



Sent by email

December 7, 2020

Mr. Clyde MacLellan
Chair, Public Sector Accounting Board
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Dear Mr. MacLellan:

We are organizations that represent Ontario's municipal employers, front-line and school board union members and the retirement savings of Ontario's municipal workers.

We share a strong and common interest in the financial sustainability of municipal governments and in protecting publicly delivered services and jobs. At times, we sit on different sides of the table, but we are strongly united in our viewpoints on the issues under consideration at PSAB and we remain committed to working together in this space.

We share the view that government financial statements should depict the fundamental state of public finances for users of those financial statements in an accurate and reliable manner. However, we also share the concern that PSAB may be on a path to revise its accounting guidance in a way that could lead to confusion in how pension obligations are stated, thus eroding the public's ability to effectively engage with government financial statements.

Our specific concerns are as follows:

1. Applying International Public Sector Accounting Standards (IPSAS) to Canada's Public Sector Pension Plans is not appropriate

We understand the Public Sector Accounting Board signaled its intent to base future standards on the International Public Sector Accounting Standards (IPSAS) with the ability to deviate from IPSAS standards when appropriate.

We believe that PSAB should consider the unique nature of Canada's public sector pension model, which is recognized as a global leader. Ontario's unique governance and funding rules are set out in provincial pension legislation and there is a sound basis for PSAB to deviate from IPSAS standards when considering how public sector entities should account for pension obligations. Canada's jointly sponsored public sector pension plans (JSPPs) are leaders in terms of governance, plan design and investment expertise.

Specifically, the governance and funding rules regarding Ontario's jointly sponsored public sector pension plans are unique and built on the foundation of shared-risk pooling whereby assets and liabilities are not attributed to individual employer groups. Instead they are shared by all participants and in the unlikely event that a plan is wound up, Ontario pension legislation does not require employers or members to fund any of the deficit. As such, the IPSAS standards do not account for – and are not appropriate to apply to – the unique Ontario rules for JSPPs.

2. The proposed changes could result in increased volatility in public sector financial statements

We believe that using discount rates related to the yield on high-quality government or corporate bonds and moving away from deferral provisions increases volatility in public sector financial statements. Moving to the market yield of high-quality bonds will also result in a higher valuation of pension obligations than the true cost under the funding model.

We believe PSAB standards should encourage transparency and accountability by government decision-makers and that these proposed changes will erode transparency and accountability and result in greater volatility in the expense of pension obligations. These changes have the potential to confuse and distract from other government decisions and services to the public. For example, had accounting guidance regarding discount rates and reflecting pension obligations on municipal financial statements been updated in the direction PSAB has suggested, the post-COVID fiscal situation of municipalities would appear much more challenging. Bond yields have plummeted in 2020, as they often do during times of crisis. If PSAB had been mandating that municipalities report pension obligations according to bond-yield discount rates, municipalities' *reported* pension liabilities and cost calculations would have increased dramatically. This would have placed significant downward pressure on operating budgets and measures of net debt.

3. The proposed changes would increase administrative costs and add complexity

We are concerned that PSAB may be proposing changes in the standards that are administratively complex, impractical, and result in additional costs to public pension plan administrators, sponsors, and members as well as governments themselves. Public sector employers do not have the information or resources to produce and disclose their proportionate share of liabilities and assets.

In addition, there is no readily available or reliable mechanism to reflect an individual employer's proportion of the obligation within a public sector jointly sponsored pension plan due to shared-risk provisions. Applying an overly simplistic approach to attributing a portion of the obligation to individual employers would further diminish the reliability and relevance of the information.

Ontarians would be very poorly served by these potential accounting standard changes, should they be put in place. These changes would lead to less reliable and less relevant municipal financial statements. They would create confusion among plan members who would see inconsistencies in the plan funding valuation and their own employers' financial statements with respect to the obligations of the plan. The public would be confused by significant swings in governments' books, which would be more the result of movements in the bond markets than reflective of any fundamental change in government finances. More importantly, however, these standards would unnecessarily compound the serious fiscal challenges already faced by municipalities in delivering the critical services that Ontarians' health and livelihoods depend on.

4. Supporting Pension Savings is a matter of good public interest

Jointly sponsored defined benefit pension plans have accumulated large pools of capital which provide benefits to society beyond providing secure retirement income for their members. These capital pools stimulate economic growth over very long-term time horizons. Canada's pension plans have also been recognized for their positive contribution to the stability of our financial system as a whole. Accordingly, it is in the best public interest that these savings vehicles be protected and supported by organizations such as PSAB.

Municipal governments have kept communities running by providing critical services and relief to residents and businesses during the pandemic. However, municipalities have faced serious fiscal challenges throughout 2020 due to revenue losses and increased costs of delivering services due to

COVID-19. We worked hard to secure important emergency federal and provincial funding relief through the Safe Restart Agreement, but we know many challenges remain, and many are more on the horizon on the long road to recovery.

Even in normal times, we believe the proposed accounting standards would suffer from serious drawbacks and would result in less useful financial statements. However, as described above, the shortcomings of such standards would be particularly evident in times of crisis, as our shared 2020 experience have clearly demonstrated.

We are monitoring developments related to PSAB's review of Section PS 3250, Retirement Benefits closely. We hope PSAB will consider the above principles in its deliberations and we look forward to reviewing the next Exposure Draft.

Yours sincerely,



Brian Rosbourough
Executive Director
Association of Municipalities of Ontario



Bruce Chapman
President
Police Association of Ontario



Fred Hahn
President
CUPE Ontario



Harvey Bischof
President
Ontario Secondary School Teachers' Federation



Carmen Santoro
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