for a five-year implementation time-period for senior governments who are most affected by Section PS 3251.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Ontario continues to have concerns with proposals in Section PS 3251 in relation to:

- a. Accounting for multi-employer pension plans
- b. Early measurement of pension plans
- c. Valuation of plan assets
- d. Recording pension gains and losses directly to net assets without recycling

While some of the below comments are not new and have been communicated prior to PSAB, Ontario continues to urge PSAB to re-visit their proposed guidance on these matters.

Accounting for multi-employer pension plans

Ontario requests clarification from PSAB regarding the guidance on multi-employer plans in relation to the guidance on defined benefit plans that share risks between public sector entities under common control.

- Ontario's initial interpretation of proposed paragraphs .033 and .034 of Section PS 3251 would require a participating entity of a multi-employer defined benefit pension plan to demonstrate that sufficient information for defined benefit accounting is not available to follow defined contribution accounting. This would have significant implications for many public sector entities. This is very different than current Section PS 3250.110 where it is clear that a multi-employer plan is accounted for by each entity participating in the plan, other than the sponsoring government, using defined contribution accounting.
- However, our revised interpretation is that as these entities that are participants of multi-employer plans, i.e., hospitals, are controlled and consolidated onto the books of the Province, they would apply paragraphs .040 to .044 of Section PS 3251. Paragraph .041 is clear "If there is no such agreement, arrangement or policy, the net defined benefit cost would be recognized in the financial statements of the controlling public sector entity for the plan. The controlled public sector entities would, in their financial statements, on a defined contribution basis, recognize a cost equal to their contribution payable for the

period.” Paragraphs .040 to .044 support the continuation of defined contribution accounting for those participants of multi-employer pension plans that are controlled by the Province.

Ontario seeks clarity from PSAB on this matter and whether jointly sponsored multi-employer plans would also be subject to paragraphs .040 to .044. In addition, there is no similar language as in paragraph PS 3250.108 that specifies the required accounting at the consolidated/government level. If our revised interpretation is incorrect, then the comments below regarding the accounting for multi-employer pension plans would continue to apply.

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 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 have to 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 multi-employer plans by the Province. It will most likely require analysis of each individual entities’ method of accounting for about 160 plus entities so they may be consolidated 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, Section PS 3251 include as the default for participating members in multi-employer plans, defined contribution accounting. PSAB should additionally remove the related disclosure requirements per Section PS 3251.171 (d)(ii) to provide the reason why sufficient information is not available to enable the public sector entity to account for the plan as a defined benefit plan. Finally, a paragraph similar to PS 3250.108 should be added to specify the required accounting at the consolidated/government level to provide clarity.

Early measurement of pension plans

Ontario recommends that the concept of an early measurement date be explicitly included in the new standard consistent with current Section PS 3250. Ontario is strongly supportive of the ability to use an early measurement date. The major plans that are consolidated in Ontario's financial statements have a fiscal year end of December 31 whereas Ontario's fiscal year end for public accounts is March 31.

For accounting purposes, Ontario 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 Ontario with year-end results on a timely basis which greatly facilitate the budget and public accounts process. Due to the significant size and complexity of Ontario's pension plans, performing a valuation as at December 31 and again as at March 31 would be prohibitively costly.

Paragraphs .062 and .063 of Section PS 3251 seem to permit the continued use of an early measurement date. However, Ontario recommends that the concept of an early measurement date be explicitly included in the new standard and suggests maintaining the wording in paragraph .039 of Section PS 3250 as follows:

.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.

Additionally, PS 3250.118 indicates "Actuarial valuations for accounting purposes would generally be done once every three years because of the financial importance of retirement benefit obligations." Alternatively, proposed PS 3251.063 is more general indicating "One source of expert assistance is the qualified actuary carrying out the actuarial computations required in the preparation of an actuarial valuation for accounting purposes. Periodic assessments are needed to ensure that the assumptions continue to be relevant." Ontario encourages PSAB to retain the more detailed guidance in paragraph PS 3250.118 to reduce ambiguity and ensure greater clarity.

As mentioned prior in our response, Ontario also recommends that the discount rate to be determined in accordance with paragraphs .109 and .113 be as at the measurement date if it is different from the date at the end of the reporting period. This also should be explicitly indicated in Section PS 3251.

Valuation of plan assets

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 (soon to be net assets/liabilities) indicator. Currently under Section PS 3250.035, Ontario uses market-related values for plan assets in conjunction with amortizing actuarial gains and losses on pension plans and for other employee future benefits over the EARS of plan members for each respective plan.

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

- 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 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 market value 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 (soon to be net assets/liabilities) 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 including amortizing actuarial gains and losses on pension plans and for other employee future benefits over the EARS of plan members for each respective plan should be retained. As a reminder, Section 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. We also strongly encourage PSAB to provide guidance on where the valuation allowance should be recorded on transition to Section PS 3251. Currently this is unclear and clarity will promote consistency and comparability.

Recording pension gains and losses directly to net assets without recycling

Ontario does not agree with recognition of revaluations of the net defined benefit liability (asset) including actuarial gains and losses and changes in effect of the asset ceiling immediately in accumulated remeasurement gains and losses without recycling the amounts to surplus or deficit.

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 elected representatives and the public.
- The 10-year trend tables included in the Ontario Budget may require restatement of pension expense due to retroactive adoption. Politicians and the public may get confused as this is a change due to technical accounting standards when there has been no change to the actual pension plan.
- Uncertainty and confusion will be created, by recording some gains and losses to net assets, regarding what is the bottom line for the Province. Is it surplus/deficit or surplus/deficit plus these other revenues and expenses that are recognized directly in a component of net assets (for example to accumulated remeasurement pensions)? 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.

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.

January 16, 2025

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Public Sector Accounting Board
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RE: Re-exposure Draft – 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 Re-exposure Draft.

We urge PSAB to delay the effective date of PS 3251 for non-traditional pension plans until these plans are specifically addressed within the standard. This will ensure that non-traditional pension plans follow the standards specific to them and will provide financial statement users with better information for accountability purposes.

We hope you find our feedback helpful.

Yours truly,



Darren Noonan, CPC, CA
Auditor General

DN/tr

20 January 2025

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**Re: Response to PSAB Re-exposure Draft,
Employee Benefits, Proposed Section PS 3251**

Dear Mr. Puskaric,

Please find attached our responses to the questions outlined in the PSAB Re-exposure Draft Employee Benefits, Proposed Section PS 3251.

Thank you for the opportunity to comment.

Yours truly,

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Re-Exposure Draft – Employee Benefits, Proposed Section 3251

Question 1:

Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Response:

We disagree with the proposal. We agree in concept to the approach of using different discount rates based on the funding status and policies of the plans. We agree with the rate proposed for funded plans that are, or are intended to be, fully funded. While we agree that the rates proposed for underfunded plans is appropriate for plans that have no assets, we do not support using that rate to discount the full obligation of a plan with a funding status and policy indicating it is intentionally being only partially funded. In those cases, a blending of the two rates would provide a more faithful representation of the time value of money.

Example #14 in the Re-exposure Draft indicates that a plan with a 94% funding ratio without any support from the secondary indicators would be required to use the unfunded rate on the entire obligation. We do not support that treatment and question why that would be appropriate. 94% of the obligation is still being supported by investments that would be earning a rate of return greater than the unfunded rate, and this should be reflected in what is representing the time value of money. In this case, given the high funded ratio, using only the unfunded rate would be the least representative option available. A better option would be to use only the fully funded rate; however, a blended rate based on the funding ratio of the most recent funding valuation would be optimal.

Question 2:

Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

Response:

We do not agree with the requirement to disclose a funded plan's liability using an unfunded discount rate. Providing some form of sensitivity analysis on the discount rate is useful to acknowledge that current market rates are subject to movement due to events outside of our

control. The scenario of a fully funded plan shifting to be an intentional partially funded plan may be discretionary, as well as being an unexpected or unlikely occurrence. Therefore, this additional level of disclosure would lack relevance and may add confusion to an already complex area of the financial statements without adding value.

Question 3:

The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Response:

We disagree with this date. 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.

Question 4:

Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Response:

We believe specific guidance should be provided around the type of government bonds to use for discounting underfunded plans to improve consistency and comparability.

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

January 17, 2025

Mr. Puskaric:

Ernst & Young LLP (“EY” or “we”) welcome the opportunity to provide comments to the Public Sector Accounting Board (“PSAB” or the “Board”) on the October 2024 Employee Benefits, Proposed Section PS 3251 Re-exposure Draft (the “Re-exposure Draft”). Our responses to the specific questions posed in the Re-exposure Draft are included below.

Comments on Specific Questions Requested by the PSAB

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

To begin with, we wanted to note that, while we understand that other interested and affected parties support these proposals, we disagree with the Board’s decision to diverge from IPSAS 39, Employee Benefits, regarding the determination of the discount rate for defined benefit plans. We do not believe that Canadian public sector pension plans are unique; on the contrary, we believe that other countries have public sector pension plans that can be as equally well funded and well governed as Canadian plans. As a result, we do not believe that there is a sufficient distinction to merit a difference in PS 3251 relative to IPSAS 39 regarding the determination of the discount rate. Moreover, we note that the proposed PS 3251 will also diverge from the other generally accepted accounting principles primarily used by Canadian entities (ASPE, IFRS and US GAAP), which are generally aligned with IPSAS 39 in this regard. Consequently, we believe that the defined benefit plan obligations under these amended discount rate proposals would not be measured appropriately.

As for the amended discount rate proposals contained in the Re-exposure Draft, we have two comments:

1. *Regarding the determination of whether a post-employment benefit plan is fully funded or underfunded, we believe that there could be a certain amount of disconnection between the guidance in PS 3251.106 and .107 and illustrative examples 13 to 15 (PS 3251.IE.30-.39). The guidance proposed in paragraphs .106 and .107 is vague and we believe that many public sector entities could and will, in practice, conclude that their plans are fully funded. Most entities with funded plans in Canada would likely easily meet the criterion in paragraph .106(a). The criterion in paragraph .106(b) is less obviously easily met; however, the lack of specificity as to what “fully funded” means in the context of a quantitative actuarial valuation for funding purposes could lead entities to judgmentally determine that their plans are fully funded with varying funding ratios. However, illustrative examples 13 to 15 seem to indicate that a plan would be required to have a very high funding ratio, indeed at least 100%, in order to conclude that criterion .106(b) is met based on primary funding indicators alone. For example, the entity in illustrative example 13 is required to consider secondary funding indicators because its plan’s funding ratio subsequently fell to 98.9% from 101.7% in its most recent actuarial valuation. We believe that, in practice, most*

public sector entities with an appropriate funding policy would consider a funding ratio of 98.9% to be very well funded and indeed “fully funded”. There is nothing in the guidance in paragraphs .106 or .107 that would suggest that a funding ratio of 98.9% could not be considered “fully funded”. We believe that this could lead to diversity in practice, with some entities believing that “fully funded” would require at least a 100% funding ratio while others believe that having plan assets and a strong funding policy would permit them to conclude that their plan is fully funded based on primary indicators with a funding ratio below 100%. If the Board’s intention in paragraph .106(b) was that the actuarial valuation would need to show a funding ratio of at least 100% in order to conclude that the plan is fully funded, that is not clear and only somewhat illustrated in the examples. However, adding an additional example of a benefit plan that is considered fully funded based on primary indicators with a funding ratio of less than 100% could help confirm the appropriate interpretation of the guidance in paragraphs .106 and .107, as they are currently written. While the illustrative examples are a primary source of GAAP, they are illustrative only and rank below the guidance in the standard itself in the hierarchy of primary sources of GAAP; as a result, entities will put more weight into paragraphs .106 and .107, which are less clear and more open to interpretation than the illustrative examples.

2. *Regarding the determination of the discount rate for plans that are determined to be underfunded, PS 3251.113 indicates that such a rate should be determined by reference to “government bonds, high-quality corporate bonds, or by another financial instrument [...]”. Paragraph PS 3251.116 seems to indicate that a public sector entity should first look to government bonds and then, if government bonds don’t provide the best approximation of the time value of money, should look to high-quality corporate bonds. However, there is no further guidance on how a public sector entity should determine its discount rate on an underfunded plan. For example, would a provincial public sector entity be expected to first look to provincial government bonds? Likewise, would a federal public sector entity be expected to first look to federal government bonds? If a provincial public sector entity first looks to provincial government bonds but concludes that they do not provide the best approximation of the time value of money, should it then look to another level of government, such as federal government bonds, before looking to high-quality corporate bonds? While we recognize that the wording in PS 3251.113-.116 is mostly drawn from IPSAS 39, which had to maintain an international perspective where not all countries have the same levels of government or have a deep market in government bonds, this is an area where PS 3251 could go further to adapt to the Canadian reality of different levels of government, each with their own debt markets. Given the lack of prescriptive guidance in this section, we believe that there could be diversity in practice amongst entities with underfunded plans.*

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity’s defined benefit obligation (paragraph PS 3251.168)? If not, why?

Yes, we agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity’s defined benefit obligation. If the amended discount rate proposals referenced in question #1 above are ultimately included in the new Section 3251, we believe that this disclosure is critical.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree that the proposed Section should be effective for fiscal years beginning on or after April 1, 2029. However, this is contingent on the proposed Section being issued in a timely manner, such that a public sector entity on a three-year actuarial valuation cycle would not be obliged to obtain a new valuation mid-cycle in order to adopt the proposed Standard by this date.

The question asked if we agreed that the proposed Section should be applied "no earlier than this date"; however, we suspect that the question is simply worded incorrectly, and we do agree that earlier application should be permitted as proposed by PS 3251.199.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We do not have any new issues or new concerns to raise other than those raised in response to the above questions.

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

Yours sincerely,
ERNST & YOUNG LLP



Chartered Professional Accountants
Licensed Public Accountants

Canadian Union of Public Employees

**Submission to the Public Sector
Accounting Board (PSAB) Re-exposure Draft,
“Employee Benefits, Proposed Section PS 3251”**

January 16, 2025

Introduction

The Canadian Union of Public Employees (CUPE) is Canada's largest union, with over 750,000 members across the country. CUPE represents workers in health care, emergency services, education, early learning and child care, municipalities, social services, libraries, utilities, transportation, airlines and more. We have more than 70 offices across the country, in every province.

CUPE has extensive experience with pension plans of all types. Our members belong to more than 100 Defined Benefit (DB) plans across the country—from very small single-employer plans to large province-wide plans with tens of thousands of members. We have decades of experience in issues of pension plan design, funding and governance. Our union has been on the front line of the transition from government-controlled statutory pension plans to independently managed and jointly controlled and jointly sponsored pension plans (JSPPs) in many provinces. Our trustees play active roles on many of these boards. CUPE is well aware of the current pressures on DB plans, both economic and political. At the same time, we are also aware of the less publicized but equally important facts about how important and beneficial these plans are in the lives of our members and in the broader Canadian economy as a whole.

CUPE also has decades of experience with “non-traditional pension plans.” Our union was instrumental in launching the Nursing Homes and Related Industries' Pension Plan and the Multi-Sector Pension Plan in 1989 and 2002, respectively. These are both target benefit plans. We also have a detailed understanding of the design and mechanics behind the new single-employer “Shared Risk” target benefit plans which have been adopted in various ways in several jurisdictions.

Many of the questions posed in the Re-Exposure Draft appear to be directed at the public sector entities themselves and how they account for pension plans. As CUPE is not such an entity, we are not able to answer many of these questions directly. However, our union represents employees of such entities at all levels of government, and we want to convey our comments on several of the issues raised in the Exposure Draft.

Legislative Funding Obligations Should Be More Clearly Recognized

CUPE continues to have concerns about the use of the term “funding policy” in the re-exposure draft. We believe over-reliance on this term alone may not fully capture the various funding obligations underlying a pension plan. As we stated in our November 2021 submission, funding policies have been adopted to different degrees across the country. In some jurisdictions they are required plan documents for certain plans, but they are not required in all jurisdictions for all plans. Some plans therefore may not have a formal funding policy. In some cases, funding policies are viewed as binding, whereas in others they are seen as non-binding guidance documents. But in all cases, funding policies exist alongside of, and do not supersede, legislative minimum funding

standards. In our 2021 submission, we advocated that PSAB include references to legislative pension funding rules as part of a plan's funding obligation, instead of only referring to funding policies. We appreciate that legislative full funding requirements have been given more attention in the re-exposure draft. However, we continue to believe this could be clarified and emphasized further. For example, in .106(a), the language suggests that a funding policy includes statutory funding requirements, while IE .38(a) suggests that a funding policy and statutory requirements are separate and distinct. We believe that all plan documents and legal bases—particularly including statutory funding obligations—should be considered as part of the primary indicators test. The proposed language needs amendment in several places to ensure this more fulsome representation of a plan's funding obligations and plans is captured without ambiguity.

On this point, example 13 in Appendix D mentions a plan's funding policy but does not mention the relevance of legislative funding rules. As CUPE has outlined in our submissions to PSAB, defined benefit public sector pension plans in Canada are generally required by statute to maintain full funding, which typically includes an obligation to amortize unfunded liabilities should they emerge. Example 13 says that the primary indicators were insufficient to reach a conclusion in that case, and that the secondary indicators must be examined. As most plans would have a legal obligation to re-attain full funding if in a temporary deficiency, we wonder why the primary indicators would not have been sufficient in this case. We would suggest adding another example, or amending example 13, to show that where a plan has a statutory full funding obligation and an actuarial valuation has revealed an unfunded liability, that the primary indicators (particularly this statutory obligation) are sufficient to merit full funding accounting treatment without recourse to the test of the secondary indicators. We suspect that this will be a much more relevant example in the event of a period of unfunded liabilities for the vast majority of Canadian public sector plans.

Example 14 is also potentially confusing on this point. The description says that the plan's funding policy contains a "formal objective" of funding strength but does not clarify if this is a binding or merely an aspirational objective. It is unclear if the reference to "sufficient assets" refers to a full funding obligation or to some lower or less binding commitment. Statutory obligations are not mentioned in this example. Again, since most Canadian public sector plans have legal obligations to maintain full funding, this example may not be especially relevant and may even lead to confusing results in practice. A plan could in theory meet the description of example 14, but also be bound by a statutory requirement to amortize the unfunded liability. CUPE believes in such a case, that the plan should be treated as a funded plan based on the primary indicators that recognize that legislative obligation.

It would not make sense for a plan with a legal legislative obligation to maintain (or re-attain) full funding to have to switch overnight from full funding accounting to unfunded

accounting solely because the plan slipped into what could be a very small and temporary deficit. We do not believe this is PSAB's intention, particularly based on example 13. However, the proposed standards and examples should be amended to more clearly reflect this intention. CUPE suggests that some of these examples be revisited with a focus on recognizing the centrality of the legislative requirements for full funding that apply to so many of Canada's public sector pension plans.

Multi-Employer Sufficient Information Test

As we discussed in our 2021 submission, the proposed changes include an important new onus on participating employers in multi-employer plans. Currently these employers may use defined contribution accounting by default, which aligns with international standards. In the proposed paragraphs .033 and .034, PSAB outlines a new test whereby participating employers would first have to demonstrate that the information needed to determine that participating employer's proportionate share of the larger plan is not available. Only at that point could defined contribution accounting be used. Stakeholders across the Canadian pension industry have repeatedly advised PSAB that such information will not be available, for the reasons we summarized in that earlier submission. We continue to believe that this new onus will not produce any new information for users of financial statements due to the constraints identified above. We do believe, however, that it will result in wasted time and resources, and could lead to confusing outcomes. More plan money spent on administrative requirements like this, with little to no benefit to plan members or the public, would be wasteful. We recognize that PSAB itself acknowledged that this requirement will entail an administrative burden at BC.73. We again recommend that PSAB revisit this proposed requirement and allow the longstanding practice to continue.

Joint Defined Benefit Plans

Paragraph .046 says that public sector entities will treat Joint Defined Benefit plans as DB plans and record their proportionate "share" of the plan. This differs from the proposed treatment of Multi-Employer plans discussed above. In the interest of avoiding confusion, CUPE wanted to highlight that there are a number of major Canadian pension plans that are regulated and structured as jointly sponsored pension plans that are currently treated as Multi-Employer plans by participating employers for accounting purposes. We believe PSAB's intention here is that the Joint Defined Benefit category applies more to "single employer" jointly sponsored plans and not to the range of plans currently treated as Multi-Employer. CUPE would support that distinction and we have experience in both types of plans. However, to avoid possible confusion, PSAB may want to clarify the distinction between these plans in greater detail. If a multi-employer plan happens to be regulated or formally structured as a jointly sponsored pension plan, we believe the guidance should be clear that participating employers in this plan could still use the Multi-Employer plan standards for accounting purposes.

Sensitivity Analyses

Paragraph .167 requires a sensitivity analysis be disclosed for “each significant actuarial assumption.” The document is not clear as to what constitutes a “significant” actuarial assumption, but there is a reference to paragraph .081 which contains a lengthy list of assumption categories; and, many of the categories in .081 would be made up of a number of different individual actuarial assumptions. The list of potential individual actuarial assumptions is therefore quite long. Performing sensitivity analyses on each one of these assumptions would be very costly, impractical and of little value. PSAB clearly recognizes that such actuarial work entails additional costs for plans, as discussed in BC.94. However in that paragraph, PSAB suggests that this new disclosure requirement would be limited to a sensitivity analysis with respect to just the discount rate, which seems at odds with the language about “each significant actuarial assumption.” CUPE therefore believes that PSAB’s intention here is to mandate a single sensitivity analysis based on the discount rate. In the interest of avoiding confusion, we suggest that PSAB modify the language of .167 to reflect this intention. CUPE would be strongly opposed to any broader sensitivity analysis as it would be too costly to the plans for negligible benefit and would go well beyond the general actuarial practices around sensitivity analyses in funding valuations.

Conclusion

We thank the Public Sector Accounting Board (PSAB) for the opportunity to provide commentary on the questions raised in the PSAB’s Re-Exposure Draft. We take this topic very seriously and hope to remain engaged in this process as it moves forward. We remain available to the PSAB to further discuss any of the issues raised in this submission.

January 17, 2025

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

PSAB Re-Exposure Draft: Employee Benefits, Proposed Section 3251

Thank you for considering our feedback to the July 2021 Exposure Draft and issuing this Re-exposure Draft in response to some of the feedback received.

The amended discount rate proposals and the plan funding status have been simplified. However, we do have some concerns regarding the timing of discount rates to be used, the proposal of sensitivity disclosures for fully funded plans, and the effective date of the standard. Additionally, we believe there is room for improvement on the frequency of funding status assessments and valuations.

