

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**PENSION BENEFITS GUARANTEE FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2021**

Financial Services Regulatory
Authority of Ontario

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Pension Benefits Guarantee Fund

Management's Responsibility for Financial Information

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act"). Effective June 8, 2019, the Chief Executive Officer ("CEO") of Financial Services Regulatory Authority of Ontario ("FSRA") is responsible for the administration of the Fund including the investment of the assets of the Fund.

FSRA management ("Management") is responsible for the integrity and fair presentation of the accompanying financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The reporting year is from April 1, 2020 to March 31, 2021. The preparation of the financial statements involves the use of Management's judgement and best estimates, where appropriate.

Management is also responsible for developing and maintaining financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

As required by the *Financial Services Regulatory Authority of Ontario Act, 2016, S.O. 2016, c. 37, Sched. 8*, FSRA's Board of Directors established a committee (the "PBGF Advisory Committee") to advise the CEO on matters related to the Fund. The financial statements have been reviewed by the PBGF Advisory Committee and approved by the Board of Directors.

The financial statements have been audited by the Office of the Auditor General of Ontario in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit Organizations. The auditor's report follows.

Handwritten signature of Mark White in black ink.

Mark White
Chief Executive Officer

Handwritten signature of Stephen Power in black ink.

Stephen Power
Executive Vice President - Corporate Services

Handwritten signature of Randy Nanek in black ink.

Randy Nanek
Chief Financial Officer

Toronto, Ontario
June 29, 2021



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Financial Services Regulatory Authority of Ontario

Opinion

I have audited the financial statements of the Pension Benefits Guarantee Fund (the "Fund"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and fund surplus, remeasurement gains and losses and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process

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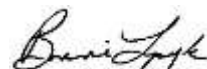
Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Toronto, Ontario
June 29, 2021

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

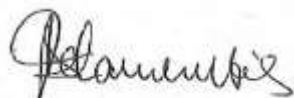
FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Statements of Financial Position
As at March 31, 2021**

(\$000)		March 31, 2021	March 31, 2020
	Note(s)		
ASSETS			
Current			
Cash		113	1
Accounts receivable		76,847	106,866
Investments	3 and 4	1,120,190	1,035,931
Total assets		<u>1,197,150</u>	<u>1,142,798</u>
LIABILITIES AND FUND SURPLUS			
Current			
Accounts payable and accrued liabilities		6,457	8,810
Current portion of loan payable	5	11,000	11,000
Claims payable		16,860	107,052
Total current liabilities		<u>34,317</u>	<u>126,862</u>
Claim payable - Long term		41,186	-
Loan payable - Long term	5	92,101	97,629
Total liabilities		<u>167,604</u>	<u>224,491</u>
FUND SURPLUS			
Fund surplus from operation		1,033,434	919,742
Accumulated re-measurement losses		(3,888)	(1,435)
Total fund surplus		<u>1,029,546</u>	<u>918,307</u>
Total liabilities and fund surplus		<u>1,197,150</u>	<u>1,142,798</u>

See accompanying notes to the financial statements.

On Behalf of the Board of the Financial Services Regulatory Authority of Ontario:



Board Chair



PBGF Advisory Committee Chair

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Statements of Operations and Fund Surplus
For the year ended March 31, 2021**

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Revenue			
PBGF assessment revenue	3	75,241	70,686
Pension plan recoveries	7	1,683	1,031
Investment income	4	11,782	18,246
		<u>88,706</u>	<u>89,963</u>
Expenses			
Claims / (recovery of claims provision)	3	(32,506)	5,166
Amortization of loan discount	5	5,472	5,737
Pension consulting services	8	721	1,082
Administration fee	9	931	810
Investment management fees	9	396	353
		<u>(24,986)</u>	<u>13,148</u>
Excess of revenue over expenses		113,692	76,815
Fund surplus, beginning of year		919,742	842,927
Fund surplus, end of year		<u>1,033,434</u>	<u>919,742</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2021

