FSRA is actively reviewing all FSCO regulatory direction, including but not limited to forms, guidelines and FAQs.

Until FSRA issues new regulatory direction, all existing regulatory direction remains in force.

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Financial Statements

In 2010, the Handbook of the Canadian Institute of Chartered Accountants was restructured to implement the strategy of the Accounting Standards Board of adopting different sets of standards for different categories of entities. In 2013, the Canadian Institute of Chartered Accountants (CICA) and the Society of Management Accountants of Canada (CMA Canada) joined together to form the Chartered Professional Accountants Canada (CPA Canada). Accordingly, the CICA Handbook was renamed the CPA Canada Handbook. These changes have not yet resulted in changes to section 76 of Regulation 909 (Regulation). However, these revised standards constitute the generally accepted accounting principles for purposes of section 76 of the Regulation.

The accounting principles that are set out in Part IV of the CPA Canada Handbook – Accounting, and the auditing standards in the CPA Canada Handbook – Assurance, apply to financial statements filed under section 76 of the Regulation, for fiscal years beginning on or after January 1, 2011.

In February 2013, FSCO published its first guidance note to explain the disclosure expectations under the revised standards for fiscal years ending on or after July 1, 2013. Since that date, the guidance note was updated to recognize CPA Canada as the national organization for the Canadian accounting profession, and to provide further guidance to plan administrators whose pension plans are invested in pooled funds. The updated guidance note also provides alternate options for disclosures, which may be helpful to certain plans that are invested in pooled funds.

The following are questions and answers about the change in accounting standards and the Financial Statements Guidance Note.

Q1. Why is FSCO issuing guidance on financial statements?

A1. The plan administrator is required to file annual financial statements for the pension plan or pension fund in accordance with section 76 of Regulation 909, generally accepted accounting principles (i.e., the accounting principles in Part IV of the CPA Canada Handbook – Accounting) and, if the plan has $3 million or more in assets, generally accepted auditing standards (i.e. the auditing standards in the CPA Canada Handbook – Assurance).

In 2010, the CICA Handbook (now the CPA Canada Handbooks) was restructured and updated. New accounting standards for pension plans are set out in Part IV of the CPA Canada Handbook – Accounting under Section 4600. The new standards:

- require a Statement of Changes in Pension Obligations;
- do not permit the use of proportionate consolidation or equity accounting for a pension plan's participation in a master trust; and
- require that disclosure related to capital management and financial instruments be prepared using International Financial Reporting Standards (IFRS) set out in Part I of the Handbook.

In light of these new standards, FSCO prepared a guidance note setting out its position regarding the expectations and best practices for statements filed under section 76 of the Regulation; in particular, with respect to the disclosure of interests in a master trust, capital management and financial instruments. -03/14

Q2. Why was the guidance note updated?

A2. FSCO published its first guidance note (FSGN-001) in February 2013. The guidance note was updated under FSGN-100 to recognize the unification of the Canadian Institute of Chartered Accountants (CICA) and the Society of Management Accountants of Canada (CMA Canada) to form the Chartered Professional Accountants Canada (CPA Canada). As of November 1, 2013, the CICA Handbook - Accounting was renamed the CPA Canada Handbook – Accounting.

In addition, the guidance note was updated to clarify FSCO's expectation for disclosure in respect of pension plans that are invested in pooled funds. -05/14

Q3. Will the Superintendent accept financial statements that exclude pension obligations, and any resulting surplus or deficit?

A3. Yes, as pension fund financial statements for purposes of the pension legislation do not include pension obligations. However, the financial statements should include a note stating that the financial statements do not disclose the pension obligations and any resulting surplus or deficit but, in all other respects, are prepared in accordance with Canadian generally accepted accounting principles as set out in Part IV of the CPA Canada Handbook – Accounting. The note should also disclose the basis of the accounting and that the financial statements are prepared for regulatory purposes only. -03/14

Q4. The revised standards in Part IV of the CPA Canada Handbook – Accounting (Handbook) apply to pension plans and make no mention of pension fund financial statements. What standards should a pension fund follow in preparing financial statements to be filed with the Superintendent?

A4. The Superintendent will accept, for purposes of section 76 of Regulation 909, the financial statements of a pension fund that comply with the relevant accounting principles for pension plans in Part IV of the Handbook, as if the pension fund meets the definition of a pension plan. -03/14

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Q5. Which financial statements are expected to follow the disclosure expectations in the guidance note?