Our comments to the specific questions are reflected in the attached Appendix.

Sincerely,


Dan Stadlwieser
Controller

Attachment

- 1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?**

Partially agree.

The amended discount rate proposal is an improvement. Removing the partially funded plans category and amending the funding status assessment will address concerns we noted from the initial exposure draft. However, we believe there should be more flexibility provided around the timing of discount rates to be used (e.g. 3 months before year-end).

In addition, the illustrative examples are more detailed and explanatory. However, we believe the illustrative examples can be improved by adding further guidance on the frequency of valuations (please see #4 for comments regarding frequency).

- 2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?**

Disagree.

The proposed sensitivity disclosures presents alternate "what-if" scenarios. Unless a fully funded plan is expected to become underfunded, providing a sensitivity analysis based on the underfunded rate adds no value to users. In addition, there may be uncertainty in the sensitivity analysis itself, given the inherent uncertainty in determining pension obligations.

We believe including measurement uncertainty disclosures around the plans is sufficient. This proposed additional disclosure for doing these "what-if" scenarios will require more allocation of resources and increase costs to prepare. Furthermore, it leaves little benefit of proper classification if fully funded plans need to be presented as fully and underfunded. Additionally, this potentially opens the door to the same "what-if" questions for several other disclosures in the financial statements.

The only applicable scenario where sensitivity disclosure will be meaningful to users of financial statements is when there is a firm plan in place to move a fully funded plan to partially funded in the future. This will give users appropriate comparatives for current and future pension obligation values.

3. *The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?*

We do not believe the effective date of fiscal years beginning on or after April 1, 2029 allows sufficient time for proper implementation of the standard due to the work required (e.g. potential legislative changes, system changes, appropriation, budgeting process, etc.). In addition, PSAB has yet to release Phase 2 of the Employee Benefits project on non-traditional pension plans. Until that is released, we do not know how it could potentially impact the way employee benefits would be accounted for when compared to applying PS 3251 alone.

We suggest for PS 3251 to be effective at the same time as Phase 2 of PSAB's Employee Benefits project (i.e. non-traditional pension plans). Furthermore, consideration should be given on the timing of releasing other standards as well, so that multiple standards are not all effective at the same time which can potentially cause resource challenges with implementation.

4. *Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?*

Yes. We think there is room for improvement on the frequency of funding status assessments and actuarial valuations.

- i) Frequency of funding status assessment:
Frequency of assessment is set at each year. Primary and secondary indicators include management's intention to fund the underfunded portion of the plan to categorize it as fully funded. This decision does not change each year and hence will not result in reclassification.

We suggest the funding status to be assessed on the same frequency as actuarial valuations, unless there is a significant triggering event that could change the funding status before the next actuarial valuation (e.g. legislation change). Decreasing the frequency of funding status assessment will save time and cost.

- ii) Frequency of actuarial valuations:
The frequency of performing actuarial valuations for public sector entities are usually set by legislation. In the absence of legislation, PSAB should consider giving more guidance around the frequency of performing actuarial valuations.



January 17, 2025

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

Dear M. Puskaric:

Re: Employee Benefits, Proposed Section PS 3251 Re-exposure Draft

We do not support the proposed Standard as outlined in the re-exposure draft Employee Benefits, Proposed Section PS 3251. The attachment sets out our responses to the specific questions listed in the exposure draft.

Yours truly,

A handwritten signature in black ink, reading "T. Clemett".

Tara Clemett, CPA, CA, CISA
Provincial Auditor

ND/mr
Attachment

	Question	Response
1	Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?	No, we do not agree. As indicated in our response to the July 2021 Exposure Draft, we do not agree with using different discount rates based on the funding status of the Plan. The discount rate used to determine the liability should not be affected by whether the Plan has assets. The liability exists whether or not there are assets set aside to cover. The government is responsible for the liability and will have to pay for it from its collective resources. As such, we view a discount rate based on government's bond rates (high-quality debt instruments) as the most appropriate for estimating the fulfilment value of the accrued benefit obligation since it reflects the economic conditions and market expectation at the reporting date. We are also concerned with aspects of the proposals specifically related to the required annual assessment of funded status – see our response to Question #4.
2	Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?	No, we do not agree with this specific proposal. While we fully support the addition of sensitivity disclosure for key assumptions (such as if the discount rate chosen changes by x%), the requirement to disclose the impact of choosing a completely different discount rate basis adds unnecessary complexity to the financial statements. Requiring this disclosure would require effort and cost with limited benefit to the users of the financial statements. We are not clear why PSAB is asking for disclosure of the impact of using a completely different discount rate (applicable to an underfunded Plan) when that situation does not currently exist or may never occur. We are concerned that instead of promoting better understanding of financial statement users, this disclosure will be confusing for those users.
3	The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?	We agree with the proposed effective date as it should give sufficient time for public sector entities to make appropriate changes needed to adopt the standard and for auditors to adapt their audit approach as necessary.
4	Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?	See our responses to Questions 1 and 2 above for areas we strongly believe PSAB needs to reconsider its position.

	Question	Response
		In addition, we note the following: Paragraphs .006(c) and .066 indicate “An example of a liability resulting from a constructive obligation is where a change in the public sector entity’s informal practices would cause unacceptable damage to its relationship with employees”. While we encourage PSAB to include examples, this particular one is not useful as it does not describe a real practical example of when this situation would occur – what would be an example of unacceptable damage to its relationship with employees that would trigger a constructive obligation? Paragraph .106(a) indicates that the existence of a formal funding policy requiring sufficient Plan assets be set aside to fulfill the obligation is a primary indicator that a Plan is fully funded. We question how that long-term promise provides any sort of indication of a Plan’s current funded status and do not think this should be considered a primary indicator. Paragraph .103 introduces a new requirement for the public sector entity to assess the funding status of the Plan at the end of each fiscal year to determine the appropriate discount rate to apply. Paragraph .106(b) indicates that the Plan’s actuarial valuation for funding purposes would be one of the primary indicators to consider when assessing funding status for accounting purposes. We agree it is a primary indicator, but public sector entities do not necessarily obtain funding valuations every year and there can be significant changes that occur in the interim. As a result, in years between funding valuations, the annual assessment will be much more subjective, and we foresee potential challenges with auditing these assessments in those years. This may result in pressure for public sector entities to obtain annual funding valuations which will come at a significant cost.



January 17th, 2025

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 RE-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's) commentary and input in response to the Re-Exposure Draft on proposed Accounting Standard 3251 – Employee Benefits, issued October 2024. All responses have been prepared by The City's Corporate Financial Reporting team and the Pensions and Benefits Finance team.
All references made to the standard are in red.

Responses to Specific Questions:

1. *Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?*

City Response:

The City agrees with the guidance on assessment of funding status of a post-employment benefit. Section .102 - .108.

The City does not agree with the discount rate approaches proposed in Section .109 - .112 for fully funded plans for the following reasons:

1. The proposed approach is likely to result in increased volatility in deficit or surplus. Market returns are likely to be more susceptible to volatility particularly in years with a significant economic downturn, or unforeseeable events (like a pandemic).
2. A conservative discount rate arrived at by analysing the long-term risks to The City, such as the Government of Alberta long-term lending rate, would be more appropriate. This rate is typically expected to be lower and less volatile than the market rate of return on plan assets, leading to a higher EBO liability balance. A higher EBO liability is more conservative and provides a buffer should market returns drop significantly below expectations.
3. Using different rates for fully funded and underfunded plans reduces comparability across organizations.

The City agrees with the discount rate approach proposed in Section .113 - .116 for underfunded plans as the approach is based on discount rates which are less volatile, are more conservative and this aligns with The City's current accounting.



2. *Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?*

City Response:

The City disagrees with the proposal for sensitivity disclosure for fully funded plans as it disagrees with the proposed approach for fully funded plans (as stated in response to Question #1). If, however, The City did follow the proposed guidance for fully funded plans as proposed in Section .109 - .112, The City would still disagree with the proposed sensitivity analysis disclosure. Assuming the disclosure requirement is meant to increase comparability across organizations, then only one discount rate should be permitted for both fully and underfunded plans. Furthermore, The City believes presenting alternative values, which were derived using alternative rates would cause confusion to some users of the financial statements.

3. *The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?*

City Response:

The City agrees with the effective date of April 1, 2029, The City would implement PS 3251 for the year ended December 31, 2030. The City also agrees that it should not be applied earlier than this date. PS 3251.199 states early adoption is encouraged, however The City disagrees with early adoption, as that would decrease comparability between organizations that adopt the standard as per the effective date and those that adopt the standard early.

4. *Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?*

City Response:

The City would like further clarification on the proposed discount rate to be used for both fully funded and underfunded plans. It would be helpful to gain an understanding of the rationale behind using the market rate of return for fully funded plans as opposed to market yield on Government bonds (or similar) for underfunded plans.

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
Financial Reporting Officer
The City of Calgary
Nicole.Hiscock@calgary.ca



January 20, 2025

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

Dear Mr. Puskaric:

Re: Re-exposure Draft – Employee Benefits, Proposed Section PS 3251 (*the “Re-exposure Draft”*)

We welcome the opportunity to comment on the Public Sector Accounting Board’s (“PSAB” or the “Board”) Re-Exposure Draft, Employee Benefits, *Proposed Section PS 3251*.

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Given the Board’s decision to permit a dual discount rate model, we believe the simplification of the funding status assessment in the amended discount rate proposals will be easier to apply than those proposed in the original exposure draft. However, we have some suggestions to enhance the consistency of application.

Definition of “fully funded”

We observe that the definitions of fully funded status and underfunded status in PS 3251.102 appear clear; the plan is fully funded when sufficient plan assets have been set aside to fulfill its post-employment benefit obligations, and a plan is underfunded when insufficient assets have been set aside. The use of the past tense appears definitive. The additional primary indicators seem to support this definition.

However, in our view it is less clear how some of the secondary indicators are consistent with the **definition. For example, if the public sector entity’s corrective actions require additional funding, then** that is actually evidence that insufficient assets have been set aside, because more assets must be provided for the plan to be funded, regardless of whether that additional funding is made in the short term or the long term. This is different from shortfalls caused by asset volatility, suggested in paragraph 107(b) which are expected to correct themselves over the economic cycle through appreciated asset values. This latter indicator is consistent with the definition that sufficient assets have been set aside. In other words, the inclusion of a secondary indicator around corrective actions that could be taken in the future does not appear to be consistent with the definition of fully funded in paragraph 102. This could lead to confusion and inconsistent application of the secondary indicators.

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“PwC” refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Mr. Michael Puskaric
Public Sector Accounting Board
January 20, 2025

If the Board continues to believe that a plan is fully funded when there are insufficient assets, but **corrective actions (including additional funding) can be taken for the plan to be fully funded “in a timely manner”** then we suggest there are two possible approaches for the Board to take:

- A. The definition of fully funded be updated to acknowledge that the secondary indicators include **future actions, not only past actions. For example, it might state “whereby sufficient plan assets have been set aside or are expected to be set aside in a timely manner to fulfill its post-employment benefit obligations to current plan members and their beneficiaries”.** We note that this would require additional guidance on what a “timely manner” is (see our further comment below) and that it would broaden the definition to include plans that have never been 100% funded but are close to being funded, where there is a plan to fund in a timely manner.
- B. No change made to the definition, but only the primary indicators listed in PS 3251.106 are used to determine whether the definition is met and the plan has become fully funded (and would use the fully funded discount rate). The secondary indicators in PS 3251.107 would only be used in circumstances where a plan that had previously been fully funded would no longer meet the conditions in the primary indicators. These secondary indicators would be used as an exception to the definition to determine whether a plan that had previously been fully funded could continue to use the funding discount rate. This would avoid flip-flopping between the two discount rate models. (We agree that frequent changes between the discount rate models is not a useful outcome for preparers or users.) For example, when the assets of the plan decreased to below the liabilities based on a subsequent actuarial valuation for funding purposes, the secondary indicators in PS 3251.107 would be used to assess whether the plan can continue to use the fully funded discount rate.

Under this alternative application of the secondary indicators, when a plan has never had sufficient plan assets set aside to meet its obligation (under the primary indicators), it would not be considered fully funded yet. That is, the secondary indicators could not be used to get into the fully funded definition, rather the secondary indicators would only allow a previously fully funded plan to remain categorized as fully funded, even when future actions are necessary to correct the shortfall. We believe that the added clarification would result in a more consistent application of the guidance.

In a timely manner

One of the secondary indicators in assessing whether the plan maintains its fully funded status is the **public sector entity’s corrective actions (PS 3251.107(a)). This requires evidence of actions taken by the public sector entity to correct shortfall “in a timely manner”.** While we agree the Board should not make bright lines around what a “timely manner” is, we believe that some indicative range should be more clearly articulated in the standard itself. We observe that illustrative example 15 (PS 3251.IE.36 - IE.39) includes a plan with reported going concern actuarial assets of \$125 million and liabilities of \$133 million and a funded ratio of 94% based on the most recently filed actuarial valuation for funding purposes.



Mr. Michael Puskaric
Public Sector Accounting Board
January 20, 2025

To resolve the funding shortfall, the plan has increased its required annual contributions from participating employees by a total of \$1 million. In simple terms, the shortfall is \$8 million (\$133 million - \$125 million). Assuming that the shortfall will be covered by the increase in contributions only and ignoring returns on plan assets, it would take 8 years to make up the shortfall.

This seems to suggest that 8 years is considered to be timely in the context of this section, although **we note that 8 years would not typically be considered "timely" in other contexts and a more usual reading of "timely" would suggest the shortfall should be resolved in, say, one to three years.** We believe that without additional guidance on what is considered to be timely in the context of post-employment benefit plan (which is a long-term liability) significant diversity in practice could occur, given the illustrative example seems to contradict a colloquial use of the phrase.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of **an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)**? If not, why?

We generally disagree with the proposal to include disclosure of the impact of an underfunded discount rate for fully funded plans in PS 3251.168. In our view, the proposed disclosure undermines the differentiated discount rate approach that is explained in PS 3251.BC.55 - BC.57. The Board concluded that retaining a differentiated discount rate approach is relevant to the Canadian public interest and, as explained in PS 3251.BC.57, a differentiated discount rate approach is a technically defensible approach that provides an incremental improvement over the absence of prescriptive discount rate principles in existing Section PS 3250 while maintaining the support of public sector entities that apply public sector standards. The Board has set conditions under which a fully funded discount rate provides the most relevant and useful information to users about the employment benefit liabilities. Suggesting that the alternative unfunded discount rate is also useful, relevant and material information to users begs the question as to why it is not being used as the actual discount rate. If comparability between plans is the primary objective of financial reporting the Board wants to achieve then this would suggest that a single rate model is more appropriate for financial reporting.

We do not believe that the information on an underfunded discount rate is decision useful for the primary users of the financial statements when it is clear that the plans are fully funded. In addition, the proposed disclosure in PS 3251.168 would be hypothetical as the underfunded discount rate was not used to measure the obligation. In practice, it could also be challenging and costly to come up with an underfunded discount rate for fully funded plans when it is not required for measurement of the obligation. We believe sensitivity analysis on the discount rate actually used for measurement continues to be useful, given that it is source of significant estimate uncertainty. However, this should be provided in the context of the reasonably possible alternative assumptions that could have been used in determining the fully funded rate.

We believe that enhanced disclosures concerning the judgments management has made on whether a plan is fully funded would be more useful, particularly where secondary indicators have been used to support continued use of the funding discount rate.



Mr. Michael Puskaric
Public Sector Accounting Board
January 20, 2025

We recommend expanding on the key judgments applied in selecting the plan funding status (for example, the use of secondary indicators) in paragraph PS 3251.161(d).

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree. We suggest that the Board also considers the status of other active projects such as Government Not-for-Profit: Capital Assets, and Intangible Assets, to ensure that the effective dates of other new standards and amendments do not overload the preparers of the financial statements.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We do not have any new issues or concerns to raise. However, in our previous response to Question 12 on the proposed transitional provisions in the original Exposure Draft we highlighted that a full retroactive application of the new standard would require an entity to determine the appropriate split between the accumulated remeasurement gains and losses and the accumulated surplus/deficit as a result of the adoption where changes to the discount rate under the new standard would impact the net interest cost and the current service cost. 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 remeasurement gains and losses. We believe this would simplify the initial application of the standard without loss of useful information to users on a go-forward basis.

We would be pleased to respond to any questions you might have. Questions can be addressed to Lucy Durocher (lucy.durocher@pwc.com) or Sean Cable (sean.c.cable@pwc.com).

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants



January 20, 2025

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

RE: 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 Re-exposure Draft. We are pleased to submit to the Board our response to the specific questions posed in the Re-exposure Draft.

We urge PSAB to delay the effective date of PS 3251 for non-traditional pension plans until such plans are specifically addressed by the standard. This will help achieve the proposed section's intent to improve understandability of financial reporting of employee benefits and provide financial statement users with better information for accountability purposes.

We hope our perspective within our role as a legislative audit office will provide PSAB with useful feedback.

Sincerely,

Paul Martin, FCPA, FCA
Auditor General of New Brunswick

Appendix 1 – Auditor General of New Brunswick Response to PSAB Re-exposure Draft:
Employee Benefits, Proposed Section PS 3251

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

No.

We agree in concept with the approach to using different discount rates based on the funding status of the plan and agree with the discount rate proposals for funded and unfunded plans.

However, we caution that issues will arise with understandability and comparability when a fully funded plan which applies a discount rate in one accounting period PS 3251.109 (expected market return on plan assets) becomes a partially funded plan and needs to apply a discount rate PS 3251.113 (market debt instruments) in another accounting period and vice versa.

In addition, we see the following challenges of partially funded plans applying an underfunded rate:

- lack of consistency in how liabilities are accounted for
- lack of comparability of obligations
- could introduce management bias in classification of plans as “fully funded” or “underfunded” in order to achieve certain outcomes in situations where judgment needs to be applied

We suggest a simplified approach of applying a blended discount rate to partially funded plans (expected market return on plan assets to the extent the plan is funded and market debt instruments to the extent the plan is considered unfunded) using the plan’s most recent actuarial valuation for funding purposes with extrapolation consideration. This would enable liabilities to be consistently accounted for and comparability amongst obligations.

If the proposed approach outlined in the Re-exposure Draft is taken, we recommend illustrative example 14 to be updated. The need to apply significant professional judgement has not been adequately demonstrated in illustrative example 14- underfunded status based on primary indicators which dismisses having to consider secondary indicators as part of the funding status assessment.

The lack of robust analysis could result in:

- Management bias in classification of plans as “fully funded” or “underfunded” to achieve certain outcomes.
- Reclassification of the plan in subsequent years due to lack of analysis of the funded status resulting in reduced comparability year over year and confusion to stakeholders.

Illustrative example 14 should be updated to consider the preponderance of evidence available (consider secondary indicators or explain why the secondary indicators did not need to be assessed) in the determination of a plan’s funding status.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

No.

PS 3251.167 already requires a sensitivity analysis for each significant actuarial assumption (which includes the discount rate), showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. Having the requirement for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate only adds to the administrative burden.

The proposed sensitivity disclosure highlights deficiencies in the proposed standard which include the lack of comparability between fully funded and underfunded (which includes partially funded) plans. Please see our response to question 1 regarding the challenges of partially funded plans applying an underfunded rate.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We disagree with Section PS 3251 being effective for non-traditional plans for fiscal years beginning on or after April 1, 2029. Please see our comments in 4 i) Transitional Provisions.

PS 3251.199 says "This Section applies to fiscal years beginning on or after April 1, 2029. Early adoption of this standard is encouraged." We have no issues with entities having the ability to early adopt this standard provided they have already adopted the *Conceptual Framework for Financial Reporting in the Public Sector* and *Financial Statement Presentation*, Section PS 1202.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Yes.

i) Transitional Provisions

We disagree with Section PS 3251 being effective for non-traditional plans for fiscal years beginning on or after April 1, 2029. PSAB needs to provide transitional relief for non-traditional plans by delaying the effective date of PS 3251 until these plans are specifically addressed by the standard. Accounting treatment for non-traditional targeted benefit plans in New Brunswick will significantly change under this proposed standard and then may be subject to substantial additional changes once non-traditional plans are addressed. This will result in undue effort and cost, reduced comparability year over year, and confusion to stakeholders.

Potential options for providing transitional relief:

Option 1 (preferred option)

Allow for a transitional exemption for entities with non-traditional plans to retain their existing accounting policies for employee benefits until non-traditional plans have been addressed by the standard.

Option 2 (less desirable option)

Allow for a transitional exemption for entities with non-traditional plans to retain their existing accounting policies for non-traditional plans until non-traditional plans have been addressed by the standard while adopting the proposed standard for employee benefits other than non-traditional plans for fiscal years beginning on or after April 1, 2029. This is a less desirable option as there would be less consistency in how employee benefits are accounted for within the financial statements.

ii) Accountability Challenges

We disagree that remeasurements of the net defined benefit liability (asset) should be recognized in net assets without subsequent recognition in the statement of operations. We believe this removes a level of accountability from governments. Applying the proposed standard will 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 in the statement of operations. Spending implications may flow from incremental budget room available.

We would like to highlight again the negative impact this revised standard will have on non-traditional plans. Pensions is an already complex topic for decision makers, changing how the pensions are budgeted and accounted for once with the implementation of this standard and again once non-traditional plans are addressed adds to the complexity and reduces accountability.

iii) Limitation of liability not addressed

While the proposed standard allows for an asset ceiling when a public sector entity is in a surplus position in a defined benefit plan, there is no allowance in the standard to cap a liability when a public sector entity is in a deficit position.

There are pension plans in New Brunswick where the employer promises to make contributions as required under the funding policy with a view of meeting targeted benefits rather than a promise of the amount of benefits to its employees.