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Accumulated re-measurement losses, beginning of year		(1,435)	(7,097)
Unrealized losses attributed to portfolio investments	4	(8,277)	(891)
Realized losses reclassified to the statement of operations	4	5,824	6,553
Accumulated re-measurement losses, end of year		(3,888)	(1,435)

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2021**

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Cash flows from / (used in) operating activities:			
Excess of revenue over expenses		113,692	76,815
Adjustments for non-cash expense items:			
Amortization of loan discount	5	5,472	5,737
Realized losses on disposal of investments	4	5,824	6,553
		<u>124,988</u>	<u>89,105</u>
Changes in non-cash working capital:			
Accounts receivable		30,019	128,628
Claims payable		(49,006)	4,540
Accounts payable and accrued liabilities		(2,353)	(1,342)
		<u>103,648</u>	<u>220,931</u>
Cash flows from / (used in) investing activities:			
Purchases of investments		(1,685,392)	(3,533,313)
Proceeds from sale of investments		1,592,856	3,323,382
		<u>(92,536)</u>	<u>(209,931)</u>
Cash flows used in financing activities:			
Loan repayments	5	(11,000)	(11,000)
		<u>(11,000)</u>	<u>(11,000)</u>
Net increase in cash position		112	-
Cash, beginning of year		1	1
Cash, end of year		<u>113</u>	<u>1</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the “Fund” or “PBGF”) is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the “Act”). On June 8, 2019, the Financial Services Regulatory Authority of Ontario (“FSRA”) assumed substantially all of the Financial Services Commission of Ontario (“FSCO”) responsibilities. At the same time, the Chief Executive Officer (“CEO”) of FSRA assumed responsibility for the administration of the Fund including the investment of the assets of the Fund.

2. FUND OPERATIONS

The purpose of the Fund is to guarantee the payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by employers required to make contributions to defined benefit pension plans.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

Pursuant to the *Financial Services Regulatory Authority of Ontario Act, 2016* and subsection 82(2) of the *Pension Benefits Act*, the CEO is responsible for the administration of the Fund. The CEO may charge the Fund for reasonable expenses incurred in the administration of the Fund.

The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSAS-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Management has used the following significant accounting policies in the financial statements and notes preparation.

(a) Financial Instruments

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the Statement of Re-measurement Gains and Losses until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short-term maturities.
- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.
- Fair value measurements are classified using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:
 - Level 1 – unadjusted quoted market prices in active markets for identical assets or liabilities;
 - Level 2 – observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
 - Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up, or in the process of being ordered wound up under conditions specified in the Act, where the claim amounts can be reasonably estimated. Claims payable liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

(c) PBGF Assessment Revenue

Assessment revenue is based on an assessment formula set out in section 37 of Regulation 909 of the Act. An estimate of the assessment revenue due from defined benefit pension plans at rates prescribed by the Act is recorded when earned. The annual assessment certificate is due nine months after the plan's fiscal year end.

Differences in assessment revenue, if any, between the estimated amounts recognized and the actual revenues due, are charged or credited to assessment revenue in the year.

(\$000)	March 31, 2021	March 31, 2020
Estimated revenue	70,400	81,700
Actual revenue related to current and prior years received in current year	86,541	98,186
Less: prior year's estimated revenue	(81,700)	(109,200)
	<u>75,241</u>	<u>70,686</u>

(d) Use of Estimates

The preparation of financial statements in accordance with PSAS-GNFPO accounting standards requires that FSRA's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material.