A5. It is FSCO's expectation that all financial statements for pension plans or pension funds that are filed with FSCO under section 76 of Regulation 909 (Regulation), with a fiscal year ending on or after July 1, 2013, would follow the disclosure expectations of the guidance note. However, for regulatory purposes, the application of the guidance note will vary, depending on the size of the pension plan or pension fund as follows:

- Pension plans or pension funds with assets less than $10 million measured at fair value at the fiscal year-end will be expected to comply with section 1 (Statement of Changes in Pension Obligations) and section 2 (Interest in a Master Trust) of the guidance note.
- Pension plans or pension funds with assets of $10 million or more measured at fair value at the fiscal year-end will be expected to fully comply with the disclosure expectations of the guidance note.

Note that all financial statements for pension plans or pension funds must comply with the requirements of section 76 of the Regulation. -03/14

Q6. What is the difference between pension plan financial statements and pension fund financial statements?

A6. Under section 1(1) of the Ontario Pension Benefits Act, a "pension plan" is defined as "a plan organized and administered to provide pensions for employees…" and a "pension fund" as "the fund maintained to provide benefits under or related to the pension plan".

Pension plan financial statements are prepared in accordance with section 4600 of the CPA Canada Handbook – Accounting (Handbook), which include pension obligations.

Financial statements that have been prepared solely in accordance with section 76 of the Regulation 909 (Regulation) do not include pension obligations, and are referred to as pension fund financial statements. Pension fund financial statements must comply with the relevant accounting principles for pension plans in Part IV of the Handbook, as if the pension fund meets the definition of a pension plan.

FSCO will accept financial statements for either the pension plan or pension fund that are filed under section 76 of the Regulation. -03/14

Q7. Is there any difference between pension obligations that are reported in a pension plan's financial statements and pension obligations reported in actuarial valuation reports?

A7. Yes, there is a difference.

The measurement of pension obligations in a pension plan's financial statements for purposes of section 4600 of the CPA Canada Handbook – Accounting, is based on requirements that apply the plan administrator's best estimate assumptions.

The measurement of pension obligations in actuarial valuation reports must be prepared by an actuary using methods and actuarial assumptions that are consistent with accepted actuarial practice, and in accordance with the requirements of the Ontario Pension Benefits Act and Regulation 909. -03/14

Q8. Part IV of the CPA Canada Handbook refers to "fair value" while section 76 of Regulation 909 refers to "market value" of the pension fund. How is fair value different from market value?

A8. The accounting standards have evolved towards the use of "fair value" which is primarily a market-based measurement. Fair value measurement techniques shall maximise the use of relevant observable inputs (e.g. market signals or prices) and minimise the use of unobservable inputs. FSCO recognizes the standards for fair value measurement as equivalent or superior to other methods of determining the market value. - 03/14

Q9. Part IV of the CPA Canada Handbook refers to "historical cost" while section 76 of Regulation 909 refers to "book value" of the pension fund. How is historical cost different from book value?

A9. The "book value" was in use when pension plans were required to account using historical prices only. FSCO recognizes "historical cost" as the equivalent of the book value. -03/14

Q10. Section 4600 of the CPA Canada Handbook - Accounting no longer permits the use of proportional consolidation or equity accounting for a pension plan's participation in master trusts. Will FSCO accept a single line item in the financial statements to report the pension plan's interest in a master trust?

A10. No. For regulatory purposes, FSCO expects more detailed information on the master trust holdings as they relate to the pension plan. In addition to the single line item, the pension plan's or pension fund's financial statements should provide, in a note to the statements:

- Sufficient information to understand the risks associated with a pension plan's or pension fund's investment in master trusts, subject to the materiality requirement;
- Information on the types of investment and disclosure required under section 76(13) of Regulation 909 and the three-level fair value measurement hierarchy required under paragraph 27 of International Financial Reporting Standards (IFRS) 7 for the whole of the master trust; and
- The pension plan's or pension fund's position in the master trust (e.g. number of units over total issued or percent holding of the total). -03/14

Q11. Does the guidance note apply to defined contribution pension plans?

A11. Yes. All financial statements for pension plans or pension funds that are filed under section 76 of Regulation 909, are expected to follow the disclosure expectations set out in the guidance note. However, for defined contribution pension plans, capital management disclosure would be structured around the investment choices that are offered to plan members, instead of categories of investments allowed and asset-mix targets. The latter disclosures would apply to defined benefit pension plans. -03/14

Q12. May some of the disclosures discussed in the guidance note be included in other statements that are filed with FSCO, instead of in the financial statements?