Unlike conventional defined benefit plans, the risks of not meeting the targeted benefit do not reside solely with the employer. Unlike conventional defined contribution plans, the contributions for services rendered during the period are not limited to the amount paid but are subject to some degree of variability within agreed parameters. The employer has some risk related to the variability of contributions while the employee is exposed to risks: additional contributions, conditional indexation of benefits, and reduction of base benefits. The non-traditional features of

these plans highlight the need for subsequent phases of this employee benefit project and the need to delay the effective date for non-traditional plans.

iv) Appendix A: Decision Tree – Classifying Defined Benefit Plans

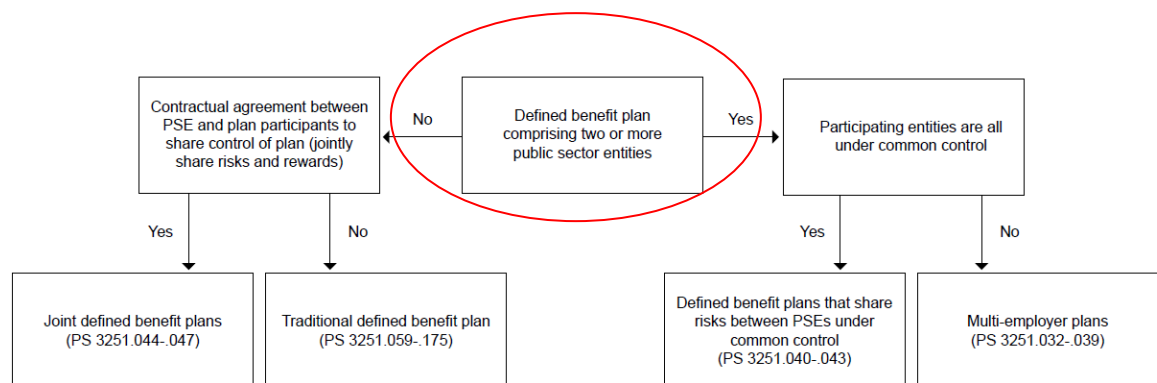
The decision tree is not clear from a controlling entity perspective. It should be clarified to consider instances where a controlling entity may yield a different classification than its components who participate in the same plan.

Example:

Public sector entity A & public sector entity B are separate legal entities under the common control of public sector entity C. Public sector entity A and public sector entity B are the only entities that participate in the defined benefit plan. The decision tree should be clear that public sector entities A & B (that prepare separate entity financial statements) would go down the right side of the decision tree in the determination of appropriate classification whereas for the controlling entity (public sector entity C) it would go down the left side of the decision tree and be subject to either defined benefit or joint defined benefit accounting.

APPENDIX A: DECISION TREE – CLASSIFYING DEFINED BENEFIT PLANS

Although illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



v) An illustrative example of financial statement presentation for a defined benefit plan is essential for both financial statement preparers and auditors like PS 3250 *Retirement benefits* Appendix B- Example 1- this should be included in Appendix D: Illustrative Examples.

vi) We would like to see more illustrative examples, including examples of:

- Asset ceiling

- Financial statement presentation for retirement allowance and worker's compensation benefits (liability for injured workers).
- Sick leave obligation (like PS 3255 *Post-employment benefits, compensated absences and termination benefits* Appendix B).



January 20, 2025

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

Dear Mr. Puskaric,

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

We have read the Re-Exposure Draft issued in October 2024 titled 'Employee Benefits, Proposed Section PS 3251' (the ED) and appreciate the opportunity to provide feedback. We support PSAB's project to review Sections PS 3250, *Retirement Benefits* and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* and agree that these sections need to be updated to reflect the current state of public pension plans.

Public sector entities should not account for private, independent pension plans unless they are sponsors or co-sponsors: As previously communicated to PSAB, most recently in our response letter dated November 25, 2021 to the initial exposure draft, our overriding concern is that Public Sector Accounting Standards (PSAS) relating to post-employment benefits plans, namely jointly sponsored defined benefit plans¹ and multi-employer defined benefit plans², require changes to prevent the outcome 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. HOOPP is independent of the Government of Ontario and the Government is not a sponsor, does not direct or control the Plan, and does not share in the risks or rewards of Plan performance. This creates a moral hazard⁴, exposing the government to higher risks than necessary. The standard should be updated to clearly define the term sponsor in the context of applying the relevant accounting for these types of plans.

Discount Rate Guidance: We fully support the use of the expected return on plan assets as the discount rate assumption used to calculate the pension obligations for defined benefit pension plans that are fully funded. Further, we commend PSAB for adding clarification within the ED to support the application of

¹ A jointly sponsored pension plan (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 Terms: <https://www.fsrao.ca/consumers/pensions/guide-understanding-your-pension-plan/glossary-pension-terms>*)

² A multi-employer pension plan (MEPP) is 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 Terms: <https://www.fsrao.ca/consumers/pensions/guide-understanding-your-pension-plan/glossary-pension-terms>*)

³ The Plan and the Fund, as described within Appendix A, 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.



this guidance and for simplifying the assessment of a plan's funded status through the primary and secondary factors explained in the ED. We note however that the description of the considerations for primary and secondary indicators should be made clearer that any plan that is required by legislation to establish corrective actions should a current funding deficit exist automatically meets the primary indicator criteria for a fully funded plan regardless of current funded status. The secondary indicators should only be considered when the plan is not subject to legislation requiring corrective actions to be taken.

Fully funded plans should not be required to disclose a sensitivity analysis using an unfunded discount rate: The proposal to disclose a sensitivity for plan obligations using an unfunded discount rate for plans that are fully funded is contradictory to the definition of a fully funded plan, as defined in the ED. It does not provide a true sensitivity analysis using a reasonable alternate assumption, given that fully funded plans would not be expected to measure their pension obligation using an unfunded discount rate at any time. It will result in an outcome that will misrepresent a plan's funded status and provides no decision useful information to users of the financial statements. Instead, a more meaningful disclosure may be a +/- 1% sensitivity to the discount rate used by a fully funded plan, which would reasonably illustrate the sensitivity of the return assumption used by the plan. This approach is more meaningful to readers of the financial statements and is consistent with sensitivity analyses required in other accounting standards.

Public sector entities that participate in a private, independent pension plan should only account for their set contributions to the plan: As previously communicated in our response letter dated November 25, 2021 to the initial exposure draft, 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 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. Furthermore, the decision tree included within the ED's Appendix A on classifying a defined benefit plan does not address the unique scenarios that exist in the Canadian pension space. As provided, it does not specifically address plans like HOOPP, which are jointly sponsored, multi-employer plans and, therefore requires judgement to be applied in respect of these plans which can lead to inconsistent application. We recommend further clarification and guidance be added.

Appendix A attached to this letter further elaborates on these key areas and includes commentary regarding the amended proposals in the ED. HOOPP welcomes the opportunity to meet with PSAB to discuss the ED, this letter, our previous letters and any other issues related to the Employee Benefits project. Participating in this public consultation is a priority for HOOPP. We strongly support the mission of PSAB to develop 'accounting standards and other related reporting guidance for the Canadian public sector that support accountability, transparency, informed decision making, and stewardship'⁵.

⁵ Public Sector Accounting Board Terms of Reference, 2024: <https://www.frascanada.ca/en/psab/about/terms-of-reference>

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

A handwritten signature in black ink, appearing to read 'B Thomson', written over the printed name.

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

APPENDIX A: HOOPP's Response to the Re-Exposure Draft issued in October 2024 titled 'Employee Benefits, Proposed Section PS 3251' (the ED)

OVERVIEW OF 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 one of Canada's largest pension plans. There are currently over 460,000 active, deferred and retired members, over 670 participating employers, both private and public sector entities, and HOOPP's net assets available for benefits as at December 31, 2023, were \$113 billion.

HOOPP is an independent pension service provider to hospitals as well as many private sector employers. An 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) 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 ongoing⁶, HOOPP member accrued benefits may be reduced on a wind-up if the Plan is underfunded; and
- As with other JSPPs, HOOPP is not covered by the Ontario Pension Benefits Guarantee Fund (PBGF)⁷.

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 beyond the requirement for participating employers to continue to remit required contributions to continue participation in the plan.

COMMENT #1: Scope and Definition of The Term 'Sponsor'

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

⁶ 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).

⁷ 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: <https://www.fsrao.ca/consumers/pensions/guide-understanding-your-pension-plan/glossary-pension-terms>)

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 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 any HOOPP surplus, or ability 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; therefore, 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. This is an inaccurate reflection of the financial obligations of the Province and creates a 'moral hazard' by suggesting otherwise. In addition, 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 (e.g., additional audit costs).

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.

For HOOPP, and other plans with similar independent governance structures, it is not clear if the Province is considered 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 'participating entities' in this context.

We recommend that the term 'participating entity' 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'⁸, which is included in the *Pension Benefits Act* (Ontario).

With an appropriate definition of 'participating entity', or alternatively 'participating employer', 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 included⁹. Alternatively, a definition corresponding with Canadian law, for example, could be considered. While 'sponsor' is not defined in legislation, the Financial Services Regulatory

⁸ '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))

⁹ '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)*)

Authority of Ontario's (FSRA) pension plan guide glossary includes the term 'plan sponsor'¹⁰.

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 public sector entity sponsors a defined benefit multi-employer retirement benefit plan, it has the responsibility to ensure that the defined 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.

COMMENT #2: Discount Rate Guidance & Sensitivity Disclosure

• Determining a Plan's Funded Status and Discount Rate (ED question #1; PS 3251.100 - .116)

Paragraph 103 of the ED requires a pension plan to first assess the funded status of a plan before determining the discount rate to use in its actuarial assumptions. Per the proposals, this assessment is based on a combination of primary and secondary indicators which include both qualitative and quantitative assessments. HOOPP notes that this assessment has been simplified in this ED and HOOPP fully supports PSAB's revised proposal.

We note however that the description of the considerations for primary and secondary indicators in paragraphs 106 and 107 of the ED should be made clearer that any plan that is required by legislation to establish corrective actions should a current funding deficit exist automatically meets the primary indicator criteria for a fully funded plan regardless of current funded status. The secondary indicators should only be considered when the plan is not subject to legislation requiring corrective actions to be taken. Example 14 (Underfunded status based on primary indicators) in the Appendix to the ED does not appear to be a realistic example of a plan that should use an underfunded status. If that plan is required to file valuations with a provincial regulatory body at least every three years, that plan would presumably be required to adopt corrective actions to eliminate any current funding deficit over time in order to maintain its registration status. We would recommend that example 14 be replaced with an example using a plan that is not required to file valuations with a provincial

¹⁰ '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*: <https://www.fsrao.ca/consumers/pensions/guide-understanding-your-pension-plan/glossary-pension-terms>)

regulatory body or clarify that while the valuations are filed with a provincial regulatory body that no correction actions are required by the provincial regulatory body.

Paragraphs 109 and 113 propose differing discount rates based on a plan's funded status. HOOPP also supports the use of separate discount rates for funded and underfunded plans being:

- i) a discount rate based on the expected market-based return on plan assets for fully funded plans (consistent with the July 2021 Exposure Draft) and;
- ii) a discount rate based on the below options for under-funded plans:
 - a. government bonds,
 - b. high-quality corporate bonds, or
 - c. another financial instrument with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations

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 in fully funded plans, we think 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.

- **Sensitivity Disclosure Requirements** (*ED question #2; PS 3251.168*)

Paragraph 168 of the ED proposes that fully funded plans should provide a sensitivity analysis of how the defined benefit obligation would have been affected by applying an underfunded plan discount rate. HOOPP strongly disagrees with this proposed disclosure, as the proposed sensitivity analysis is contradictory to the definition of a fully funded plan, as defined in the ED. It does not provide a true sensitivity analysis using a reasonable alternate assumption, given that fully funded plans would not be expected to measure their pension obligation using an unfunded discount rate at any time given the funded status assessment prescribed. It will result in an outcome that will clearly misrepresent a plan's funded status and provides no decision useful information to users of the financial statements.

A sensitivity analysis is intended to provide transparency regarding the uncertainties and potential risks associated with assumptions and inputs used in estimations within financial statements. This allows users of financial statements to better understand the potential range of outcomes based on reasonable alternative assumptions and inputs.

A more meaningful alternative would be a sensitivity analysis with a +/- 1% sensitivity to the discount rate used. Such a disclosure would provide readers greater flexibility in assessing how the input affects the funded status of the plan while maintaining symmetry between the discount rate used for plan assets and the benefit obligation. This approach eliminates confusion to readers and is consistent with sensitivity disclosures in other accounting standards.

If PSAB decides to finalize this sensitivity disclosure requirement as drafted, we recommend that PSAB provide greater detail about how and why this disclosure requirement provides decision useful information to users of financial statements and commentary on how this disclosure would be explained and not just presented in the financial statements.

COMMENT #3: Employer Accounting For A Multi-Employer Pension Plan (MEPP)

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 public sector entity. For this reason, a multiemployer plan is accounted for by each participating public sector entity following the standards for defined contribution plans.*”, with proposed paragraph PS 3251.034, 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 3251.053 – .054 as if it were a defined contribution plan*”.

HOOPP continues to hold the view 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. 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 3251.034 *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 inconsistent interpretation and application of judgement across entities with similar facts and circumstances. This will also result in discussions and debate with auditors and other stakeholders, which is costly and does not serve the public interest.

In addition, 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 because 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 retain the language in PS 3250 that MEPPs use defined contribution accounting, except in cases where the participating employer has sufficient information to separate their proportionate share of the defined benefit obligation. This could be structured in the standard as a rebuttable presumption which is consistent with other parts of the CPA Canada Handbook. This will remove the heavy burden on public sector entities to perform an assessment to determine whether sufficient information is available. We expect that 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.

COMMENT #4: General

- **Measurement Date** (*in reference to ED question #4; PS 3251.062 - .063*)

We note that the wording addressing measurement of the net defined liability (asset) in the ED has been updated to use the terms “sufficient regularity”, which is broad, ambiguous and leaves room for judgement and diversity in application. What is sufficiently regularity for some plans may not easily apply to other plans, depending on various factors.

In addition, the wording added in relation to assessing differences from an early measurement date to the reporting date has been updated to introduce the concept of materiality in relation to transactions and circumstances. We expect this will require additional calculations, assessment and analysis to fully address materiality and foresee many challenges with this. These challenges include, but are not limited to, availability and timing of information, additional cost to perform detail assessments or calculations and, difficulty in applying one definition of what is material in the context of each pension plan an entity participates in.

The existing standard has explicit language on application of an early measurement date, which is easy to follow and apply consistently. We recommend the wording be aligned with the existing standard or further guidance be added to this section in the ED to be more explicit.

- **Effective Date** (*in reference to ED question #3; PS 3251.199*)

We agree with the proposed effective date and transitional provisions in paragraphs 4600.45 subject to the amendments being effective for fiscal years beginning or after April 1, 2029, noted in the exposure draft.

- **Glossary** (*reference to ED question #4*)

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 still has not addressed the issues noted above, we are concerned that the ED does not meet these objectives.

The accounting treatment implications of the ED also do not address HOOPP’s overriding concern that the Province should not include HOOPP in its Public Accounts as it is not a sponsor of HOOPP. HOOPP believes that the use of defined contribution accounting should be maintained for participating employers and the term sponsor should be clearly defined.

¹¹ Page (iii) of the Public Sector Accounting Board (PSAB) – Re-Exposure Draft – Employee Benefits, Proposed Section PS 3251

January 20, 2025

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON N5V 3H2

Dear Michael,

**Re: Public Sector Accounting Board (PSAB) – Employee Benefits Proposed Section
PS 3251 – Re-exposure Draft October 2024**

We are pleased to provide our comments on the Re-exposure Draft of PS 3251 that include responses to some of the questions posed in the document.

With net assets of \$25 billion, OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan (including OPTrust Select), a defined benefit plan with over 111,000 members and 88 participating employers. OPTrust was established to give plan members and the Government of Ontario an equal voice in the administration of the Plan and the investment of its assets through joint trusteeship. OPTrust is governed by a 10-member Board of Trustees, five of whom are appointed by OPSEU and five by the Government of Ontario.

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

We agree with the proposed discount rate approach for fully funded defined benefit plans (i.e., the expected market-based return on plan assets). However, we believe the proposed funding status assessment for determining which discount rate methodology to apply (paragraphs PS 3251.102-.108 and accompanying illustrative examples) is problematic and may make comparability across different time periods and entities unreliable due to the subjective nature of portions of the assessment.

We recommend changes to PS 3251.106 to better reflect pension funding requirements in Canada and to enhance consistency in the application of the assessment. We agree with the inclusion of PS 3251.106(a) as we believe the primary assessment for determining whether a plan is fully funded should be based on the existence of regulatory, legislative and contractual funding requirements to set aside sufficient plan assets to fulfill the benefit promise to plan members which is often set out in a plan's funding policy. However, we believe a couple of technical changes to the proposed PS 3251.106(b) are necessary. Specifically, the plan's funding status should be based on the most recently filed actuarial valuation and adjusted to include contribution schedules that are associated with past service (i.e., for deficit funding).



Pension legislation and regulations have prescriptive minimum funding requirements that recognize the long-term nature of the benefit promise. Specifically, contributions in excess of service costs are required to be remitted in order to address funding shortfalls, while smoothing techniques and other rules are permitted to reduce the impact of point-in-time estimates of the plan's funded position. Basing the funding status assessment on the most recent funding valuation, could result in a plan's funding status flipping flopping between fully funded and underfunded in future reporting periods depending on market conditions even for registered pension plans that are legally required to be fully funded in accordance with pension laws in Canada.

It is important to understand how the currently proposed quantitative assessment of PS 3251.106(b) can result in materially different funding status assessments for plans that are essentially the same. Consider two defined benefit plans that are regulated by pension legislation that has minimum funding requirements. The plan assets, investment strategy, membership and plan provisions are the same for both plans. However, the actuarial valuation results for funding purposes could be materially different at the same point-in-time. This could occur for any number of reasons including differences in smoothing techniques, differences in the size of the margin for adverse deviations included in the funding discount rate, or due to using a different actuarial cost method. Depending on the results of the proposed quantitative assessment, the amounts recognized in the financial statements for both plans may not be comparable due to applying the underfunded discount rate approach even though both plans should be considered fully funded based on having the same regulatory, legislative and contractual funding requirements.

An illustrative example:

Plan 1

Actuarial Cost Method:	PUC
Asset Smoothing Method:	Market Value
Funding Liability:	\$1,100M
Market Value of Assets:	\$1,000M
Smoothed Value of Assets:	\$1,200M
Funding Surplus/(Deficit)	(\$100M)
Deficit funded by additional contributions	

Plan 2

Actuarial Cost Method:	PUC
Asset Smoothing Method:	Smoothed Value
Funding Liability:	\$1,100M
Market Value of Assets:	\$1,000M
Smoothed Value of Assets:	\$1,200M
Funding Surplus/(Deficit)	\$100M

Discount Rate:

Fully funded plan:	6.00%
Underfunded plan:	4.00%



Under the proposed PS 3251.106(b): Plan 1 would use a discount rate for an underfunded plan (4.00%), while Plan 2 would use a discount rate for a fully funded plan (6.00%). The amounts recognized in the financial statements for both plans would be vastly different even though both plans are essentially the same.

2. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Under paragraph PSAB 3250.039, an early measurement date of the plan assets and accrued benefit obligations is permitted as long as no significant changes are relevant to the valuation of the plan between the valuation date and the fiscal year-end date. It is not clear in PS 3251.062 if this practice of using an earlier measurement date is still permitted. We recommend a more explicit paragraph in PSAB 3251 such as that outlined in PSAB 3250.039 be added. Like many other public sector pension plans, our plan's fiscal year-end is not consistent with our government sponsor's year-end. As long-term investors, OPTrust's investment strategy protects members from short-term market volatility. Calculating the market value of assets at the government sponsor's year-end comes at an additional cost to our members. Not only does it mean twice the work, but a significant portion of our assets are in non-public investments with other investment partners. Our plan's current year-end aligns with substantially all of our investment partners and audited financial statements for each of these investments are produced at our year-end and not that of the government sponsor's year-end. In order to produce asset values at our government sponsor's year-end we would need to make assumptions that may not be supported by audited statements.

We appreciate the opportunity to provide our comments on the Re-exposure Draft and we would welcome further discussion with you throughout this process.

Regards,

A handwritten signature in blue ink, appearing to read 'Upton Jeans'.

Upton Jeans
Chief Financial Officer

A handwritten signature in blue ink, appearing to read 'Dani Goraichy'.

Dani Goraichy
Chief Risk Officer and Senior Vice President,
Actuarial Services and Plan Policy

January 20, 2025

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

Dear Michael Puskaric,

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

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Yes, we agree with the amended discount rate proposals. However, we think PSAB should consider requiring a determination of the funding status every 3 years to match the timing required for funding valuations. Even with consideration of the primary and secondary indicators, we feel the cost outweighs the benefit of an annual assessment of the funding status.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

Yes, we agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree with the proposed effective date.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We do not have any new issues or new concerns to raise.

Sincerely,
Phil Torchia,
CPA, CA

 Digitally signed by Phil Torchia,
CPA, CA
Date: 2025.01.20 10:00:17
-06'00'

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

Réponses aux questions de l'exposé-sondage

- 1. Êtes-vous favorable aux propositions modifiées concernant le taux d'actualisation à appliquer pour les régimes à prestations définies (paragraphe SP 3251.100 à .116) et les exemples illustratifs qui les accompagnent (paragraphe SP 3251.IE.27 à IE.39)? Dans la négative, pourquoi?**

De manière générale, nous sommes favorables aux propositions modifiées concernant le taux d'actualisation à appliquer pour les régimes à prestation définie.

Nous sommes toutefois d'avis que la définition d'actifs détenus par un fonds d'avantages à long terme du glossaire pourrait être précisée afin qu'il soit plus clair quelles sont les intentions du CCSP quant aux formes juridiques, autres qu'une fiducie, qui seraient acceptables pour répondre à la définition. Le cas échéant, il serait pertinent de mettre des indications sur les critères à respecter pour être conforme à cette définition. Par exemple, il n'est pas clair si la définition serait rencontrée, dans le cas où une fiducie distincte n'est pas constituée mais que l'argent est placé par le gouvernement dans un fonds (lequel fonds est administré par une fiducie contrôlée par le gouvernement), qui a été créé en vertu d'une loi (ex. : autre que celle constituant le régime de retraite, etc.) pour pourvoir au paiement d'une partie ou de l'ensemble des prestations des régimes de retraite. Aussi, il n'est pas clair si le pouvoir du gouvernement de légiférer pour retirer les sommes détenues afin de les utiliser à d'autres fins viendrait exclure un tel fonds de la définition.

- 2. Nous proposons d'exiger que l'entité précise, dans les informations qu'elle fournit sur la sensibilité, quelle aurait été l'incidence, sur l'obligation au titre des prestations définies de l'entité du secteur public, de l'utilisation du taux d'actualisation à appliquer aux régimes sous-capitalisés (paragraphe SP 3251.168). Cette exigence vous convient-elle? Dans la négative, pourquoi?**

Nous sommes en accord avec cette proposition uniquement pour les entités dont le régime est considéré capitalisé en tenant compte des indicateurs secondaires du paragraphe .107. Les indicateurs secondaires comportent une part importante de jugement, l'ajout des informations concernant la sensibilité de l'obligation au titre des prestations définies de l'entité du secteur public nous paraît donc raisonnable pour les régimes qui se qualifient comme capitalisés à l'aide de ces indicateurs. Nous considérons que pour les régimes qui sont considérés capitalisés en tenant compte uniquement des indicateurs principaux (par. 106), cette information sur la sensibilité pourrait, dans certains cas, discréditer ce qui est comptabilisé comme obligation au titre des prestations définies et devrait donc être limité à présenter une analyse de sensibilité en vertu du paragraphe 167 de l'exposé-sondage.

- 3. Il est proposé, dans le présent exposé-sondage, que le chapitre SP 3251 s'applique pour les exercices ouverts à compter du 1er avril 2029 (paragraphe SP 3251.199). Cette date d'entrée en vigueur vous convient-elle? Dans la négative, pourquoi?**

La date d'entrée en vigueur du chapitre SP 3251 nous convient.

- 4. Avez-vous de nouvelles questions ou préoccupations à soulever à l'égard d'autres propositions du présent exposé-sondage ou croyez-vous fermement que le CCSP devrait revoir sa position concernant d'autres propositions?**

Nous n'avons pas d'autres préoccupations à soulever à l'égard du présent exposé-sondage.

January 20, 2025

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Via email: mpuskaric@psabcanada.ca

Re: PSAB Invitation to Comment – Re-exposure Draft, “Employee Benefits, Proposed Section PS 3251”

Dear Mr. Puskaric,

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

The Ontario Teachers' Pension Plan (OTPP) is Canada’s largest single-profession pension plan, managing over \$250 billion on behalf of 340,000 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 Re-Exposure Draft.

Further to our November 25, 2021 submission, there are two issues in the Re-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 be prohibitive. In addition, OTTP 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 62 and 63 of PS 3251 are intended to address this issue. We note that Paragraph 63 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."

Outstanding Contributions

Paragraph 133 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 OTTP, there are two years of outstanding contributions due from the Province¹. 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 OTTP'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.

¹ Please see Note 3., Page 136 of OTTP's 2023 Annual Report for further details.



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We thank you for the opportunity to provide comments.

Daniella Carrington, FCIA FSA CFA CAIA
Managing Director, Pension Risk
Ontario Teachers' Pension Plan
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Mobile: 437-247-4625

January 20, 2025

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

Re: Re-exposure Draft - Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on the Proposed Section PS 3251, Employee Benefits, Re-Exposure Draft. Our comments are below.

Questions

- 1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?**

Although we are supportive of *some* of the discount rate proposals, we still have the following concerns:

Timing: Requiring the discount rate to be determined at year-end poses challenges for our current reporting timeline. We are currently able to lock in our rate prior to year-end, which allows for a timelier release of our Public Accounts. We encourage PSAB to consider allowing for more flexibility in setting the rate—such as up to 3 months before year-end. This would help to alleviate these concerns.

Unreasonable Volatility for some Underfunded Plans:

If a Provincial bond rate, or equivalent, is used for underfunded plans with significant assets, as proposed in this standard, we have real concerns that the liability for those plans will be vastly overstated.

We understand that this approach to underfunded plans is conservative, and that smaller governments or government organizations may find the elimination of the “partially funded” option easier to manage; however, we feel that PSAB should reconsider. As it stands, we have found that a 1% change in the discount rate can change the obligation by up to 18%. For underfunded plans with significant assets, the proposal leads to a higher obligation which is likely to be misleading to readers. The accounting will only further distance itself from the funded status of the plan in annual reports and could also adversely impact member benefits by changing government’s perception of the plan. Here is a simplified example which uses real rates from one of our plans:

Illustration of Using Bond Rate vs. Blended Rate

\$ (in millions)

	<u>Underfunded</u>			
	Funded status	Status quo	Govt Bond Rate Scenario 1	Blended Rate Scenario 2
Assumed discount rate	5.80%	6.50%	4.00%	6.00%
Projected pension plan obligation	100	88	131	97
Market value of plan assets	80	80	80	80
Accrued benefit Liability	20	8	51	17
Implied funded ratio	80%	91%	61%	82%

Note 1

Discount rate based on Government Bond Rate	4.0%
Discount rate based on Rate of Return on Assets	6.5%
Blended Rate	6.0%

Based on the re-exposure draft proposals (Scenario 1), a plan that is \$20 million underfunded (implied 80% funded ratio) per the annual report, would be accounted for as \$51 million underfunded (implied 61% funded ratio). It is even more of a significant difference from how we currently account for these types of plans (Status quo). Having this large of a difference may also create unintended consequences. For example, a government could put \$20 million into the above plan and recognize a \$51 million reduction in its obligation – a net \$31 million gain.

As a result, we would appreciate if PSAB reconsidered allowing the use of a simple blended rate calculation for underfunded plans with assets (see Scenario 2 above). This would help to ensure that the discount rate better reflects the true makeup of the plan, aligns more accurately with the funded status in the annual plan, and doesn't create unnecessary volatility or other unintended consequences. One possibility would be to allow an option for entities to select, as a one-time election, a blended or high-quality debt instrument rate for each plan.

For unfunded plans, we see no issue with using a high-quality debt instrument for the rate as this reflects the time value of money (there is no premium like there is in a funded plan when assets are invested on someone's behalf) and would be the cost for government to borrow in its own debt markets. In other words, in the absence of specific assets being invested on their behalf, this reasonably approximates the expected rate of return for those members in an unfunded plan – as this represents the average cost in the market for government debt.

Finally, the Province of Nova Scotia uses a 5-year weighted average of spot rates on the Province's 20-year bond issues to calculate our unfunded rate. Although we assume this is the most appropriate rate going forward, we would like clarification on paragraph .114 (see below). Does this mean that the public sector's credit risk is not considered in calculating the underfunded discount rate? If so, why not?

.114 The discount rate applied for underfunded plans reflects the time value of money, in exclusion of actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the public sector entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions. The currency and term of the financial

instrument selected to reflect the time value of money would be consistent with the currency and expected term of the post-employment benefit obligations.

- 2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?**

We do not support this disclosure as written. A few concerns arise with the proposal:

Potential Misinterpretation: For fully funded plans, the use of an underfunded discount rate may not be directly applicable, as these plans are supported by sufficient assets. Requiring such a disclosure could lead to confusion for users of financial statements who may misinterpret the data or overestimate risks that do not reflect the plan's actual funding status. The difference in valuation would also be quite extreme, as evidenced above in our response to question 1. A blended rate option would significantly reduce this difference, which is another advantage of allowing it in some form.

To balance transparency with practicality, it may be more appropriate to focus sensitivity disclosures on plans that are categorized as fully funded but are at risk of becoming underfunded in the reasonable near term, or perhaps even more suitably, just disclose the impact of changes in the discount rate (i.e., plus/minus 0.25%). The latter is a simpler approach and is more likely to increase comparability.

Complexity and Administrative Burden: This proposal adds an extra layer of complexity to the financial reporting process, requiring additional actuarial calculations, administrative burden, and cost. As proposed, we do not see a value to users that justifies these concessions.

- 3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?**

In working with the Technical Advisory Group, we have learned that the Intangible Assets Exposure Draft includes transitional provisions for fiscal years beginning on or after April 1, 2029 as well. We recommend spacing out the implementation of these two standards.

In addition, while the draft acknowledges future phases addressing non-traditional pension plans and risk-sharing arrangements, these types of plans are growing rapidly in the public sector. The timeline for providing detailed guidance on these plans is unclear, which could lead to uncertainty in how entities account for them in the meantime. It would be beneficial for PSAB to consider only releasing this standard once there is some certainty in the guidance for non-traditional plans.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Nothing to note.

We appreciate this opportunity to provide feedback and welcome any further follow-up from PSAB staff regarding our concerns.

Sincerely,



Robert E. Bourgeois, CPA, CA
Controller
NS Dept of Finance and Treasury Board



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January 20, 2025

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Standard Board
277 Wellington Street West
Toronto, ON, M5V 3H2
Via email: mpuskaric@psabcanada.ca

Dear Mr. Puskaric,

RE: Re-exposure draft: Employee Benefits, Proposed Section PS 3251

I am writing on behalf of the British Columbia College Pension Board of Trustees (the Board). The Board has fiduciary responsibility for providing a retirement income to more than 37,790 members from 24 employers in British Columbia and oversees the investments of around \$7.95 billion of assets under management. On behalf of the College Pension Plan ("the Plan"), we submit our comments to the Public Sector Accounting Standard Board's (PSAB) Re-Exposure Draft of Employee Benefits, Proposed Section PS 3251.

The Plan prepares its financial statements in accordance with Section 4600 of Part IV of the CPA Handbook. While the Plan is not directly affected by PSAB Standards, its ongoing sustainability is tied to that of its participating employers. I make our submission from that perspective.

As outlined below and for reasons mentioned in our prior submissions dated February 25, 2019, and November 23, 2021, we are of the opinion that the current method of recognition employed by the Plan's participating employers based on defined contribution accounting is appropriate. Any departure from it, will misrepresent the Plan's true cost structure and risk sharing principles. Therefore, our comments are confined to questions 3 and 4 on page (iii) of the re-exposure draft.

Question 3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We understand that in a future phase, PSAB will review principles or definitions of this re-exposure draft as they relate to the topics of risk-sharing and non-traditional plans. The proposed effective date should align with the implementation of the results of this future phase.

It is not clear whether PSAB's future review will change the proposals for joint defined benefit plan and/or multi-employer plans. It is not in the public's best interest, nor is it practical, to subject entities to two changes in short order.

Question 4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

a We believe the current method of recognition is appropriate.

Plan employers, including the Province of British Columbia, convey all assets to the Plan without recourse. All aspects of governance and operation of the Plan are carried out by the Board. The Board has a fiduciary duty to plan members and acts independent of the Plan employers.

The Plan's employers are not **all** under common control, as defined in Government Reporting Entity, Section PS 1300.

There is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual employers participating in the Plan. As a result, under the existing standards, the participating employers in the Plan follow defined contribution accounting and should continue to do so.

It is our understanding that the intention of the re-exposure draft is that the participating employers, including the Province of British Columbia, can continue with their current practice of following defined contribution accounting principles. Specifically, section BC.83 of the re-exposure draft notes that "*PSAB agreed that its intent in the July 2021 Exposure Draft was to include key principles from existing [Section PS 3250](#) for these plans, without substantial modification*". We strongly support this intention, as failure to do so threatens the future sustainability of the Plan and introduces unintended consequences such as misrepresentation of the Plan's cost for accounting purposes.

b The re-exposure draft introduces new ambiguities

The main text of the re-exposure draft is not clear whether the Plan would be considered a "multi-employer plan" and follow paragraphs PS 3251.032-0.39 or a "joint defined benefit plan" and follow paragraphs PS 3251.044-0.47. The decision tree in Appendix A is not consistent with the main text. In our case, the main text implies that the Plan is a joint defined benefit plan, but the decision tree implies it would be a "multi-employer plan". This ambiguity did not exist in the previous draft and needs to be clarified in the main text.

If we interpret the Plan to be a multi-employer plan, as there is insufficient information available to use defined benefit accounting, our plan employers would continue to use defined contribution accounting. This is the appropriate approach. However, if we interpret the Plan to be a joint defined benefit plan, employers would be required to use defined benefit accounting, which would be a substantial departure from the existing Section PS 3250 and would not be possible, nor appropriate, as there is insufficient information available to do so.



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The nature of the risk sharing arrangements in different jointly sponsored plans needs to be appropriately recognized. In our Plan, no individual trustee, participant, employer or member has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, contribution rates, and funding shortfalls and surpluses. Further, the contractual agreements that amended the Plans to be jointly trusted specifically state that no participating entity has a responsibility for any assets, liabilities, obligations or deficiencies of the Plans. Contributions to the Plans are determined by actuarial valuations using "best estimate" assumptions. In our case, much like a multi-employer plan, any individual employer's obligation (including government) should be limited to the current contributions in payment. We believe it would misrepresent the substance of the underlying obligations to require defined benefit accounting. Beyond this, where plan assets are not segregated by employer, defined benefit accounting by employer will be next to impossible, as there will generally be no appropriate means by which to split the assets and liabilities between employers.

We appreciate the opportunity to provide input on this re-exposure draft.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Weldon", is positioned above the printed name.

Weldon Cowan

Chair, College Pension Board of Trustees

cc: Bitu Jenab, Executive Strategy Officer, College Pension Board of Trustees
Catherine Roberston, Plan Actuary, Eckler
Allan Chen, Controller, Financial Services, BC Pension Corporation

January 20, 2025

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

By email: mpuskaric@psabcanada.ca

Dear Mr. Puskaric:

RE: Re-exposure draft: Employee Benefits, Proposed Section PS 3251

I am writing on behalf of the British Columbia Public Service Pension Board of Trustees (the Board). The Board has fiduciary responsibility for providing a retirement income to more than 157,000 members from more than 100 employers in British Columbia and oversees the investments of around \$45 billion of assets under management. On behalf of the Public Service Pension Plan ("the Plan"), we submit our comments to the Public Sector Accounting Standard Board's (PSAB) Re-Exposure Draft of Employee Benefits, Proposed Section PS 3251.

The Plan prepares its financial statements in accordance with Section 4600 of Part IV of the CPA Handbook. While the Plan is not directly affected by PSAB Standards, its ongoing sustainability is tied to that of its participating employers. I make our submission from that perspective.

As outlined below and for reasons mentioned in our prior submissions dated February 25, 2019, and November 23, 2021, we are of the opinion that the current method of recognition employed by the Plan's participating employers based on defined contribution accounting is appropriate. Any departure from it, will misrepresent the Plan's true cost structure and risk sharing principles. Therefore, our comments are confined to questions 3 and 4 on page (iii) of the re-exposure draft.

Question 3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We understand that in a future phase, PSAB will review principles or definitions of this re-exposure draft as they relate to the topics of risk-sharing and non-traditional plans. The proposed effective date should align with the implementation of the results of this future phase.

It is not clear whether PSAB's future review will change the proposals for joint defined benefit plan and/or multi-employer plans. It is not in the public's best interest, nor is it practical, to subject entities to two changes in short order.

Question 4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

a) We believe the current method of recognition is appropriate.

Plan employers, including the Province of British Columbia, convey all assets to the Plan without recourse. All aspects of governance and operation of the Plan are carried out by the Board. The Board has a fiduciary duty to plan members and acts independent of the Plan employers.

The Plan's employers are not **all** under common control, as defined in Government Reporting Entity, Section PS 1300.

There is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual employers participating in the Plan. As a result, under the existing standards, the participating employers in the Plan follow defined contribution accounting and should continue to do so.

It is our understanding that the intention of the re-exposure draft is that the participating employers, including the Province of British Columbia, can continue with their current practice of following defined contribution accounting principles. Specifically, section BC.83 of the re-exposure draft notes that "*PSAB agreed that its intent in the July 2021 Exposure Draft was to include key principles from existing [Section PS 3250](#) for these plans, without substantial modification*". We strongly support this intention, as failure to do so threatens the future sustainability of the Plan and introduces unintended consequences such as misrepresentation of the Plan's cost for accounting purposes.

b) The re-exposure draft introduces new ambiguities

The main text of the re-exposure draft is not clear whether the Plan would be considered a "multi-employer plan" and follow paragraphs PS 3251.032–0.39 or a "joint defined benefit plan" and follow paragraphs PS 3251.044–0.47. The decision tree in Appendix A is not consistent with the main text. In our case, the main text implies that the Plan is a joint defined benefit plan, but the decision tree implies it would be a "multi-employer plan". This ambiguity did not exist in the previous draft and needs to be clarified in the main text.

If we interpret the Plan to be a multi-employer plan, as there is insufficient information available to use defined benefit accounting, our plan employers would continue to use defined contribution accounting. This is the appropriate approach. However, if we interpret the Plan to be a joint defined benefit plan, employers would be required to use defined benefit accounting, which would be a substantial departure from the existing Section PS 3250 and would not be possible, nor appropriate, as there is insufficient information available to do so.

The nature of the risk sharing arrangements in different jointly sponsored plans needs to be appropriately recognized. In our Plan, no individual trustee, participant, employer or member has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, contribution rates, and funding shortfalls and surpluses. Further, the contractual agreements that amended the Plans to be jointly trustees specifically state that no participating entity has a responsibility for any assets, liabilities, obligations or deficiencies of the Plans.

Contributions to the Plans are determined by actuarial valuations using “best estimate” assumptions. In our case, much like a multi-employer plan, any individual employer’s obligation (including government) should be limited to the current contributions in payment. We believe it would misrepresent the substance of the underlying obligations to require defined benefit accounting. Beyond this, where plan assets are not segregated by employer, defined benefit accounting by employer will be next to impossible, as there will generally be no appropriate means by which to split the assets and liabilities between employers.

We appreciate the opportunity to provide input on this re-exposure draft.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "A Sorrell".

Angie Sorrell
Chair, Public Service Pension Board of Trustees

Cc: Stuart Morgan, Executive Director, British Columbia Public Service Pension Board of Trustees

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January 20, 2025

SUBJECT: RE-EXPOSURE DRAFT - EMPLOYEE BENEFITS, PROPOSED SECTION PS 3251 (OCTOBER 2024)

Dear Mr. Puskaric:

Doane Grant Thornton LLP and Raymond Chabot 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”) Re-exposure Draft, *Employee Benefits, Section PS 3251* (hereinafter the “RED”). Below please find our responses to the questions in the RED.

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Yes, overall, we agree with the proposals; however, we have the following comments:

- Sometimes those charged with governance make a change to a plan’s funding policy or the funding requirement for services provided after a certain date, or such changes may result from changes in legislation. These types of changes may result in a portion of a plan falling into the fully funded category while another portion would be in the unfunded category based on the guidance in the standard. The PSAB should clarify how to determine the discount rate in this case: should there be different rates used for different segments of the plan or should the funded/unfunded status of the plan should be assessed based on the plan as a whole (and how would that be done).
- For unfunded plans, we strongly believe that the standard should require a hierarchy of what type of instrument must be used to determine the discount rate. Currently, paragraph .116 suggests that entities should start with government bonds and if and only if there is a clear reason that it is not appropriate (e.g. lack of deep market), then the entity would look to corporate bonds, and if there is no deep market for corporate bonds, then the entity would look to the current market rates on other financial liabilities. We don’t believe the guidance is clear enough that this ordering is required. Also, if there are other reasons why an entity would be allowed to move from one type of instrument to another, the PSAB should include those reasons in the standard.

- In discussing the discount rate for unfunded plans, the PSAB refers to “Government bonds”, but which level of government bonds entities should look to is unclear (i.e., federal, provincial, municipal). We also suggest that the PSAB clarify if the level of government bond an entity should refer to depends on the entity itself, for example, if a government entity is included in the federal government reporting entity should it refer to federal bonds and if a government entity is part of a local government should refer to municipal bonds? In addition, the guidance does not define what is meant by high-quality corporate bonds (i.e., credit rating). We believe the PSAB should define government bonds as to whether it can be any type and consider specifying what is meant by high quality corporate bonds.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity’s defined benefit obligation (paragraph PS 3251.168)? If not, why?

No, we disagree with the proposal. We believe that sensitivity disclosures are an appropriate disclosure to demonstrate how the financial situation (or earnings) of the entity would have been impacted by any reasonable possible changes in the assumptions that were used by the entity, as described in paragraph .167 of the proposed standard. However, we do not believe that the disclosure requirement in paragraph .168 meets these requirements and, in fact, would lead to confusion, since it provides information about a situation that the entity has determined is not applicable. Moreover, such a disclosure would be costly as it would require further engagement of an actuary to make the complex determinations to determine the revised discount rate and obligation assuming the plan was unfunded along with additional work performed by the auditor of the financial statements. As a result, we believe this is an unjustified burden and added cost for a public sector entity with insufficient benefit to the financial statement user.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree with the proposal, on the condition that the applicable date should be moved later if the standard is not published in the Handbook in a sufficient timeframe to allow at least 2 fiscal years before its initial application.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Yes, we have some additional comments below:

Combined pension plans

Given that a pension plan within a public sector entity can contain a defined benefit component, a defined contribution component or a combination of both, we believe that the PSAB should define the word “plan” to emphasize that public sector entities should account for each component separately based on its classification under the standard (i.e., defined benefit or defined contribution).

Transitional provisions

Although we agree with the retrospective approach in the transition provisions (paragraph .200), we believe that relief should be provided to allow public sector entities to recognize any transition adjustment in its accumulated remeasurement gains (losses), given that determining which portion of the transition adjustment belongs in accumulated surplus or deficit versus accumulated remeasurement gains (losses) since inception of the plan would be costly and difficult and would not provide any additional significant information to the users of the financial statements.

Disclosures

We would like to reiterate our view from the previous Exposure Draft that the required disclosures add to disclosure overload for the users of public sector financial statements. The current disclosures already confuse many financial statement readers and adding further disclosures related to items like sensitivity analysis for changes in assumptions, for example, will add a cost for the entity that will outweigh any benefit to the user of the financial statements. We ask the PSAB to reconsider every disclosure in the context of whether it would ultimately change a decision made by a user and whether the further lengthening of public sector entities' financial statement disclosure may result in more important disclosures being overlooked.

If you wish to discuss any of our comments or concerns, please contact Melanie Joseph (at Melanie.Joseph@doane.gt.ca or 416-607-2736) or Stéphane Landry (at landry.stephane@rcgt.com or 418-647-5008).

Yours sincerely,



Grant Thornton LLP
Melanie Joseph, CPA, CA



Raymond Chabot Grant Thornton LLP
Stéphane Landry, CPA



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January 20, 2025

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
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Re: PSAB Re-exposure Draft - PS 3251, Employee Benefits

Dear Michael Puskaric,

We have read the Re-exposure Draft and are pleased to have the opportunity to respond to your specific questions as outlined below. We attended the webinar related to the Re-exposure Draft and have gathered feedback from stakeholders within BDO on this Re-exposure Draft.

We are supportive of the Board's direction in amending the initial discount rate approach and re-exposure of the new proposal approach. However, we continue to have concerns with the proposals on the discount rate. As per our initial ED response, 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 still believe that the provincial bond rate should be used for all defined benefit plans under Canadian public sector accounting standards. That said, we acknowledge that the amended discount rate proposals are a significant improvement compared to the initial proposals.

Our responses to your specific questions are outlined below.

1. *Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 32510.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-.IE.39)? If not, why not?*

The amended discount rate proposals using only two funding approaches (fully funded and underfunded) are an improvement compared to the initial proposals that had three funding approaches (fully funded, partially funded and unfunded). The proposed methodology is reasonable as it is not reliant upon an annual actuarial assessment being performed.

However, under the current proposals, there is greater reliance upon management's professional judgment to determine whether a plan is fully funded or underfunded, impacting the selection of the discount rate. This could introduce a lack of comparability between financial statements for the public sector entity from year to year as well as between the financial statements for different public sector entities that may have similar fact patterns.



Consideration should be given as to whether there should be more guidance provided with respect to when primary indicators would be deemed “insufficient” as per paragraph .107.

The accompanying illustrative examples are helpful but simplistic. Consideration should be given to the inclusion of more complex examples where more professional judgment would be required.

2. *Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity’s defined benefit obligation (paragraph PS 3251.168)? If not, why not?*

We do not agree with the proposal for fully funded plans’ sensitivity disclosure to include the impact of an underfunded discount rate on the public sector entity’s defined benefit obligation. The cost associated with this does not appear proportionate to the potential benefit this could provide for users of the financial statements.

To be considered a “fully funded” plan, the entity needs to meet certain criteria. We agree that sensitivity disclosure related to discount rates is beneficial. However, we believe that for many entities considered to have a fully funded plan at the reporting date, these entities will or would be expected to continue to be in a fully funded position into the future. Requiring such entities to disclose an unfunded sensitivity discount rate seems of very limited benefit given the lack of expectation of being in an unfunded position. Additionally, while this disclosure would provide greater comparability with underfunded plans, the need for this additional disclosure would be negated if all plans used the same discount rate.

3. *The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph SP 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?*

We agree that the proposed Section should be applied no earlier than for fiscal years beginning on or after April 1, 2029.

4. *Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?*

At this time, we do not have any new issues or concerns to raise with the other proposals in the document.

One of our initial concerns raised with respect to the accounting for defined benefit plans that share risks between public sector entities under common control appears to still be a potential area of concern in this latest Re-exposure Draft. As noted in our original comment letter dated November 24, 2021, we still believe that there is a potential risk



that the accounting treatment for these plans could change once contractual agreements, binding arrangements or stated policies of government reporting entities under common control have been reviewed.

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 Sharon Tse, Senior Manager National Accounting Standards (+1-416-673-7235 or email stse@bdo.ca) or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read "C Cross", is placed over a light gray rectangular background.

Craig Cross
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Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

20 January 2025

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

Re: 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,

Heather Miller, CPA, CMA

Assistant Auditor General
Office of the Auditor General of Canada

Question 1

Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

OAG response:

Yes, overall, we agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39).

However, we are of the view that some clarifications are needed in illustrative examples regarding the determination of the funding status for a defined benefit plan as explained further. Example 14 and Example 15 are found in PS 3251.IE.34 to IE.39. The facts of these two examples are identical as it relates to the primary indicators; both examples have the same funding policy suggesting the plan is fully funded and both have actuarial valuations for funding purposes with a deficit, suggesting the plan is not fully funded. Example 14 does not consider any secondary indicators because there were no additional factors that implied the primary indicators did not faithfully represent the plan's funding status and concludes that the plan is underfunded. Example 15 does consider secondary indicators and, after doing so, concludes that the plan is fully funded. It is not clear what factors were considered in deciding whether to consider the secondary indicators or not. It would be helpful to include this information in the examples.

In addition, we believe that PSAB should clarify in the Basis for Conclusions (BfC) the difference between the existing notion of expected rate of return on plan assets (per PS 3250) and that of an expected market-based return on plan assets that has now been introduced for fully funded plans (per PS 3251). We do not believe this notion is currently fully clear.

Question 2

Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

OAG response:

No, we do not agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168).

We note that PS 3251.167 already requires that a public sector entity disclose:

- "(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph PS 3251.166) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;*
- (b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; and*
- (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes."*

We are of the view that the above requirement would already indirectly provide information similar to what is being proposed in paragraph .168. With the information disclosed per paragraph .167, users of the financial statements could determine the approximate impact of an underfunded discount rate on a public sector entity's defined benefit obligation. We are of the view that adding the additional sensitivity analysis per paragraph .168 could be costly, with minimal additional benefit, as public sector entities with fully funded plans would need to develop a methodology to determine the discount rate for underfunded plans.

Given that a sensitivity analysis for each significant actuarial assumption will already be provided (per PS 3251.167), we do not fully agree with the statement in paragraph 94 of the BfC: *Although the Board acknowledged the additional cost of requiring expanded discount rate sensitivity disclosure, the Board determined these costs are outweighed by the expected benefit to financial statement users to whom public sector entities are accountable.* We agree that it is important for users to whom public sector entities are accountable be able to determine the impact of a change in discount rate, but we don't think that the proposed disclosure per paragraph .168 is necessary to achieve that. As a result, we suggest removing paragraph .168 from the final version of PS 3251.

Question 3

The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

OAG response:

Yes, we agree that Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199).

We note that PS 3251 will have impacts on public sector entities. In addition, PS 1202, *Financial Statement Presentation* and the new *Conceptual Framework for Financial Reporting in the Public Sector* are both effective for fiscal years beginning on or after April 1, 2026. Given these two new upcoming important items, we are of the view that time is needed between their effective dates and that of PS 3251. The effective date of April 1, 2029 seems reasonable as it should allow sufficient time to implement changes (assuming there will be no other significant projects resulting in the same effective date) when taking into account the other significant items noted above that will be effective in 2026.

In addition, we would like to inform PSAB that the above ED question can be interpreted differently depending on whether it is read in French or in English. In the English version, it could be interpreted that PSAB is asking if we agree that earlier application should not be allowed even if PS 3251.199 states that earlier adoption is encouraged. In the French version, the question is : « Cette date d'entrée en vigueur vous convient-elle? » which seems to be the intended question. Our response above has assumed the latter (i.e. the question posed in French).

Question 4

Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

OAG response:

No, we do not have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals.

However, in finalizing this existing version of PS 3251 we would encourage PSAB to give due consideration to any potential significant impacts that may result from the fact that the employee benefits project is being done in different phases.

January 20, 2025

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

Dear Michael,

Re: Re-exposure Draft – Employee Benefits, Proposed Section PS 3251

We are writing in response to the request for comments on the Re-exposure Draft – Employee Benefits, Proposed Section PS 3251 released in October 2024. We thank the Public Sector Accounting Board (PSAB) for the opportunity to comment on aspects of the Re-exposure Draft and the subject of employee benefits.

With almost 400 employees, working from seven 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 the Exposure Draft, we will specifically address issues we feel may need further clarification or consultation before its final publication.

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

We do not support the proposals as currently written. We set out our reasoning below and make some suggestions as to how the proposals could be amended to better reflect the economic substance of defined benefit plan funding for public sector entities. The key issue at hand is the need to differentiate between **funding requirements** and **funding status**.

Funding requirements: A key feature of the majority of Canadian defined benefit plans is that they are subject to regulations, legislation, policy or contractual requirements that require them to restore the plan to a fully funded status if it is identified as part of an actuarial valuation for funding purposes that there are insufficient assets to satisfy existing liabilities. The requirement to target full funding is a fundamental operational feature of these plans, and while pension regulations for different plans and in different jurisdictions will differ in how they require full funding to be restored, as well as funding policies for non-pension plans, the long-term 'steady-state' for these plans is to be fully funded.

Funding status: Another key feature of defined benefit plans is that on any given date they may be fully funded (i.e. in a surplus position with sufficient assets to satisfy existing liabilities) or underfunded (i.e. in a deficit position with insufficient assets to satisfy existing liabilities). The funded status of a defined benefit plan can be volatile and can vary significantly over time. References to 'fully funded' and 'underfunded' in the proposals would generally be taken to refer to the funding status as of a given date, rather than related to the economic substance of the plan. In particular, there may be situations where plans have a fully funded funding status, but the economic substance of the plan is that it is not required to be fully funded.

In our view, the economic substance of a defined benefit plan is dictated by the plan's regulatory, legislative, contractual, or policy based **funding requirements** and not the **funding status**. Therefore, the appropriate discount rate methodology should be determined based on the nature of the plan's funding requirements. For a plan that is required to be fully funded, no matter what the current funding status is, the fundamental economic substance of the plan is to have sufficient plan assets that are invested following an investment strategy designed to fulfill benefit payments to current plan members and their beneficiaries. Therefore, a discount rate that approximates the expected market-based returns on the plan assets is appropriate for a plan with these funding requirements.

Furthermore, any reference to funding status could potentially create situations where a temporary reduction in funding status to below fully funded could result in a need to flip between the fully funded and underfunded approach. Such a change should only occur in our view if there is a fundamental change in the plan policies or regulations where full funding is no longer a requirement.

For plans where the funding requirements do not require full funding i.e. have no assets or have assets but are not required to target full funding (either via regulations, contractual arrangements or plan policy), we agree that the approach proposed in 3251.113 is reasonable.

We were encouraged by the helpful discussion during the November 13, 2024 webinar, where the intent of the proposals was clarified and appears to align with our views above. This also included commentary on the illustrative examples (PS3251.IE.27-IE.39) where we note that examples 12 and 14 (IE.27-IE.29 and IE.34-IE.35 respectively) were highlighted as having the potential to be interpreted as being inconsistent. The responses on the webinar were that the plan in example 14 would use a fully funded discount rate as per 3251.109 given the formal funding policy that requires the remediation of any shortfalls.

Suggested amendments and specific commentary

- 3251.101: change "funding status" to "funding requirements"
- Change section header moving from 3251.101 to 3251.102 to **"Actuarial Assumptions – Discount rate: Funding requirements"**

- 3251.102. Change to: “The funding requirements for a post-employment benefit plan may be either:
 - a) full funding, whereby the plan is required by regulations, legislation, policy or contract to hold sufficient plan assets to fulfill its post employment benefit obligations to current plan members and their beneficiaries; or
 - b) unfunded, whereby the plan is not required to hold sufficient plan assets to fulfill its post-employment benefit obligations to current plan members and their beneficiaries.
- 3251.103: change “funding status” to “funding requirements”
- 3251.104: change “funding status” to “funding requirements”, “fully funded” to “full funding”, and “underfunded” to “unfunded”
- 3251.105: We disagree with this paragraph. Professional judgement may be required for plans in certain limited situations, but in the majority of situations it is clear whether regulatory, legislative or contractual funding requirements indicate that the plan must follow full funding. References to funding status will generally confuse this assessment rather than help clarify the economic substance of the plan.
- 3251.106: Our proposed changes mean that there is a single ‘primary indicator’ which is broadly that set out in 3251.106(a). 3251.106(b), which refers to funding status, should not be able to override, or add further value where it is determined under 3251.106(a) that the plan is required to be fully funded. Making this change will substantially simplify the application of Section PS 3251.
- 3251.107: The secondary indicators listed remain useful for plans where there is not regulatory or contractual requirement to be fully funded, although again references to funding status should be reviewed.
- 3251.108: change “funding status” to “funding requirements”
- Change section header moving from 3251.108 to 3251.109 to **“Actuarial Assumptions – Discount rate: Plans with full funding”**
- Change section header moving from 3251.112 to 3251.113 to **“Actuarial Assumptions – Discount rate: Unfunded Plans”**
- We have not provided alternative wording for the accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39) but note that if our proposed approach is adopted, fewer examples should be required.
- The decision tree in Appendix C and the Glossary will also need to be updated.

2. **Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?**

We do not support this disclosure as written. Given the comments in response to Q1 above, we find the proposal to include the impact of the alternative discount rate as too extreme, as it is unlikely that a plan's funding requirements will change from full funding to unfunded. We do support sensitivity disclosure for plans with full funding, but suggest it should be based on a change which may more reasonably occur from year to year e.g. 0.25%.

3. **The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?**

We support a 2029 timeframe from the perspective of providing significant lead time for entities to assess the impact of the changes. However, we are concerned about implementing the proposals in the absence of knowledge on the direction for non-traditional plans. We urge PSAB to consider aligning the implementation dates of all imminent changes to avoid a situation of multiple changes in quick succession, particularly if it results in a subsequent change to the implementation of PS 3251 since this is not in the best interests of users of the statements.

4. **Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?**

We believe the decision tree in Appendix A may be subject to misinterpretation, and that there are inconsistencies with it and with sections 3251.032-.039 on multi-employer plans and sections 3251.044-.047 on joint defined benefit plans.

The unique features of target benefit/multi-employer plans need to continue to be recognized, particularly where the contributions are limited to the amount negotiated as set out in a collective agreement or as set out in a funding policy required by legislation. In such a case, the only relevant accounting treatment is defined contribution accounting, as any individual employer's obligation is limited to the negotiated contributions.

The nature of the risk sharing arrangements in different jointly-sponsored plans also needs to be appropriately recognized, particularly for plans where the establishing documents specifically state that any one employer, including government, has no right to a surplus, nor any obligation to assume a deficit. In such a case, much like multi-employer plans, any individual employer's obligation (including government) should be limited to the current contributions in payment. Reporting an asset or liability would misrepresent an employer or government's access or responsibility for pensions under certain joint trustee agreements and legislation.

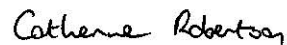
In both examples above, we believe it would mis-represent the substance of the underlying obligations to require defined benefit accounting. Beyond, this, where plan assets are not segregated by employer, defined benefit accounting by employer will be next to impossible, as there will generally be no appropriate means by which to split the assets and liabilities between employers.

We suggest additional disclosures will be beneficial for these types of plans and could help to better address the stated objectives of the review. Additional disclosures could include:

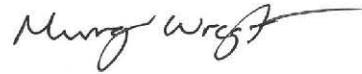
- the nature of the risk sharing arrangement and the resulting impact on the employer's ultimate obligation
- the current funded status of the plan
- the current contribution requirements
- whether these contribution requirements include additional contributions towards a current funding deficiency and the amount of these additional contributions, plus the time frame they are expected to be paid
- similar information on any acceleration of contribution amounts beyond the minimum regulatory amount required, where relevant
- similar information if the plan is in a funding surplus and paying less than minimum that would otherwise be required where they are using part of the surplus to reduce contributions

We thank you again for the opportunity to provide our comments on the Re-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 the Exposure Draft, please feel free to contact Catherine Robertson at crobertson@eckler.ca or 604-673-6082

Regards,



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January 20, 2025

Cliff: 511572

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Dear Michael Puskaric:

RE: Re-exposure Draft: Employment Benefits, Proposed Section PS 3251

Thank you for the opportunity to provide comments on the Re-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.

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 public sector pension plans in Canada that need to be considered when contemplating an approach for Canadian public sector jurisdictions. It is important to confirm the scope of application before implementing the guidance in this re-exposure draft because it may interrupt the continuity of employee benefit recognition across future accounting periods.

The re-exposure draft does not consider defined benefit pension plans that have been designed to transfer risk, like those in British Columbia. Government has conveyed all assets to the pension plans without recourse. Government has no access to assets or surpluses and is not responsible for resolving deficits. The appointed trustees of our four pension boards operate independently from their organizations for all decisions regarding pension plan management. The re-exposure draft provides no clear guidance for these types of risk-transfer plans, making it difficult to apply the proposed standard and complicating the classification and reporting. We expect that the future phase will provide clarity and recommend delaying the implementation of PS 3251 until that phase is complete.

The re-exposure draft suggests that if multiple employers under common control participate in a defined benefit plan, the controlling entity is required to use the defined benefit method. However, this may be unachievable in practice due to the lack of an established standard for allocating assets and liabilities in multi-employer plans when not all employers are under common control, or when plan rules allow for external entities to join at a future date. The absence of a method for allocating assets and obligations makes it difficult to apply the defined benefit method effectively.

The decision tree in Appendix A does not align with the joint-defined benefit plans and multi-employer plans described in the text. The re-exposure draft requires a clearer definition or detailed guidelines to avoid further complicating the accounting treatment for multi-employer plans and creating significant implementation challenges. Additionally, Appendix A currently only considers entities that either hold all risk or those that share risk. The standard and supporting material need to go further to address those entities that have fully transferred risk.

The proposed section includes constructive obligations in the calculation of accrued benefit obligations based on historical practices. This does not align with the guidance in PS3200 Liabilities and would misrepresent the employee benefit obligations because past payments cannot create a binding obligation for future liabilities. In our four pension plans, cost-of-living adjustments are explicitly not guaranteed and can only be provided at the full discretion of the board of trustees. Treating these as constructive obligations will overstate liabilities and create expectations for pensioners that employer entities have no legal authority to make.

The immediate recognition method for actuarial gains and losses as noted in the re-exposure draft will introduce significant volatility into the financial statements and to related financial indicators. This volatility will not inform the plan participants or the public of the true nature of the pension asset or obligation and will undermine the usefulness of public sector financial statements. Accumulated surplus may misrepresent the actual resources available to deliver government programs and could result in unintended consequences in pension plan management. Immediate recognition of actuarial gains and losses will not be accounted for in a way that reports how effectively fully funded pension plans operate over the long settlement period.

The re-exposure draft's reliance on cash-based measurement, such as in PS3251.003 and PS3251.011(a), the exclusion of contributions receivable in PS3251.133, and the exclusion of remeasurement impacts from annual surplus/deficit upon settlement (PS3251.149-152), is inconsistent with the Conceptual Framework, which emphasizes accrual accounting. By modifying employee benefit calculations for certain cash transactions and resolving unrealized remeasurements directly to accumulated surplus/deficit, the re-exposure draft misrepresents the economic substance of the pension plan obligations and settlements and fails to faithfully represent the financial position and performance of government.

The re-exposure draft's disclosure requirements are onerous. The level of detail required may not provide meaningful value to users, making the disclosure process unnecessarily onerous and difficult to manage. The requirements also create administrative challenges and increase compliance costs for the reporting entity.

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 778-698-7768 or by e-mail: Nicole.Wright@gov.bc.ca, or Diane Lianga, Senior 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,

A handwritten signature in black ink, appearing to read 'Nicole Wright', with a stylized, cursive script.

Nicole Wright, CPA, CMA
Comptroller General
Province of British Columbia, Canada
Encl.

cc: Sheila Dodds, CPA, CA, CIA
Acting Auditor General
Province of British Columbia

Diane Lianga, CPA, CGA
Chief Accountant and Senior Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Questions:

- 1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?**

We agree that the expected market-based rate of return should be applied to fully funded plans. However, market-based return may be impacted by short-term market events at the end of a reporting period, leading to increased volatility and impacting the accrued benefit obligation (asset).

We agree with the use of government bonds, high-quality corporate bonds, or another financial instrument to determine the discount rate used for unfunded plans. It would be optimal to rely on the expertise of the actuary to determine an appropriate rate based on plan rules and legislated requirements.

We disagree with an annual assessment of the plan's funding status due to the significant cost to conduct this assessment and the relative stability of funding status between actuarial valuations. It would be more appropriate to align the funding status assessment with the completion of the actuarial valuation at intervals required in legislation.

- 2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?**

We do not agree with the proposed sensitivity disclosure requirement. The sensitivity disclosure would be misleading to users of financial statements because discount rates for market returns, and corporate bonds can be significantly different.

Actuarial standards require sensitivity analysis based on changes in market returns (i.e. +/- 1%) which provides a more reasonable 'what if' scenario for financial statement users.

Sensitivity disclosure at the unfunded discount rate is not appropriate if pension plans will always be fully funded. The four joint trustee plans in BC are fully funded and have rules in place through agreement and legislation to resolve shortfalls (for example, by increasing contributions). Providing a sensitivity analysis at the unfunded discount rate in this situation would not be appropriate because it would be giving financial statement users the false impression that these plans could become underfunded when there are plan rules preventing this from happening.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We do not agree with the proposed effective date of April 1, 2029. The effective date should align with the implementation of the second phase, which includes non-traditional plans. The second phase is of particular interest for BC because of the unique nature of our four joint trustee pension plans which are not clearly addressed in the proposed guidance. It would not be practical to implement PS 3251 before the second phase is complete because it could result in differences in accounting treatment and disclosure. Implementing Section PS 3251 before completing future phases may result in revisions to the standard and lead to restatements of the financial statements.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We identified the following concerns during the review of re-exposure draft:

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 public sector pension plans in Canada that need to be considered when contemplating an approach for Canadian public sector jurisdictions. It is important to confirm the scope of application before implementing the guidance in this re-exposure draft because it may interrupt the continuity of employee benefit recognition across future accounting periods.

The re-exposure draft does not consider defined benefit pension plans that have been designed to transfer risk, like those in British Columbia. Government has conveyed all assets to the pension plans without recourse. Government has no access to assets or surpluses and is not responsible for resolving deficits. The appointed trustees of our four pension boards operate independently from their organizations for all decisions regarding pension plan management. The re-exposure draft provides no clear guidance for these types of risk-transfer plans, making it difficult to apply the proposed standard and complicating the classification and reporting. We expect that the future phase will provide clarity and recommend delaying the implementation of PS 3251 until that phase is complete.

The re-exposure draft suggests that if multiple employers under common control participate in a defined benefit plan, the controlling entity is required to use the defined benefit method. However, this may be unachievable in practice due to the lack of an established standard for allocating assets and liabilities in multi-employer plans when not all employers are under common control, or when plan rules allow for external entities to join at a future date. The absence of a method for allocating assets and obligations makes it difficult to apply the defined benefit method effectively.

The decision tree in Appendix A does not align with the joint-defined benefit plans and multi-employer plans described in the text. The re-exposure draft requires a clearer definition or detailed guidelines to avoid further complicating the accounting treatment for multi-employer plans and creating significant implementation challenges. Additionally, Appendix A currently only considers entities that either hold all risk or those that share risk. The standard and supporting material need to go further to address those entities that have fully transferred risk.

The proposed section includes constructive obligations in the calculation of accrued benefit obligations based on historical practices. This does not align with the guidance in PS3200 Liabilities and would misrepresent the employee benefit obligations because past payments cannot create a binding obligation for future liabilities. As an example in our four pension plans, cost-of-living adjustments are explicitly not guaranteed and can only be provided at the full discretion of the board of trustees. Treating these as constructive obligations will overstate liabilities and create expectations for pensioners that employer entities have no legal authority to make.

The immediate recognition method for actuarial gains and losses as noted in the re-exposure draft will introduce significant volatility into the financial statements and to related financial indicators. This volatility will not inform the plan participants or the public of the true nature of the pension asset or obligation and will undermine the usefulness of public sector financial statements. Accumulated surplus may misrepresent the actual resources available to deliver government programs and could result in unintended consequences in pension plan management. Immediate recognition of actuarial gains and losses will not be accounted for in a way that reports how effectively fully funded pension plans operate over the long settlement period.

The re-exposure draft's reliance on cash-based measurement, such as in PS3251.003 and PS3251.011(a), the exclusion of contributions receivable in PS3251.133, and the exclusion of remeasurement impacts from annual surplus/deficit upon settlement (PS3251.149-152), is inconsistent with the Conceptual Framework, which emphasizes accrual accounting. By modifying employee benefit calculations for certain cash transactions and resolving unrealized remeasurements directly to accumulated surplus/deficit, the re-exposure draft misrepresents the economic substance of the pension plan obligations and settlements and fails to faithfully represent the financial position and performance of government.

The re-exposure draft's disclosure requirements are onerous. The level of detail required may not provide meaningful value to users, making the disclosure process unnecessarily onerous and difficult to manage. The requirements also create administrative challenges and increase compliance costs for the reporting entity.

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20 January 2025

Subject: Re-Exposure Draft – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric:

We are pleased to provide our response to the Re-exposure Draft: Employee Benefits, Proposed Section PS 3251. Mercer provides actuarial services to 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.

Responses to questions posed in the Re-exposure Draft

1. **Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?**

With the Board's stated goal of financial statements prepared under the proposed section PS 3251 of *"faithfully representing the plan's surplus or deficit position and providing relevant, verifiable, comparable and understandable information"* along with presenting a *"net benefit liability (asset) that would faithfully reflect the public sector entity's obligation to the plan, the long-term nature of the plan arrangement and the substance of the plan arrangement"* we believe the Board should consider adjustments to the Re-exposure Draft regarding the discount rate and its definitions of plans by funded status.

- **Definition of "fully funded"** - We believe the standard should recognize that plans with a goal of being fully funded (i.e., with a formal funding policy as set out in legislation, by-laws or contractual agreement that addresses corrective actions in a timely manner to address an insufficiency of plan assets) are indeed "fully funded" plans and that there is no need to rely on secondary indicators to make this assessment. Such plans should be recognized as fully funded plans even if they are not fully funded at all times since there is a formal commitment to fully fund them over a reasonable period of time. We also recommend that the definition of fully funded plans in the standard and Glossary be modified to include these plans that are deemed fully funded.

In Example 14, we fall short of understanding why the plan described under that example should be considered an underfunded plan even if the most recent actuarial valuation shows the plan is underfunded, considering that the plan has a formal funding policy and is a provincially registered plan with formal regulatory requirements to fully fund the plan over a reasonable period of time

based on regular actuarial valuations. There is no detailed explanation in Example 14 as to why Management reached its conclusion that the plan is underfunded. Example 15 describes a plan with primary indicators identical to those of Example 14 with the conclusion, in this case, that the plan can be considered a fully funded plan based on the secondary indicators. However, we believe, as in Example 14, that such a registered plan should be considered a fully funded plan solely based on the primary indicators (i.e., formal funding policy and subject to provincial regulatory funding requirements).

- **Discount rate for underfunded plans** - With the goals of *relevant, verifiable, comparable and understandable information*,
 - we believe that it should be made clear that there is a priority order to the selection of the discount rate basis for underfunded plans within paragraph PS 3251.113 (e.g., all underfunded plans in Canada should use government bonds as their discount rate basis while there is a deep market in Canada for such bonds, before considering yields on high-quality corporate bonds as their discount rate basis). While paragraph PS 3251.116 suggests this priority order, paragraph PS 3251.113 does not.
 - If it is intended that there is no priority order for the selection of the discount rate basis for underfunded plans, additional guidance on what factors an entity should consider in selecting the discount rate basis should be provided to minimize variation in practice. Indeed, even with a priority order, guidance on selecting which non-entity-specific government bonds (e.g., Federal, provincial or municipal) to use would help narrow the range of practice and lead to more *relevant, verifiable, comparable and understandable information*.

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

If the frequency of a change in whether a plan is "fully funded" or "underfunded is expected to be rare, which we believe should be the case, then it is not clear how this information will be used and whether there is benefit to financial statement users.

We observe that all plans will already be required to disclose discount rate sensitivity information, which, on its own, should be helpful to financial statement users in understanding the volatility of the value of an entity's defined benefit obligation when a discount rate changes. This should be sufficient discount rate sensitivity for both funded and underfunded plans.

What financial statement users may find of value is the going-concern funded status of the fully funded plan based on the plan's most recent actuarial valuation for funding purposes. This would align with the disclosure requirement of paragraph PS 3251.170(b), as the valuation would typically be the source for the expected contributions to the plan for the next reporting period.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

No comment.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We note that with the loss of an explicit early measurement date, entities with benefit plans with complex assets that are valued infrequently may now need to rely much more on estimated values for such assets, either from asset valuation dates not aligning with an entity's measurement date, or due to the shortness of time between the entity's measurement date and the date by which financial results must be reported.

Additional Comments

Use of a funding valuation

For plans that are classified as fully funded under this proposed Section PS 3251, 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 Section PS 3251, 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



Jose Legault, FSA, FCIA
Partner

January 20, 2025

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 Re-exposure Draft

Dear Mr. Puskaric,

BC Pension Corporation is one of the largest professional pension service providers in Canada. We serve over 740,000 active and retired members and more than 1,100 plan employers, paying out \$500 million in benefits each month (\$6.2 billion a year) to over 230,000 retirees. We administer and provide a full suite of services to the Municipal, Public Service, Teachers', and College pension plans (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.

As outlined below and as mentioned in our prior response dated November 25, 2021, 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. Further, they will not be required to directly record any future obligation for pension liabilities and will only be required to provide enhanced disclosure. Therefore, our comments are confirmed to questions 2, 3 and 4 on page (iii) of the Re-exposure Draft.

Question 2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

We do not agree with the proposed sensitivity disclosure requirement. The sensitivity disclosure would be misleading to users of financial statements because discount rates for market returns, and corporate bonds can be significantly different. Also, the pension plans are never invested wholly in bonds but provide a fully divested market return.

Actuarial standards require sensitivity analysis based on changes in market returns, and is often limited to +/- 1%, which is more reasonable, and easily allows for other 'what if' scenarios for financial statement users.

The plans are fully funded and have rules in place through agreement and legislation to resolve shortfalls. Providing a sensitivity analysis at the unfunded discount rate would not be appropriate as it would give financial statement users the false impression that the plans could become underfunded when they cannot.

Question 3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We understand that in a future phase, PSAB will review principles or definitions of this Re-exposure Draft as they relate to the topics of risk-sharing and non-traditional plans. The proposed effective date should align with the implementation of the results of this future phase. Unless PSAB intends to conclude phase 2 by April 1, 2029?

It is not clear whether PSAB's future review will change the proposals for joint defined benefit plan and/or multi-employer plans. It is not in the public's best interest, nor is it practical, to subject entities to two changes in short order.

Question 4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

a We believe the current method of recognition is appropriate.

Plan employers, including the Province of British Columbia, convey all assets to the plans without recourse. All aspects of governance and operation of the plans are carried out by the Boards. Each Board has a fiduciary duty to its plan members and acts independent of the plan employers.

The employers are not under common control, as defined in Government Reporting Entity, Section PS 1300.

There is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual employers participating in the plans. As a result, under the existing standards, participating employers follow defined contribution accounting and should continue to do so.

It is our understanding that that the intention of the Re-exposure Draft is that the participating employers, including the Province of British Columbia, can continue with their current practice of following defined contribution accounting principles. Specifically, section BC.83 of the re-exposure draft notes that "*PSAB agreed that its intent in the July 2021 Exposure Draft was to include key principles from existing Section PS 3250 for these plans, without substantial modification*". We strongly support this intention, as failure to do so threatens the future sustainability of the plans and introduces unintended consequences such as misrepresentation of each Plan's cost for accounting purposes.

b Constructive obligation

The Re-exposure Draft includes constructive obligations for accrued benefit obligations based on historical practices, which contradicts PS3200 Liabilities guidelines. Past payments cannot bind future liabilities. Our plans state that cost of living adjustments is not guaranteed and are at the discretion of pension plan trustees. Considering these as constructive obligations will inflate liabilities and create false expectations among pensioners, which employers are not legally obligated to meet.

c The re-exposure draft still unclear

The main text of the re-exposure draft is not clear whether each pension plan would be considered “multi-employer plan” and follow paragraphs PS 3251.032–0.39 or “joint defined benefit plan” and follow paragraphs PS 3251.044-0.47. The decision tree in Appendix A implies they would be a “multi-employer plan”.

If we interpret the plans to be a multi-employer plans, defined benefit accounting is not appropriate as the liability has been transferred and there is no direct Government entity control. Plan employers would use defined contribution accounting. This is the appropriate approach. However, if we interpret the plans to be a joint defined benefit plan, employers would be required to use defined benefit accounting, which would be a substantial departure from the existing Section PS 3250 and would not be possible, nor appropriate, as liability has been transferred from plan employers.

The nature of the risk sharing arrangements in different jointly sponsored plans needs to be appropriately recognized. In each of our pension plans, no individual trustee, participant, employer or member has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, contribution rates, and funding shortfalls and surpluses. Further, the contractual agreements that amended the plans to be jointly trustee specifically state that no participating entity has a responsibility for any assets, liabilities, obligations of deficiencies of the plans.

Sincerely,

Trevor Fedyna

Trevor Fedyna, CPA, CGA
Vice-President, Strategy and Insights and Chief Financial Officer

Allan Chen

Allan Chen, CPA, CA
Controller, Financial Services

January 21, 2025

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

Re: Re-Exposure Draft – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric,

Thank you for the opportunity to provide feedback as it relates to this Re-Exposure Draft. It is our hope that based on our experiences and observations as a legislative audit office, our opinion will provide PSAB with relevant feedback.

Please refer to the comments we have attached in the appendix to this letter. We are pleased that PSAB has taken steps to address some of our concerns expressed in our initial exposure draft including the original discount rate proposals. We have not revisited all of our previous comments again for this Re-Exposure draft, instead focusing on the questions that are proposed.

Sincerely,



Kim Adair, FCPA, CA, ICD.D
Auditor General of Nova Scotia

APPENDIX

Question #1: Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Yes, overall with agree with the amended discount rate proposals for defined benefit plans and illustrative examples.

Fully Funded Plans: The discount rate for fully funded plans is based on expected market-based return on plan assets. We note that this terminology is different from current requirement in PS 3250 which is to be based on the expected rate of return on plan assets. We suggest PSAB clarify if there is a difference.

Illustrated Examples: We reviewed the illustrative examples and find them helpful. We noted that both examples 14 and 15 have similar background information, funding policy and actuarial valuations performed for funding purposes with a deficit. Example 14 only considers primary indicators as no additional factors were identified to imply that primary indicators did not faithfully represent the plan's funded status. However, example 15 moves to consider secondary indicators which leads to a conclusion that the plan is fully funded. It's not clear what factors were considered or when secondary indicators should be consulted or not when assessing a plans funded status. Providing this information may assist practitioners and auditors.

Question #2: Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

No, we do not agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation.

While we agree that including sensitivity analysis in financial statements can provide useful information for users, we note that PS 3251.167 already includes a requirement that a public sector entity disclose sensitivity analysis for each significant actuarial assumption, which would include the discount rate.

We feel that the sensitivity analysis required for each significant actuarial assumption in PS 3251.167 would provide similar information to that required by 3251.168, and that adding more sensitivity analysis for the discount rate would result in additional effort and costs with limited benefit. Sensitivity analysis provided by PS 3251.167 should provide users with sufficient information on how changes to the discount rate may impact a public sector entity's defined benefit obligation.

Question #3: The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree that the section should be applied no earlier than April 1, 2029.

We do wish to bring to your attention the fact that non-traditional plans, which are prevalent in certain jurisdictions in Canada, are not addressed in the current PS 3251. Accounting for these plans can be complex, leading to significant work effort on behalf of both preparers and auditors. Jurisdictions with non-traditional plans may face a number of negative consequences and challenges if the effective date of 3251 is not aligned to when non-traditional plans are addressed by the standard. Jurisdictions would be subject to substantial changes and work efforts upon initial transition to the new standards only to have that effort potentially duplicated when standards addressing non-traditional plans come into effect. This could result in redundant efforts; increased costs for taxpayers; reduce financial statement comparability year to year; and reduce understandability amongst users of the financial statements.

We encourage PSAB to assess the impacts associated with non-traditional plans and consider changes to the effective date or transitional provisions in response.

Question #4: Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

No, we do not have any new issues or concerns to raise. Our previous response discussed details related to specific items for consideration.

Comments on Re-exposure Draft – Employee Benefits, Proposed Section

PS 3251, October 2024

Malcolm Hamilton, January 20, 2025

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 the existing PS 3250 as a significant obstacle to the sound management of Canada's public sector pension plans. To be clear, these papers were not critical of the plan administrators. They criticized accounting standards that encourage public sector employers to materially underestimate and underreport the cost of their pension plans and, by extension, the compensation of their employees. This has been going on for many years and, if the Re-exposure Draft is adopted in its current form, it will continue for many more. Costs that are materially underestimated and underreported are seldom well managed.

I strongly oppose the most important element of both the original Exposure Draft and the recent Re-exposure Draft – the requirement that public sector employers deviate from international accounting standards by calculating their current service costs and their accrued pension liabilities using the expected return on assets (EROA) as the discount rate, not the yield on long term government bonds. I oppose this departure from international norms for the following reasons.

- The costs and liabilities are, and will continue to be, materially underestimated.
- The results are incompatible with the PSAB's mission as articulated in the first paragraph of its *Terms of Reference*. Specifically, using the EROA as the discount rate materially underestimates the cost of public sector pensions and, consequently,
 - is not in the public interest, and
 - misinforms, rather than informs, public sector decision makers about the cost of their pension plans.
- The reasons given for deviating from IAS 19, as set out in paragraphs 48 and 49 of the *Basis for Conclusions*, are unconvincing. References to the "unique nature" and "comparative strengths" of Canada's public sector pension plans are supported by nothing. They are simply allegations or hearsay. These characterizations are accurate for some Canadian public sector pension plans and inaccurate for others, yet the proposed

changes to the accounting standards will apply to all Canadian public sector employers and all Canadian public sector pension plans, not just to those thought to be unique and/or exceptional in some way.

- No attempt has been made to connect the alleged “uniqueness and strength” of Canada’s public sector pension plans with a seemingly arbitrary decision to materially reduce the reported pension costs of virtually all Canadian public sector employers relative to what they would be if international standards were applied.
- Unless I am missing something, the materiality of the proposed changes has never been communicated or discussed. Aren’t these relevant considerations when considering material deviations from international accounting standards?
- Other than unsubstantiated references to the “strength and uniqueness” of Canada’s public sector pension plans, little is said about the reasons why the Canadian public will be better served by PS 3251 than by IAS 19. Little is said about what the international standards setters got wrong. Little is said about why the principles underlying IAS 19 and Canada’s private sector accounting standards are in the public interest for employers and pension plans in the private sector and for employers and pension plans subject to international accounting standards, but are not in the public interest when applied to employers and pension plans in Canada’s public sector.
- The *Basis for Conclusions* succinctly describes the considerations that led the PSAB to the conclusion that the EROA is the preferred discount rate for public sector employers with fully funded pension plans.

“In the absence of conclusive evidence that either discount rate approach provided unequivocally greater incremental improvement to the qualitative characteristics of information reported in financial statements, PSAB’s standard-setting mandate includes balancing tradeoffs that may exist between considerations relevant to the Canadian public interest, such as support for proposals from interested and affected parties, and maintaining consistency with other standard setters. For discount rate proposals, the Board acknowledged that issuing a standard that is broadly implementable and supported by interested and affected parties remains in the public interest, as determined by feedback from consultative outreach activities required by its due process. Consequently, the Board determined that retaining a differentiated discount rate approach would be responsive to the support received through its consultative due process.”

In other words, the EROA was chosen as the discount rate because it is the option preferred by “interested and affected” parties. Unfortunately, the interests of these interested and affected parties – plan members, public sector employers, public sector unions and public sector pension plans – conflict with the public interest as it relates to the measurement and reporting of public sector pension costs. The interested and affected parties want to continue to report low costs – costs that are incompatible with both international public sector accounting standards and with Canadian private sector accounting standards. If the goal is to serve the public interest, as PSAB’s mandate suggests, why has the decision been dictated by the preferences of those who represent the interests of plan members, not those who represent the opposing interests of the Canadian public?

- Finally, I challenge the assertion that there is an “absence of conclusive evidence that either discount rate approach provided unequivocally greater incremental improvement

to the qualitative characteristics of information reported in financial statements". I believe that an objective analysis of the context of the calculations and the uses to which the numbers are being put would make it clear that the yield on government bonds, not the EROA, is the proper discount rate to use for pension plans without risk sharing.

I will now make the case that, while both IAS 19 and PS 3251 are flawed, particularly in their failure to address the implications of risk sharing, IAS 19 is less flawed than PS 3251 because IAS 19 works well for plans where there is no risk sharing (of which the Canadian Public Sector has many) while PS 3251 works well only for plans where employees bear all of the investment risk (of which the Canadian Public Sector has virtually none).

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. Pensions are typically paid 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 that employees earn, and the cost of delivering these pensions.***

The cost of the pensions that 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 of interest (the "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 (bond) 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 nominal bond rate less the inflation rate) is currently about 1.5%. This is the current yield to maturity on long term, inflation protected, Canada bonds and is also the cost of borrowing used by the federal government for its long-term fiscal projections. I will also assume that the real EROA is currently about 3.5%, this being the sum of

- the 1.5% real return on government bonds and
- 60% of an equity risk premium equal to 3.5%.

The current service cost for a representative public sector DB plan would then be about

- 33% of pay if calculated using the government bond rate (1.5%), and
- 20% of pay if calculated using the EROA (3.5%).

The two discount rates produce dramatically different current service costs. They cannot both be right. No public or private sector organization would adopt a pension plan that costs 20% of pay or 33% of pay depending on whom you ask. In this instance the right answer – the supportable answer – the answer that conforms to international accounting standards and serves the public interest - is 33% for defined benefit pension plans where the employer bears all of the investment risk and employees bear none, i.e. for the plans addressed in the Re-exposure Draft.

Why 33%? Because employees who directly and/or indirectly contribute 33% of pay for their pension plan will collectively earn a 1.5% real rate of return on their investment. This is currently the fair rate of return for a long-term, inflation-protected, risk-free investment, and the pensions of public employees are essentially long term, inflation protected, risk free investments. If employees contribute only 20% of pay for the same pensions, they will earn a 3.5% real rate of return on their risk-free investment. A 3.5% real return would be reasonable if employees bore 100% of the investment risk associated with the pension fund's 60/40 asset mix, but they do not. A 3.5% real return would have been reasonable for employees bearing no investment risk in the early 2000s, when real interest rates were much higher than they are today. But in 2025, a 3.5% real return for those who bear no investment risk is unreasonable while a 1.5% real return is reasonable. This leads me to conclude that, notwithstanding the claim made in Paragraph 56 of the *Basis for Conclusions*, there is irrefutable evidence that the 3.5% discount rate currently advocated by PS 3251 (the EROA) for pension plans where employees bear no investment risk, is too high, while the 1.5% real discount rate required by IAS 19 (the yield on government bonds) is appropriate.

How is it possible to charge members 20% of pay for a pension plan that costs 33% 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 1.5% real rate of return and has only enough money to pay for about 60% of the pensions (because it needs a contribution equal to 33% of pay to cover the full cost of the pensions without taking investment risk).
- The pension board decides to invest 60% of the pension fund in equities, hoping to earn the 3.5% real return needed to pay the pensions. Since neither the pensioners nor the employees bear any investment risk, all the investment risk must be borne by the employer (and ultimately, by the public) through adjustments to the employer's annual contribution rate. The reward for risk taking and, if necessary, the additional employer contributions needed to address shortfalls if the investment returns disappoint, 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 13% of pay is effectively transferred from the public to public employees who pay 20% of pay for a pension worth 33% of pay. The 13% difference is the cost of pensions that are funded from the additional 2.0% rate of return earned by the pension fund for investment risk taken by the pension fund and borne by the employer.

This is what has been happening under PS 3250 for decades. Depending on the prevailing interest rates at a particular time, 13% to 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 expense of the employer. The transfer escapes detection because the money is earned by the pension fund as a reward for risks taken by the pension fund and borne by the employer. It is then paid to pensioners as a significant part (about 40%) of the pensions they are owed.

If employees think that the additional 13% 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 33% of pay to 27% 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. However, these changes will not be made if the reported cost of the pension plan is 20% of pay no matter how much or how little risk employees bear, as would be the case under PS 3251. Proper accounting creates an appropriate incentive for plan members to bear some of the investment risk. Poor accounting provides a strong incentive for plan members to pass the investment risk to the employer/public, who then bear the risk for free. Bad accounting contributes to poor decisions about the design, funding and investment of public sector pension plans.

Fixing the Problems

The PSAB should acknowledge and address two distinct problems.

1. The first problem is PS 3250 and its proposed replacement, PS 3251, as described in the Re-exposure Draft. Neither is compatible with IAS 19 and, more importantly, neither produces reasonable estimates of the cost of Canada's Public Sector pension plans.
2. The second problem is that, properly measured, the cost of Canada's public sector pension plans is materially higher than has been reported for the last 10 years and the "interested and affected" parties do not want to admit this, or to correct it.

I will focus on the first problem. About the second I will simply observe that concealing and perpetuating mistakes is seldom the best path forward, although for the managers of public sector pension plans, this is certainly the comfortable path.

It is usually easier to criticize a proposal than to propose a constructive alternative with fewer failings. Usually there are no alternatives that satisfy everyone's objectives and that will surely be the case in this instance.

Still, one must try; so here is my suggestion for how the cost of Canada's public sector pension plans should be estimated and disclosed.

For the purposes of PS 3251, the current service cost for a Canadian public sector pension plan should depend on the risk sharing arrangement and should be calculated as follows.