4. INVESTMENTS

As required by legislation, the FSRA Board has established a Pension Benefits Guarantee Fund Advisory Committee to advise the CEO on the administration and investment of the Fund. The Committee has reviewed the PBGF Investment Policy developed by FSRA management. This policy is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the Fund's investments.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Notes to the Financial Statements
For the year ended March 31, 2021**

Investments consist of:

(\$000)	March 31, 2021		March 31, 2020	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Discounted notes	523,405	523,405	457,880	457,880
Government bonds	596,785	600,673	578,051	579,486
Total Investments	1,120,190	1,124,078	1,035,931	1,037,366

(\$000)	Fair Value Hierarchy	Fair Value March 31, 2021	Fair Value March 31, 2020
Discounted notes	Level 1	523,405	457,880
Government bonds	Level 2	596,785	578,051
Total		1,120,190	1,035,931

No investments have moved between hierarchy levels during the fiscal period.

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. Unrealized gains and losses are reported on the Statement of Re-measurement Gains and Losses.

Investment income consists of:

(\$000)	March 31, 2021	March 31, 2020
Interest income	17,606	24,799
Realized losses from the sale of securities	(5,824)	(6,553)
Total	11,782	18,246

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

The investment risk of the Fund's investment portfolio is considered low due to the types of investments held.

Discounted notes had yields in the range of 0.120% to 0.698% (2020 – had yields in the range of 0.900% to 1.950%). The government bonds had yields in the range of 0.180% to 2.390% (2020 – had yields in the range of 0.722% to 2.526%).

5. LOAN PAYABLE TO THE PROVINCE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a \$330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of \$11 million. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total \$55 million.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2021 as follows:

(\$000)	March 31, 2021	March 31, 2020
Face Value	143,000	154,000
Less: Discount	(39,899)	(45,371)
Amortized Cost	103,101	108,629
Classified as:		
Current Portion	11,000	11,000
Long-Term Portion	92,101	97,629
Balance	103,101	108,629

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

The unamortized discount of \$39.9 million is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	Amount (\$'000)
2022	5,193
2023	4,901
2024	4,593
2025	4,271
2026	3,932

6. RISKS ARISING FROM FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments, including its portfolio investments, are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables and the repayment of portfolio investments. The Fund considers this risk to be low.

The portfolio investments are all investment grade debt securities with low credit risk.

The Fund's accounts receivable consists of assessment revenue receivable of \$72.2 million with Retail Sales Tax (RST), investment income receivable of \$4.4 million, and HST receivable of \$0.2 million.

The assessment revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act.

In the event that a pension plan would become insolvent within a year, there are legal options the Fund can exercise to collect the assessment revenue receivable. Historically, the Fund has been able to collect the amounts estimated as assessment revenue receivable.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

The risk of not collecting the investment income receivable and the HST receivable is considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets in the Fund including any loans or grants received from the Province. As at March 31, 2021, the Fund has an investment balance of \$1,120 million (2020 - \$1,036 million) to settle current liabilities of \$34.3 million (2020 - \$126.9 million). In addition, subject to realizing losses due to market declines, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing in low-risk and liquid securities. The Fund's market risk is considered to be low.

The market value sensitivity of the discounted notes as at March 31, 2021 was \$1.26 million for a 1.00% change in rates. The market value sensitivity of the government bonds as at March 31, 2021 was \$7.33 million for a 1.00% change in rates.

7. PENSION PLAN RECOVERIES

Any funds remaining from a wound up pension plan are recovered by the Fund after the settlement of all benefits, payment of expenses and the submission of the final wind up report for such pension plan that had received payments from the Fund. During fiscal 2021, the Fund had \$1.7 million (2020 – \$1.0 million) in recoveries from such pension plans.

8. PENSION CONSULTING SERVICES

The CEO periodically engages the services of external experts to represent the Fund's interests in, or in anticipation of, insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2021, \$0.7 million was incurred to such external experts (2020 - \$1.1 million).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

9. RELATED PARTY TRANSACTIONS

For fiscal 2021, an administration fee of \$0.9 million (2020 - \$0.8 million) was incurred for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSRA are related parties.

Investment Management fees of \$0.4 million (2020 - \$0.4 million) consist mainly of fees paid to the Ontario Financing Authority, a related party.

Other related party transactions during the year have been disclosed in note 5.