A12. Yes, the disclosures may be included in other statements. These are generally comprised of management discussion and analysis (MD&A) or management commentary section of the annual report. FSCO will also accept the disclosures in supplemental schedules of additional information, subsequent to the notes to the financial statements. Such other statements are incorporated by reference in the financial statements and filed with FSCO.

These other statements will be considered part of the financial statements for the pension plan or pension fund and may be inspected by individuals listed in section 29(1) of the Ontario Pension Benefits Act.

In very specific circumstances (see Q21) where it has been determined that generally accepted accounting principles (GAAP) do not require certain disclosures to be included in the financial statements, these disclosures may be provided in an Additional Disclosure Document that is filed along with the financial statements. This Additional Disclosure Document should not form part of the financial statements (i.e., it should not be a schedule to the financial statements or incorporated by reference). -05/14

Q13. Multi-employer pension plans (MEPPs) receive contributions from a large number of employers throughout the reporting period. Therefore, it may not be possible for a MEPP plan administrator to certify that no employees' or employers' contributions remain past due, as at the end of the period. Furthermore, the reconciliation process may not be complete until after the publication of the financial statements. How would the administrator report this in their financial statements?

A13. The plan administrator should acknowledge that it cannot certify that no contributions remain past due as at the end of the reporting period, due to the scope and complexity of its reconciliation process.

The administrator should describe the internal control processes in place to ensure that all contributions are paid when due. -03/14

Q14. FSCO has indicated that the financial statements for a pension fund need not disclose the pension obligations for purposes of section 76 of Regulation 909. Wouldn't the disclosure about the sensitivity analysis of interest rate risk expected by FSCO be misleading, in the absence of a similar disclosure for interest rate risk of pension obligations in these statements?

A14. Although the sensitivity of pension obligations to interest rate risk is not presented in the financial statements for the pension fund, a plan administrator can still present how it views the interest rate risk of interest-bearing financial instruments.

The Canadian Institute of Actuaries (CIA) requires that the sensitivity of pension obligations (or pension liabilities), to a 1 per cent change in interest rates on both a going-concern and solvency basis, be disclosed in actuarial valuation reports filed with FSCO.

Both these disclosures provide FSCO with the information it needs to assess the degree of immunization of the pension plan to the overall impact of interest rate risk. -03/14

Q15. Wouldn't the disclosure about the sensitivity analysis of equity price risk expected by FSCO be more suitable if it was based on a possible change in the value of year end equity holdings prices, instead of a possible change in the level of the equity index benchmark?

A15. Ontario's registered pension plans hold investments to generate returns and meet their future pension obligations. In this context, the most appropriate risk variable to use in measuring the equity price risk sensitivity is the benchmark index that is used by the plan administrator to measure the performance of its portfolio. The measure obtained should integrate the level of volatility or systemic risk in the portfolio (for example: high beta, leverage).

Certain pension plans, under legacy Canadian standards, used the potential impact of a change in the value of the various holdings in their portfolio as a measure of equity price risk sensitivity. While this method of disclosure may have been appropriate for certain plans and in very specific circumstances, FSCO believes that it was not a true sensitivity analysis and was misleading. -03/14

Q16. Why is FSCO setting the levels of reasonable possible changes in risk variables for disclosure purposes?

A16. FSCO requires a standardized format for monitoring purposes. These levels are based on FSCO's examination of long time series of various statistics for possible changes within a calendar year. It is FSCO's view that the following fairly represent the standard level of reasonable changes in risk variables faced by most of Ontario's registered pension plans:

- currency rates at 5 per cent;
- interest rates at 1 per cent; and
- equity prices at 10 per cent. -03/14

Q17. We consider our pension plan's Statement of Investment Policies and Procedures (SIP&P) to be confidential and competitive in nature. We also believe that the disclosure expectations in the guidance note relating to the SIP&P could provide a competitive advantage to certain readers. Does the plan administrator have to make the SIP&P available for inspection by members?

A17. Yes. Section 45(1) of Regulation 909 (Regulation) requires the plan administrator to make available the most recent SIP&P and financial statements. Both statements are required to be made available to the individuals listed in section 29(1) of the Ontario Pension Benefits Act, upon receiving a written request.

Section 78 of the Regulation requires the administrator to establish a SIP&P for the plan that meets the requirements of the federal investment regulations.