1. Calculate the present value of the pensions earned in a year by discounting the projected cash flows at a real discount rate equal to the real long term government bond rate, which I will assume to be 1.5%. Label the result CSC(BOND). This is the current service cost calculated using the long-term bond rate and it should be used in the absence of risk sharing. It is also the current service cost prescribed by IAS 19.
2. Repeat the calculation, this time using the real EROA - the expected real return on the pension fund based on current investment policies – as the discount rate. Assume that the EROA is 3.5%. Label this CSC(EROA). This is the discount rate that should be used if there is a risk sharing agreement and employees bear all of the investment risk. It is also the current service cost prescribed by PS-3251 for a pension plan deemed to be "fully" funded.
3. Now, suppose that employees are expected to bear a proportion of the investment risk that we will label as EEshare. Suppose further that
$$\begin{aligned}\text{CSC(BOND)} &= 33\% \\ \text{CSC(EROA)} &= 20\% \\ \text{EEshare} &= 50\%\end{aligned}$$
4. For accounting purposes, the current service cost should be
$$\text{CSC} = (\text{EEshare} \times \text{CSC(EROA)}) + ((1 - \text{EEshare}) \times \text{CSC(BOND)})$$
which, in this instance, would be
$$(50\% \times 33\%) + (50\% \times 20\%) = 26.5\% \text{ of pay}$$

5. Suppose employees contribute 10% of pay (EECONT) as their “share” of the current service cost. The employer’s share of the current service cost (ERCSC) would then be:
$$\text{ERCSC} = \text{CSC} - \text{EECONT} = 26.5\% - 10.0\% = 16.5\% \text{ of pay.}$$
6. Under IAS 19 and PS 3251 as I understand them, the Employer Current Service Cost would be as follows.
 - under IAS 19, $\text{ERCSC} = \text{CSC}(\text{BOND}) - \text{EECONT} = 33\% - 10\% = 23\% \text{ of pay, and}$
 - under PS 3251, $\text{ERCSC} = \text{CSC}(\text{EROA}) - \text{EECONT} = 20\% - 10\% = 10\% \text{ of pay.}$

Basically, if employees bear 50% of the risk, the employer current service cost is halfway between the results produced by the current international standard and the proposed Canadian Standard, and consequently, not close to either.

Why is this? Because neither IAS 19 nor PS 3251 handle risk sharing properly, and our example is for a plan where the investment risk is shared 50/50. Pursuing this further, if you double back and perform the calculation for a plan where employees bear no investment risk and then for a plan where employees bear all of the investment risk, you will find the following.

- If employees bear all of the risk, $\text{ERCSC} = 10\% \text{ of pay, which aligns with PS 3251}$
- If employees bear none of the risk, $\text{ERCSC} = 23\% \text{ of pay, which aligns with IAS 19.}$

This seems reasonable, as IAS 19 is built around the use of the bond rates for calculating current service costs, and using bond rates is sensible where employees bear no risk. PS 3251 favors using the EROA as the discount rate and that is appropriate if employees bear all of the investment risk. In essence, IAS 19 implicitly assumes that there is no risk sharing and doesn’t work well if employees bear some or all of the risk. PS 3251 implicitly assumes that employees bear all of the risk, and doesn’t work well if employees bear less than 100% of the risk, as is almost always the case.

At this point the PSAB is focusing on the treatment of pension plans where employees bear none of the investment risk, but the recommended discount rate for fully funded plans is the EROA and the EROA is the right discount rate for plans where employees bear all of the risk. This is not a good fit. Nor is it easily fixed as the right discount rate for plans where employees bear little or no risk is the bond rate and PS 3251 only uses the bond rate for badly funded plans.

If you continue down this road you will find yourself painted into a corner when you begin to focus on plans where employees bear an appreciable amount of risk. Basically, by using the EROA as the discount rate for plans where employees bear no risk, you basically pass all the rewards for risk taking to employees who bear no risk. If all the rewards are distributed to those who bear no risk, what more can you do for those who bear significant risk? The answer is nothing. If bearing no risk gets you the lowest possible current service cost, how can bearing some of the risk give you anything less, or anything more?

From my perspective, PS 3251 cannot be salvaged. It has drifted too far away from where it needs to be to be salvageable in its current form. Since it delivers low contributions rates even to those who deserve high contribution rates, it will no doubt be popular among the “interested and affected parties” who vote in favor of anything that allows them to conceal the cost of their pension plans. But it is a backward step, not a step in the right direction.

I feel that I should end here, but there are some aspects of the methodology I favor that I would like to record before I forget them. Perhaps they will be useful if, as and when you decide to move in a more constructive direction.

1. First, at no point do I rely on a pension plan being fully funded. From my perspective, risk sharing is the important thing. Then comes asset mix. If the accounting methodology is making a big deal about full vs. partial funding, it is off track, or someone is deliberately muddying the water by introducing unhelpful complications. This is particularly true in calculating the current service cost, **where the relevant consideration is whether this year's contribution fully funds this year's benefit accrual**, not whether the entire plan was, is, or some day will be, fully funded.
2. Neither IAS 19 nor PS 3251 handle risk sharing properly. IAS 19 ignores the savings that risk sharing can provide to employers. This is understandable as few of the plans subject to IAS 19 would have risk sharing. PS 3251 has a much bigger problem, as it works properly only for plans where employees bear all of the risk and yet it applies almost exclusively to plans where employees bear no more than 50% of the risk.
3. My proposed approach should be understood in the following way.
 - a. Setting aside risk sharing, the benefits paid from a public sector pension plan (the "target" benefits) do not depend on whether the plan is funded or on how the assets are invested. The pension benefits are obligations of the pension plan as well as being statutory or contractual obligations of the plan sponsor. They must be paid, in full, for as long as the plan continues as a going concern. Since the accounting is performed on a going concern basis and, to the best of my knowledge, no large Canadian public sector pension plan has ever failed to pay the benefits that members were owed, the benefits are safe regardless of the plan's funded status and they should be valued as public sector debt is valued, i.e. by discounting future payments at government bond interest rates.
 - b. To calculate the employer's share of the current service cost, we must deduct two amounts:
 - i. The employee's current service contribution, and
 - ii. The present value of future benefits the cost of which will be covered by the expected rewards for risk taken by the pension fund and borne by plan members, both active and retired.
 - c. This sounds difficult, but it is just a description of the difference between the present value of benefits discounted at the government bond rate and the present value of benefits discounted at the EROA, and it has already been incorporated in the technique described earlier.
 - d. The resulting structure is appealing in the sense that contributions and investment returns are treated the same way. Benefits are paid from contributions or from investment income. We pay for benefits by contributing or by bearing investment risk. The employer's share of the cost is the total cost reduced by
 - i. Employee contributions, and

- ii. The present value of benefits funded by the taking of investment risk *borne by employees*.

The employer's share is not reduced by employer contributions or by the present value of benefits funded by the taking of investment risk borne by the employer. These do not reduce the employer's cost; these are the two ways that the employer bears the employer's cost.

- 4. This approach is particularly useful in providing appropriate pricing for risk bearing and risk sharing options; for example, the impact of moving from no risk sharing to joint sponsorship, and then from joint sponsorship to a target benefit approach for the pension plan discussed earlier.

I am going to end with a couple of tables – just to remind myself that I thought they were important. Each table compares the impact of risk taking on the current service cost for three different accounting approaches: PS 3251, IAS 19, and the proposal described earlier. The first looks at the importance of asset mix if members bear 50% of the investment risk. The second looks at the importance of risk sharing, i.e. the percentage of the investment risk borne by members. If we ever get proper accounting, the costs of public sector pension plans will be very high, and employers may need to address this. As long as employers can hide the cost, they can ignore it. If costs are properly measured, employers will have to deal with them. Increasing risk exposure combined with shifting risk to members may be a useful combination, especially if used in concert with benefit reforms like later retirement, lower pensions, conditional indexing, etc. Note that since PS 8251 and IAS 19 both ignore risk sharing, shifting risk to employees has no impact on employer cost as long as employers account this way. That's why proper accounting is important. Without it, people do the wrong things for the wrong reasons.

Calculation of Employer Current Service Cost			
% Risk Borne by Employees	Re-exposure Draft	IAS 19	Proposed Alternative
	20.00%	33.37%	26.69%
0%	20.0%	33.4%	33.4%
50%	20.0%	33.4%	26.7%
100%	20.0%	33.4%	20.0%

	Calculation of Employer Current Service Cost		
% Equity	Re-exposure Draft	IAS 19	Proposed Alternative
0%	33.4%	33.4%	33.4%
20%	28.1%	33.4%	30.7%
40%	23.7%	33.4%	28.5%
60%	20.0%	33.4%	26.7%
80%	16.9%	33.4%	25.1%
100%	14.3%	33.4%	23.8%

Colin Semotiuk CPA, CA
Wayne Morgan PhD, CPA, CA, CISA
Office of the Auditor General of Alberta¹
Edmonton, Alberta

January 20, 2025

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

Dear Michael Puskaric,

Our response to Re-exposure Draft: *Employment Benefits, Proposed Section PS 3251* is below:

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100 - .116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

Overall, we agree with the amended discount rate proposals for defined benefit plans. Defining fully funded and underfunded plans and having different discount rates for each is a significant improvement from the current standard. However, we do note the following areas for clarification to proposed paragraphs PS 3251.100 - .116:

- The term “actuarial assumptions. . .” is used throughout paragraphs .100-.116 and in headings, however we note that the language should be “management assumptions.” Management is ultimately responsible for the assumptions and using the language “actuarial assumptions” places the burden on the actuary versus making management accountable for the assumptions the actuary uses in their calculation(s). In comparison for contingent liabilities, PS 3300.14, states, “are matters for judgement by those responsible for preparing the financial statements.” Although it is critical that management use an appropriate expert, in this case an actuary, to determine their post-employment benefit obligations, the standard should not portray that the actuary is the most responsible party when determining the obligation. We recognize that this terminology is in the current standard, however given the standard is being updated and management is accountable for the financial statements, it is an appropriate time to correct this.

We suggest paragraph .063 be updated to recognize that technological sources (e.g. artificial intelligence) may be an internal or external source of expert assistance when making actuarial assumptions or calculations.

¹ The views expressed herein do not necessarily reflect the views of the Office of the Auditor General of Alberta.

- Paragraph .103 requires, “*at the end of each fiscal year-end, assess the funding status of a post-employment benefit plan. . .*” We note that in many instances the completion of actuarial obligations and estimates are done on a cycle basis, commonly a three-year cycle. We propose that the wording be updated to reflect that a three-year cycle would still be appropriate to balance the reporting burden. Our proposed wording is as follows, “*A public sector entity should, at the end of each fiscal year-end, review for any significant factors that indicate their funding status has changed, and on a minimum cycle of three-years, determine the appropriate rate for discounting the associated obligations.*”
 - Paragraph .112 states, “*The expected market-based return on plan assets would be calculated based on **market** expectations, at the end of the reporting period. . .*” However, it should state “*based on **management** expectations, at the end of the reporting period.*” There is no publicly stated “market expectations,” contrary is that almost no two parties in the market have the same expectation(s) of the market. As noted above, the calculations for defined benefit obligations use “management’s” expectations and are the responsibility of management.
2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity’s defined benefit obligation (paragraph PS 3251.168)? If not, why?

Yes, we agree with the proposed sensitivity disclosure for fully funded plans. This disclosure improves comparability.

We note that a reciprocal sensitivity should also be included for unfunded plans: how much the obligation changes due to using the discount rate that would be used if the plan was fully funded. This is consistent with the purpose of sensitivity disclosures, which is to improve comparability.

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

Yes, we agree with the Re-exposure Draft’s proposed effective date for fiscal years beginning on or after April 1, 2029. This is five years after the issuance of the Re-exposure Draft.

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

We note the following items the PSAB should also consider:

- There may be circumstances where entities under common control participate in a multi-employer plan. It is not clear what percentage of multi-employer participants can not be under common control for the plan to be considered a plan that is between entities that are under common control. For example, a private (non-consolidated) school could participate in a plan for which substantially all participants are controlled schools; further guidance than paragraphs .032 and .040 should be added.
- For paragraphs .040-.042, the standard should allow for public sector entities that are under common control to use defined benefit accounting if such a policy exists and information is available. It is not consistent that if there are multi-employer plans and information is available, the entity uses defined benefit accounting, yet for entities under common control if information is available they are not permitted to use defined benefit accounting in their entity financial statements.
- Paragraph .042 should clarify what to record when the controlled public sector entity uses IFRS. The current wording may cause some inconsistencies when IFRS requires the entity to record the defined benefit liability and paragraph .042 says not to record the defined benefit liability.
- PSAB should provide clearer guidance on when it is appropriate for a public sector entity to recognize a pension asset (surplus in a defined benefit plan). Pension plans are governed by complex legislation and various funding arrangements and the ability for a public sector entity to use pension assets as “a present economic resource controlled by a public sector entity as a result of a past event(s) and from which future economic benefit is expected to be obtained” (PS 3210.03) requires significant professional judgement. PSAB can clarify this by clearly stating, “*For purposes of recognizing a plan asset, the refunds from the plan or reductions in future contributions to the plan need to have been approved by the plan at the date of the financial statements of the public sector entity*” at the beginning of 3251.069.
- Both paragraphs .109 and .113 use the word “interpreted.” What does this mean it is interpreted? Both paragraphs should state “... the time value of money is a discounted rate that approximates ...” (“... the time value of money is ~~interpreted as~~ a discounted rate that approximates ...”).
- PSAB should clarify whether net interest on pensions should be part of the “interest paid” disclosure on the statement of cash flows and interest expense on the statement of operations. Paragraph .156 may be insufficient because PS 1202 does not provide specific guidance.
- We encourage PSAB to stand-back and consider that the standard with the title “Employee benefits” requires little information about employee benefits. Paragraph .007 of the exposure draft indicates employee benefits may include wages/bonuses, leaves and non-monetary benefits such as medical care. There are few disclosure requirements for these. Paragraph .025 requirement to disclose “adequate

information” is not sufficient. Salaries and wages may be the largest expense of an organization and employee relationships and activities and risks among the public sector entity’s most important accountabilities. The standard should include disclosures of salaries paid to management and those charges with governance (or key management personnel in PS 2200), wage/salary expense by bands/category across all employees, diversity and equity information, etc. It may also include information on the costs or investment made by the entity in employee training, safety, etc. Disclosures regarding collective bargaining may also be relevant.

Thank you for the opportunity to comment.

Sincerely,

Colin Semotiuk CPA, CA

Wayne Morgan PhD, CPA, CA, CISA

January 20, 2025

Michael Puskaric, MBA, CPA, CMA
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Public Sector Accounting Board
277 Wellington Street West
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Re: PSAB Re-exposure Draft - Employee Benefits Proposed Section PS 3251

Dear Mr. Puskaric,

We have read the above-mentioned re-exposure draft that was issued in October 2024 and are pleased to have the opportunity to provide responses to PSAB's specific questions. We would like to express our appreciation to PSAB for addressing several comments raised during the review of the July 2021 Exposure Draft and the proposed amendments included in this re-exposure draft.

Please find our response to the proposed questions 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,

Curtis Bennett, CPA, CA
(on behalf of COFO Financial Reporting Subcommittee)
Associate Director, Financial Services
St. Lawrence College
cebennett@sl.on.ca

Colleges Ontario Financial Officers – Financial Reporting Subcommittee

RESPONSE TO EMPLOYEE BENEFITS RE-EXPOSURE DRAFT

PROPOSED SECTION PS 3251

1. *Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?*

COFO agrees with the amended discount rate proposals for defined benefit plans. The amendments made to PS 3251.113 to eliminate the specific use of provincial government bonds when determining a discount rate for underfunded plans were appreciated.

COFO feels that illustrative examples of accounting and disclosures for a funded and an underfunded plan would be a valuable addition to the proposed Standard as the current illustrative examples relate only to the application of specific sections of the Standard.

2. *Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?*

COFO interprets the proposed Standard that the College sector would account for their funded multi-employer pension plan as a defined contribution plan under the provisions of paragraph PS 3251.035, and therefore this sensitivity disclosure proposal is not relevant to the Colleges.

COFO has nonetheless reviewed the proposal for sensitivity disclosures for fully funded plans to include the impact of an underfunded discount rate and questions whether this disclosure helps users better understand the risks and sensitivities that could affect the financial statements and assess the entity's management of those risks.

More specifically, COFO does not agree that recalculating and disclosing the defined benefit obligation as if the plan were underfunded is relevant to the financial statement user in understanding and assessing risks related to the defined benefit obligation. The disclosures in paragraph PS 3251.167 already require sensitivity disclosures for each actuarial assumption, which enable users to understand the relevant risks that could affect the financial statements for each actuarial assumption. The additional proposed disclosure in paragraph 3251.168 provides users with the value of the defined benefit obligation as it if were in an entirely different funding status. This information is not relevant where a plan has a strong probability of remaining fully-funded in the foreseeable future. Further, this information may not be understandable nor provide predictive value to users unless they are provided sufficient information to determine the likelihood and conditions under which the fully funded plan could become an underfunded plan, which are not required per the proposed disclosure.

3. *The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?*

COFO agrees that the proposed Section should be applied no earlier than fiscal years beginning on or after April 1, 2029 to provide sufficient time for system or process changes required to be tested and implemented.

4. *Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?*

Generally, colleges are likely to rely on paragraph PS 3251.036(b) with respect to the accounting for our multi-employer defined benefit pension plans, whereby we do not have sufficient information in order to account for our proportionate share of the defined benefit obligation, plan assets and post employment benefit costs. Accordingly we expect to account for the plan as a defined contribution plan under PS 3251.

The requirement to disclose an indication of the level of participation of the public sector entity in the plan compared with other participating entities per paragraph 3251.171(d)(v) may not be reliable or useful to financial statement users and could in fact be misleading. It is difficult to provide a measure of participation for users that reliably estimates a single employer's proportionate participation in the plan, and this could result in users making judgments which are significantly different from the economic reality. This complexity is reflected in the fact that the pension plan administrator is not able to provide sufficient information for each entity to account for their proportionate share of the defined benefit obligation, plan assets and post employment benefit costs.

January 20, 2025

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

Subject: Invitation to Comment – Re-exposure Draft: Proposed Amendments to Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric:

We thank you for the opportunity to provide comments on the above noted Re-exposure Draft regarding the Employee Benefits, Proposed Section PS 3251 (the "Re-exposure Draft").

Our response was developed collaboratively between practitioners that have a deep knowledge of public sector entities and organizations ranging from government components and organizations to municipalities, provincial and federal governments. Overall, we are supportive of the Public Sector Accounting Board's proposed amendments to the discount rate requirements in response to the feedback received to the July 2021 Exposure Draft. We have included certain additional areas, which in our view, would benefit from further clarification for the Board's consideration.

Please find attached in the Appendix our detailed comments to the specific questions raised in the Re-exposure Draft.

If you have any questions, please contact Martin Roy (mroy@deloitte.ca) at 416-601-5679.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Appendix

Proposed Amendments to Employee Benefits, Proposed Section PS 3251

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39))? If not, why?

We agree with the amended discount rate proposals in the paragraphs specified. We acknowledge, however, that there may be additional complexity with respect to auditing such discount rates. Such complexity is likely to arise due to preparers having the ability to select from a variety of types of reference rates and the expected diversity in application from entity to entity.

Additionally, we have a suggestion for the Board's consideration with respect to the wording of paragraph PS 3251.116.

The wording in paragraph 116 may be interpreted by preparers as a hierarchy or a sequential order of the types of reference rates that should be used. In other words, a preparer may interpret that the determination of the discount rate must always start with government bonds given the example provided discusses when the usage of government bonds may not be appropriate. Consequently, a preparer may misunderstand that the usage of high-quality corporate bonds yields is only appropriate when government bond yields are unavailable, or that other methods (i.e., extrapolation of current market yields or the yields of other financial instruments) are appropriate only in cases where government bonds and high-quality corporate bonds yields are both unavailable.

We note that this interpretation conflicts with the wording of paragraph PS 3251.113, which indicates that any of government bonds, high-quality corporate bonds, or other financial instruments, could be appropriate approximations. This interpretation would also conflict with paragraph PS 3251 BC.65, in which we understand that the intention is to simplify the proposed Section PS 3251, whereby an underfunded plan discount rate should ultimately be determined based on an entity's judgement of the financial instrument(s) that best reflect the time value of money for the plan, rather than a prescribed specified rate.

As such, we would suggest amending the language to paragraph PS 3251.116 to provide clarity that these are example circumstances that may lead an entity to use one type of reference rate over another. Specifically, we recommend to the Board to include a lead in sentence to the example circumstances (the additional sentence proposed is bolded below):

*"An entity makes a judgement 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. **An entity shall select one reference rate over another, based on the rate that best approximates the time value of money.** For example in some circumstances, market yields at..."*

With respect to the Illustrative Examples provided in paragraphs PS 3251.IE.27-IE.39, we have a clarifying point for the Board's consideration for Illustrative Examples 14 and 15. Paragraph PS 3251.107 indicates:

"In many cases, consideration of the primary indicators of paragraph PS 3251.106 may be sufficient to determine a plan's funding status. Where primary indicators are insufficient, other secondary indicators may be relevant;..."

Based on this wording, it would appear that secondary indicators are only to be assessed when the primary indicators are deemed insufficient in the assessment of a plan's funding status. However, Illustrative Example 14 and 15 share the same primary indicators within paragraphs PS 3251.IE34 and IE.36, with the exception of "*... Management determines that the results of the most recently filed actuarial valuation for funding purposes indicates that there are insufficient assets to satisfy existing liabilities*" as per paragraph PS 3251.IE34(b).

We believe that it may not be abundantly clear to the reader why the primary indicators within Illustrative Example 14 are deemed "sufficient" whereas the near identical primary indicators within Illustrative Example 15 are deemed "insufficient" in the assessment of the plan's funding status which would then require a user to assess secondary indicators. As such, we recommend providing additional discussion within Illustrative Example 15 to clearly articulate why the primary indicators assessed were deemed insufficient, which then required the assessment of the secondary indicators according to paragraph PS 3251.107. Alternatively, additional discussion within Illustrative Example 14 to clearly articulate the efforts that were made to identify secondary indicators and why management had concluded that there were no additional indicators that would point to a fully funded status, may be beneficial to readers.

Lastly, we believe it would be beneficial to clarify how a preparer with plans that have a clear distinction between funded and underfunded periods of service should determine the appropriate discount rate. Specifically, would it be appropriate for these types of plans to utilize two rates to reflect the funded and underfunded portions of the plan? Or would preparers be required to identify a single discount rate in accordance with the assessment of the plan's funding status based on existing circumstances at the end of the fiscal period in accordance to proposed paragraph PS 3251.103, resulting in the application of a funded rate in some years and an underfunded rate in other years?

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

We acknowledge and agree with the Board regarding the importance of understanding the measurement uncertainty innate to long-term defined benefit obligations. However, we believe that the proposed sensitivity disclosures for fully funded plans to include the impact of an underfunded discount rate would not provide significant and beneficial incremental information to users in excess of the costs associated with preparing this disclosure. The proposed disclosure requirements under paragraphs PS 3251.161(d)(i) and (ii) require preparers to disclose the basis on which the discount rate has been determined, including information regarding the key assumptions and estimates used by a preparer in assessing a plan's funding status. We believe that these disclosures provide users with sufficient qualitative information relating to the professional judgement used in determining a plan's funding status, which under the proposed amendments is an assessment that is based on qualitative factors. The sensitivity provided under paragraph PS 3251.168 would primarily inform the reader on what the defined benefit obligation would be measured at if the entity's assessment of its funding status was "incorrect" in its entirety.

With respect to the costs associated with the proposed disclosure, we anticipate that preparers would incur additional costs to develop the appropriate rate for disclosure purposes, in addition to costs associated with additional audit effort required to assess the appropriateness of the discount rate disclosed. While the amendments proposed are focused on providing a binary approach to reduce complexity in assessing funding status and the relevant discount rates, fully funded plans would be inherently forced to determine two separate discount rates for the

purposes of disclosures, with one of the rates not impacting any of the balances included in the financial statements. These increased costs may be more significant for entities that do not have any underfunded plans, as they would need to develop an appropriate methodology specifically to prepare this disclosure on an annual basis.

Additionally, there is overlap between the requirements of paragraphs PS 3251.167 and 168, as all preparers are required to provide a sensitivity analysis and ranges for all significant inputs used to measure defined benefit obligations. For fully funded plans, the calculated defined benefit obligation using an underfunded discount rate required per paragraph PS 3251.168 may fall within a sensitivity range already provided under paragraph PS 3251.167. As a result, it is not immediately clear to us what incremental benefit the disclosure proposed in paragraph PS 3251.168 would provide.

3. **The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?**

We agree with the proposed adoption date and the permissibility of earlier adoption of the proposed Section PS 3251 where applicable based on a preparer's specific circumstances.

With respect to the transition provisions per paragraph PS 3251.200, we note that footnote 7 specifically refers to Section PS 2120.14-.15. We understand this paragraph requires preparers to apply the proposed Section PS 3251 in accordance with Section PS 2120. However, we would like to ask the Board to clarify the applicability of paragraph 13 of Section PS 2120 to the new proposed standard. In accordance with paragraph 13, would preparers have the optionality to apply this new proposed standard retroactively or prospectively, based on user and preparer specific needs? Or are preparers only permitted to apply this standard retroactively, consistent with the Basis of Conclusions paragraph 95 and in accordance to PS 2120.14-15? The inclusion of *"with or without prior period restatement"* appears to provide entities an option.

If preparers are required to apply proposed Section PS 3251 retroactively, we recommend bringing the reference to PS 2120.14-.15 from the footnote into the body of the paragraph of PS 2151.200. Consequently, we suggest revising the wording in the proposed paragraph PS 3251.200 as follows (the suggested wording is bolded below):

*"This Section **shall be applied** retroactively, **unless the necessary financial data are not reasonably determinable, in accordance with the requirements provided within Section PS 2120 paragraphs 14 and 15, except that:**"*

4. **Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?**

No, we do not have other issues that we would like to raise for consideration at this time.



OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

Independence. Credibility. Integrity.

January 22, 2025

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

RE: Re-exposure Draft – Employee Benefits, Proposed Section PS 3251

Dear Mr. Puskaric:

We are pleased to have the opportunity to comment on the Public Sector Accounting Board's (PSAB) re-exposure draft on Employee Benefits, Proposed Section PS 3251.

Please find our comments on the re-exposure draft in the appendix to this letter. We believe our comments will help to improve understandability of financial reporting of employee benefits.

Should you wish to discuss any of our comments, please contact our Office.

Yours truly,

KEITH BUTT, CPA
Assistant Auditor General

Appendix

Appendix
Re-exposure draft – Employee Benefits, Proposed Section PS 3251
Office of the Auditor General (OAG) Newfoundland and Labrador response
January 2025

Question 1

Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

OAG Newfoundland and Labrador response

Generally, we agree with the amended discount rate proposals for defined benefit plans and accompanying illustrative examples. However, we would offer the following comments.

Determining funding status

The revised exposure draft now proposes only two funding status possibilities - a plan is either fully funded or underfunded. This proposed change will make determining the funding status and the related discount rate to be used much easier.

We feel that Example 15 could include additional clarification on what factors to consider when deciding whether to use secondary indicators to determine the funding status of a plan. The facts described in Example 14 are the same as those described in Example 15 regarding the primary indicators to be used when determining funding status. Both examples have the same funding policy suggesting the plan is fully funded and both have actuarial valuations for funding purposes with a deficit, suggesting the plan is not fully funded. In Example 14 there were no secondary indicators considered, while in Example 15 secondary indicators were considered.

Discount rate for fully funded plans.

In the revised exposure draft, there were amendments to the wording in paragraphs related to the discount rate for fully funded plans (paragraphs .109 to .112). However, it is still not clear what the difference is between the expected rate of return on plan assets (per PS 3250) and the expected market-based return on plan assets (per PS 3251). We believe that additional guidance should be provided on this issue.

Question 2

Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

Appendix
Re-exposure draft – Employee Benefits, Proposed Section PS 3251
Office of the Auditor General (OAG) Newfoundland and Labrador response
January 2025

OAG Newfoundland and Labrador response

We do not agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation as outlined in paragraph PS 3251.168.

It is our opinion that the requirements of paragraph PS 3251.167(a) would already provide information that is like what is being proposed in paragraph PS 3251.168. This would especially be true in cases where the plan has a history of switching between being fully funded and underfunded, as it is "reasonably possible" that either situation could occur.

Question 3

The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

OAG Newfoundland and Labrador response

We disagree with Section PS 3251 being effective for non-traditional plans for fiscal years beginning on or after April 1, 2029. The government of Newfoundland and Labrador has two non-traditional plans.

We believe that the Board needs to provide transitional relief for non-traditional plans by delaying the effective date of PS 3251 until these plans are specifically addressed by the standard. Accounting treatment for non-traditional plans is expected to significantly change under this proposed standard and then may be subject to substantial additional changes once non-traditional plans are addressed. This will result in undue effort and cost, reduced comparability year over year, and confusion to stakeholders.

We suggest that the Board allow for a transitional exemption for entities with non-traditional plans to retain their existing accounting policies for employee benefits until non-traditional plans have been addressed by the standard.

Question 4

Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

Appendix

Re-exposure draft – Employee Benefits, Proposed Section PS 3251

Office of the Auditor General (OAG) Newfoundland and Labrador response

January 2025

OAG Newfoundland and Labrador response

We do not have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals.

However, we suggest that the following illustrative examples be added to the proposed exposure draft to improve the guidance provided:

- Financial statement presentation for a defined benefit plan like what is included in PS 3250 Retirement benefits Appendix B- Example 1.
- Sick leave obligation like what is shown in PS 3255 Post-employment benefits, compensated absences, and termination benefits Appendix B.



Treasury Board Secretariat

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January 27, 2025

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Public Sector Accounting Board
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mpuskaric@psabcanada.ca

Dear Mr. Puskaric:

Re: PSAB Re-exposure Draft: Employee Benefits, Proposed Section PS 3251

The Government of Manitoba (GOM) would like to thank the Public Sector Accounting Board for the opportunity to comment on the re-exposure draft (RED) *Employee Benefits, Proposed Section PS 3251*.

1. Do you agree with the amended discount rate proposals for defined benefit plans (PS 3251.100-.116) and accompanying illustrative examples (PS 3251.IE.27-IE.39)? If not, why not?

Partially funded plans have been taken out of the RED. The GOM agrees that the funding status assessment has been simplified in the RED but debates with the auditor will continue. The motivation for the audit debates would be the discount rate.

For underfunded plans, the use of market yields as a discount rate will be fairly punitive compared to a discount rate that approximates the market base return of its plan assets. How close does an underfunded plan have to be fully funded to consider the use of market base return on plan assets. The answer to the question will have a significant effect on the pension expense.

An assessment of the funding status would not necessarily indicate whether sufficient assets have been set aside. An assessment would be based on the preponderance of evidence. This would require the application of professional judgment.

Primary indicators that would provide more persuasive evidence. Primary indicators would include legislation, by-laws, contractual requirements, or an actuarial valuation for funding purposes. Where primary indicators are insufficient, other secondary indicators may be relevant. It is the secondary indicators that is going to create audit disagreements. The GOM believes that you may never be able to convince your auditors that corrective past actions, accuracy in accessing historical fluctuations, or planned corrective actions will correct shortfalls in a timely manner.

2. Do you agree with the proposals for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector's entity defined benefit obligation (paragraph PS 3251.168)? If not, why?

The GOM does not agree with this recommendation. The required disclosure for pensions is already excessive and will make the pension notes even longer. If a public sector entity has already decided that a pension plan is already fully funded, why would it apply market rates as if it was underfunded. Auditors have mentioned that it is a prudent practice, but the extra disclosure required does not appear to be justified.

3. The RED proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

The GOM does not agree that the proposed section should be applied earlier than April 1, 2029. This project has adopted a phased approach. The topic of risk sharing and other non-traditional plans will be deliberated during a future phase of the project. The Board may revisit some of the principles or definitions in the RED. It would be more efficient to implement the full new standard once rather than in stages.

4. Do you have any other issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

The GOM does not agree with the proposal that actuarial gains/losses on the net defined benefit liability (asset) be reclassified to accumulated remeasurement gains and losses, without subsequent recognition in the surplus or deficit. The full pension expense is not being correctly reflected in the statement of operations. 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.

Should PSAB have any comments or questions, please contact Brenda Feng at (204) 792-9956 or via e-mail at Brenda.Feng@gov.mb.ca and OPCMB@gov.mb.ca, Treasury Board Secretariat, Office of the Provincial Comptroller.

Yours truly,



Digitally signed by Babatunde
Busari
Date: 2025.01.27 12:15:56
-06'00'

Babatunde Busari, A/Executive Director of Public Accounts
For Brenda Feng, Provincial Comptroller
On Behalf of the Province of Manitoba



Municipal Pension Board of Trustees

250-356-6220 | board@mppbc.ca | mpp.pensionsbc.ca

Location: Ground Floor, 320 Garbally Road, Victoria BC V8T 2K1 | Mail: PO Box 9460, Victoria, BC V8W 9V8

Via email: mpuskaric@psabcanada.ca

January 20, 2025

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

RE: Re-exposure draft, Employee Benefits, Proposed Section PS 3251

Dear Michael Puskaric:

I am writing on behalf of the British Columbia Municipal Pension Board of Trustees (board). The board has fiduciary responsibility for providing a retirement income to almost 450,000 members from close to 1,000 employers in British Columbia and oversees the investments of around \$77 billion of assets under management. On behalf of the Municipal Pension Plan (plan), we submit our comments to the Public Sector Accounting Standard Board's (PSAB) Re-Exposure Draft of Employee Benefits, Proposed Section PS 3251.

The plan prepares its financial statements in accordance with Section 4600 of Part IV of the CPA Handbook. While the plan is not directly affected by PSAB Standards, its ongoing sustainability is tied to that of its participating employers. I make our submission from that perspective.

As outlined below, we are of the opinion that the current method of recognition employed by the plan's participating employers based on defined contribution accounting is appropriate. Any departure from it will misrepresent the plan's true cost structure and risk sharing principles. Therefore, our comments are confined to questions 3 and 4 on page (iii) of the re-exposure draft.

Question 3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

We understand that in a future phase, PSAB will review principles or definitions of this re-exposure draft as they relate to the topics of risk-sharing and non-traditional plans. The proposed effective date should align with the implementation of the results of this future phase.

It is not clear whether PSAB's future review will change the proposals for joint defined benefit plan and/or multi-employer plans. It is not in the public's best interest, nor is it practical, to subject entities to two changes in short order.

Question 4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

a We believe the current method of recognition is appropriate.

Plan employers, including the Province of British Columbia, convey all assets to the plan without recourse. All aspects of governance and operation of the plan are carried out by the board. The board has a fiduciary duty to plan members and acts independent of the plan employers.

The plan's employers are not all under common control, as defined in Government Reporting Entity, Section PS 1300.

There is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual employers participating in the plan. As a result, under the existing standards, the participating employers in the plan follow defined contribution accounting and should continue to do so.

It is our understanding that the intention of the re-exposure draft is that the participating employers, including the Province of British Columbia, can continue with their current practice of following defined contribution accounting principles. Specifically, section BC.83 of the re-exposure draft notes that "*PSAB agreed that its intent in the July 2021 Exposure Draft was to include key principles from existing Section PS 3250 for these plans, without substantial modification*". We strongly support this intention, as failure to do so threatens the future sustainability of the plan and introduces unintended consequences such as misrepresentation of the plan's cost for accounting purposes.

b The re-exposure draft introduces new ambiguities

The main text of the re-exposure draft is not clear whether the plan would be considered a "multi-employer plan" and follow paragraphs PS 3251.032–0.39 or a "joint defined benefit plan" and follow paragraphs PS 3251.044-0.47. The decision tree in Appendix A is not consistent with the main text. In our case, the main text implies that the plan is a joint defined benefit plan, but the decision tree implies it would be a "multi-employer plan". This ambiguity did not exist in the previous draft and needs to be clarified in the main text.

If we interpret the plan to be a multi-employer plan, as there is insufficient information available to use defined benefit accounting, our plan employers would continue to use defined contribution accounting. This is the appropriate approach. However, if we interpret the plan to be a joint defined benefit plan, employers would be required to use defined benefit accounting, which would be a substantial departure from the existing Section PS 3250 and would not be possible, nor appropriate, as there is insufficient information available to do so.

The nature of the risk sharing arrangements in different jointly sponsored plans needs to be appropriately recognized. In our plan, no individual trustee, participant, employer or member has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, contribution rates, and funding shortfalls and surpluses. Further, the contractual agreements that amended the plans to be jointly trustee specifically state that no participating entity has a responsibility for any assets, liabilities, obligations or deficiencies of the plans. Contributions to the plans are determined by actuarial valuations using "best estimate" assumptions. In our case, much like a

multi-employer plan, any individual employer's obligation (including government) should be limited to the current contributions in payment. We believe it would misrepresent the substance of the underlying obligations to require defined benefit accounting. Beyond this, where plan assets are not segregated by employer, defined benefit accounting by employer will be next to impossible, as there will generally be no appropriate means by which to split the assets and liabilities between employers.

We appreciate the opportunity to provide input on this re-exposure draft.

Regards,

A handwritten signature in black ink, appearing to read "Gary Yee", written in a cursive style.

Gary Yee
Board Chair

cc: Chelsea Kittleson, Executive Director



Treasury Board of Canada Secrétariat du Conseil du Trésor
Secretariat du Canada

Ottawa, Canada
K1A 0R5

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: Re-exposure Draft, Employee Benefits, Proposed Section PS 3251

Thank you for the opportunity to comment on the Re-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.

If you have any further questions related to these comments, please do not hesitate to contact either John Daley at John.Daley@tbs-sct.gc.ca (343-549-6304) or myself at Blair.Kennedy@tbs-sct.gc.ca (613-404-2996).

Yours sincerely,

Blair Kennedy

Blair Kennedy, CPA, CA
Executive Director,
Government Accounting Policy and Reporting

c.c.: Annie Bourdeau, Comptroller General of Canada

Martin Krumins, Assistant Comptroller General, Financial Management Sector

APPENDIX A

Responses to Questions Posed

Purpose and scope

1. ***Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?***

We agree with the amended discount rate proposals for defined plans and accompanying illustrative examples.

We support the inclusion of paragraph 63, which allows, for practical purposes, to have a detailed valuation of the obligation prepared before the end of the reporting period, with updates only made for material transactions / changes in circumstances (including changes in market prices and interest rates). However, additional practical guidance on the application of material changes and changes in circumstances would be beneficial for preparers and auditors to avoid lengthy analysis required to support that if a valuation of a defined benefit obligation is done before the reporting period, that any changes between that date and the reporting period end date is not material. To note, several of our pension plans are significant and small changes to assumptions may have a material impact on the Public Accounts of Canada.

2. ***Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?***

No, we are not in agreement with the proposal for additional sensitivity disclosure. We do not agree that this sensitivity disclosure adds value for the reader. Our reasons include:

- In the 'Main Features of the Re-exposure Draft' section it states 'The Re-exposure Draft's proposed amended discount rate approach may require significant professional judgment in assessing a plan's funding status, and uncertainty in the recognition and measurement of fully funded defined benefit plans. Accordingly, this Re-exposure Draft proposes to amend sensitivity disclosure requirements for fully funded plans to include the estimated impact of an underfunded discount rate on a public sector entity's defined benefit obligation.'

We do not agree that significant professional judgement will always be required, in many cases the assessment will be clear. As such, we do not agree that the additional disclosure would always be relevant.

- A user, should they choose to, could use current sensitivity disclosures on discount rates to assess the impact of the different discount rates on funded plans.
- Disclosure requirements for employee benefits is currently the most extensive note in our consolidated financial statements. We feel that more disclosure would not add clarity to an already complex issue, and we feel that it is not clear that additional notes on this type of sensitivity would add to the readers understandability.

3. *The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?*

We agree the proposed Section should not be effective earlier than April 1, 2029. Additionally, we would recommend that PSAB not mandate the effective date of multiple new standards in the same fiscal year. For example, changes to the Tangible Capital Assets standard are currently set to be effective April 1, 2029.

As have experienced in the past two Fiscal years, the implementation of multiple new standards in the same Fiscal year puts immense pressure on those working in the financial reporting sections of those organizations.

4. *Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?*

We do not have any new issues or concerns to raise with PSAB.



Québec, le 3 février 2025

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

**OBJET : Commentaires sur le deuxième exposé-sondage « Projet de chapitre
SP 3251, "Avantages sociaux" »**

Monsieur,

Vous trouverez ci-joints nos commentaires concernant l'exposé-sondage mentionné en objet.

Nous espérons que nos commentaires vous seront utiles dans la poursuite de vos travaux et vous prions d'agréer, Monsieur, nos salutations distinguées.

La contrôlease des finances,

Lucie Pageau, CPA

c. c. Martin Guérard, sous-ministre adjoint aux relations fédérales-
provinciales et aux politiques financières

p. j. (1)

QUESTIONS DU CCSP - COMMENTAIRES DU CONTRÔLEUR DES FINANCES

1. Êtes-vous favorable aux propositions modifiées concernant le taux d'actualisation à appliquer pour les régimes à prestations définies (paragraphe SP 3251.100 à .116) et les exemples illustratifs qui les accompagnent (paragraphe SP 3251.IE.27 à IE.39)? Dans la négative, pourquoi?

Nous sommes d'accord avec les propositions des paragraphes .100 à .116 visant l'appréciation de la situation de capitalisation. Elles laissent place au jugement professionnel dans l'application des indicateurs secondaires.

2. Nous proposons d'exiger que l'entité précise, dans les informations qu'elle fournit sur la sensibilité, quelle aurait été l'incidence, sur l'obligation au titre des prestations définies de l'entité du secteur public, de l'utilisation du taux d'actualisation à appliquer aux régimes sous-capitalisés (paragraphe SP 3251.168). Cette exigence vous convient-elle? Dans la négative, pourquoi?

Cette exigence ne nous convient pas et ne devrait pas être incluse dans la norme, puisqu'il y a déjà une exigence d'analyse de sensibilité pour chacune des principales hypothèses actuarielles, dont le taux d'actualisation. De plus, cette exigence occasionnerait annuellement de déterminer deux taux d'actualisation, soit celui réellement applicable aux régimes capitalisés et un taux hypothétique si les régimes étaient sous-capitalisés, et deux calculs pour l'obligation au titre des prestations définies. Cela représente plus de travail et pourrait apporter de la confusion pour les lecteurs.

3. Il est proposé, dans le présent exposé-sondage, que le chapitre SP 3251 s'applique pour les exercices ouverts à compter du 1^{er} avril 2029 (paragraphe SP 3251.199). Cette date d'entrée en vigueur vous convient-elle? Dans la négative, pourquoi?

La date d'entrée en vigueur du 1^{er} avril 2029 nous semble hâtive étant donné qu'une deuxième phase est prévue au projet et que la publication de la norme définitive complète en sera impactée.

4. Avez-vous de nouvelles questions ou préoccupations à soulever à l'égard d'autres propositions du présent exposé-sondage ou croyez-vous fermement que le CCSP devrait revoir sa position concernant d'autres propositions?

Modifications corrélatives

Étant donné que « les réévaluations du passif (de l'actif) net au titre des prestations définies seraient présentées séparément des autres réévaluations comptabilisées dans la composante "gains et pertes de réévaluation cumulés" » (paragraphe .141), nous suggérons d'ajuster le paragraphe .156 du chapitre SP 1202 afin d'assurer une cohérence entre les deux chapitres.

De plus, comme le paragraphe .163 de l'exposé-sondage SP 3251 demande déjà de présenter la variation de l'exercice de chacune des composantes incluses dans les réévaluations du passif (de l'actif) net au titre des prestations définies, nous suggérons de simplement ajouter le total de la variation de l'exercice dans l'état de l'évolution de l'actif net ou du passif net. De ce fait, nous proposons la modification suivante au paragraphe SP 1202.156 :

« La composante "gains et pertes de réévaluation cumulés" présentée dans l'état de l'évolution de l'actif net ou du passif net doit inclure :

- a) le solde de la composante "gains et pertes de réévaluation cumulés » au début de l'exercice;
- b) les gains et pertes de réévaluation de l'exercice, en faisant la distinction entre :
 - i. d'une part, ceux qui se sont produits au cours de l'exercice,
 - ii. d'autre part, ceux qui ont été reclassés dans l'état des résultats au cours de l'exercice;
- c) les réévaluations du passif (de l'actif) net au titre des prestations définies;
- d) les autres éléments du résultat étendu, le cas échéant, lorsque l'entité inclut les résultats d'entreprises publiques et de partenariats commerciaux dans ses états financiers consolidés;
- e) le solde de la composante "gains et pertes de réévaluation cumulés" à la fin de l'exercice. [AVRIL 2026] ».