The disclosure expectations in the guidance note about the SIP&P are intended to help users assess the plan's risk profile, understand how those risks are managed, and help them to determine the plan's ability to withstand unexpected adverse events. -03/14

Q18. The disclosure expectations in the guidance note could place a significant additional burden on smaller plans that do not have the resources to set up and maintain a process for sophisticated performance monitoring. Are there any other disclosure options that are available for these plans?

A18. The disclosure requirements were set by the International Accounting Standards Board (IASB) and adopted in the CPA Canada Handbook – Accounting. Section 76 requires financial statements to be prepared in accordance with generally accepted accounting principles.

Some of the disclosures expected in the guidance note may be included in other statements instead of in the financial statements, as long as these statements are incorporated by reference in the financial statements. Such other statements are generally comprised of management discussion and analysis (MD&A) or management commentary section of the annual report. FSCO will also accept the disclosures in supplemental schedules of additional information subsequent to the notes to the financial statements.

Plan administrators who invest in pooled funds may rely on the disclosure provided in the audited financial statements of the pooled funds. -03/14

Q19. If a plan administrator invests in pooled funds that have a different fiscal year end than its pension plan, how should the expected disclosure be reported in the financial statements?

A19. FSCO expects the plan administrator to use the data from its most recent pooled fund report, and disclose the use of the different date(s) (or range of the different dates) in the financial statements for the pension plan or pension fund. -03/14

Q20. The guidance note indicates that the Superintendent will accept disclosures in other statements, if they are incorporated by reference in the financial statements. Do these other statements (e.g. supplemental schedules of additional information subsequent to the notes to the financial statements) have to be audited for filing with FSCO?

A20. The International Financial Reporting Standards (IFRS) indicate that these other statements are considered to be part of the financial statements for the pension plan or pension fund and must be available to users of the financial statements on the same terms as the financial statements and at the same time. Therefore, if the financial statements are required to be audited then such other statements must also be audited.

FSCO recognizes that this requirement may be costly to smaller plans (i.e. those with assets in excess of

$3 million but less than $10 million) where audited statements are required. However, section 76(6) of Regulation 909 requires that financial statements be prepared in accordance with generally accepted accounting standards and sections 76(2), (3) and (7) require the financial statements to be audited by an accountant in accordance with generally accepted auditing standards where the plan has $3 million or more in assets. FSCO must administrator the legislation as written, and therefore, cannot waive any legislative requirements.

In very specific circumstances (see Q21) where it has been determined that generally accepted accounting principles (GAAP) do not require certain disclosures to be included in the financial statements, these disclosures may be provided in an Additional Disclosure Document that is filed along with the financial statements. This Additional Disclosure Document should not form part of the financial statements (i.e., it should not be a schedule to the financial statements or incorporated by reference) and, therefore, need not be audited. -05/14

Q21. Our pension plan or fund financial statements have been prepared and audited in accordance with section 76 of the Regulation (including the requirement that the financial statements be prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS)). However, FSGN-100 sets out certain additional disclosure expectations such as: (a) our pension fund's actual performance compared to the benchmarks included in the SIP&P; and (b) a measure of our pension fund's exposure to currency, interest rate and equity price risks (sensitivity analysis) for both direct and indirect (through investments in pooled, segregated or other funds) exposure to these risks. Our auditor has indicated that he or she cannot express an audit opinion with respect to these additional disclosure items. How should we report the expected disclosure?

A21. If your auditor believes that he or she cannot express an audit opinion on these items, you should report the expected disclosure in an Additional Disclosure Document that is filed along with the financial statements. This Additional Disclosure Document should not form part of the financial statements (i.e., it should not be a schedule to the financial statements or incorporated by reference). FSCO understands that there are audit scope limitations and in order to avoid having a qualification of the auditor's report, FSCO is allowing the disclosure to be located in this Additional Disclosure Document. However, FSCO expects the administrator to prepare and file the additional disclosures as part of the administrator's responsibility to manage the pension fund prudently and to communicate with its members. It is also important information that will be used by FSCO as part of its risk assessment of pension plans.

If the pension fund's exposure to currency, interest rate and equity price risks is limited and the plan administrator manages these risks, in accordance with its fiduciary duties, in a way that does not include the computation of sensitivity analyses, the Additional Disclosure Document should state that there is limited exposure to these risks and disclose how these investment risks are measured and the way in which the administrator views and manages these investment risks (in lieu of the sensitivity analysis). -05/14

More information: