Financial Services Commission of Ontario
Commission des services financiers de l'Ontario

Ontario

SECTION:	Financial Statements Guidance Note
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REPLACES:	FSGN-001, F100-102 and F100-300

This policy replaces FSGN-001 (Disclosure Requirements for Financial Statements Filed Pursuant to Regulation 909 s.76), F100-102 (Requirement to File Pension Plan Financial Statements or Pension Fund Financial Statements) and F100-300 (Master Trust Arrangements) as of the effective date of this policy.

Note: Where this guidance note conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

PURPOSE

Under the PBA and the Regulation, the administrator of a pension plan (administrator) is required to file financial statements for the pension fund or plan as at the plan's fiscal year end date. Section 76(8) of the Regulation provides that, subject to the requirements of section 76 of the Regulation, the financial statements and the auditor's report must be prepared in accordance with the principles and standards that are set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). One of the requirements of section 76 is that the financial statements be prepared in accordance with generally accepted accounting principles (GAAP). Such principles are currently reflected in the CPA Canada Handbook – Accounting.[(1)]. For purposes of this policy, reference to the "Handbook" means the CPA Canada Handbook – Accounting.

In 2010, the Handbook was restructured and updated. New accounting standards for pension plans are set out in Part IV of the Handbook, as Section 4600 replaced Section 4100 (from the

(1) The Canadian Institute of Chartered Accountants (CICA) and Society of Management Accountants of Canada (CMA Canada) joined together on January 1, 2013, to form the Chartered Professional Accountants Canada (CPA Canada). As of November 1, 2013, the title of the CICA Handbook has been changed to CPA Canada Handbook – Accounting and CPA Canada Handbook - Assurance.

previous version of the Handbook). The Handbook applies to pension plan financial statements for fiscal years beginning on or after January 1, 2011.

The Financial Services Commission of Ontario (FSCO) is of the opinion that the new accounting standards for pension plans should apply to both pension plans and pension funds. The purpose of this Financial Statement Guidance Note (Guidance Note) is to provide regulatory guidance for certain principles-based requirements set out in the Handbook (or incorporated by reference) and, in particular, to specify FSCO's expectations with respect to disclosure for regulatory purposes, in regards to:

1. **Statement of Changes in Pension Obligations;**
2. **Interest in a Master Trust;**
3. **Capital Management (including SIP&P and Contributions;** and
4. **Financial Instruments: Disclosures**.

APPLICATION OF THIS GUIDANCE NOTE

All pension plans, irrespective of size, must comply with the requirements of section 76 of the Regulation. However, for regulatory purposes, the application of this Guidance Note will vary, as set out in the table below, depending on the size of the pension plan. Smaller pension plans, those with assets less that $10 million measured at fair value at year end, including those which are exempt from the requirement to file an auditor's report (currently under $3 million), will be expected to comply with sections 1 and 2 of the Guidance Note. Plans with assets of $10 million or more measured at fair value at the fiscal year-end of the plan will be expected to fully comply with the Guidance Note.

Size of the assets at year-end	Auditor's report requirement	Disclosure expectations
Less than $3 Million	No	Compliance with sections 1 and 2 only
Between $3 Million and $10 Million	Yes	Compliance with sections 1 and 2 only
$ 10 Million or more	Yes	Full compliance with all sections

The Superintendent will accept these disclosures, if they are included either in the financial statements or incorporated by cross-reference from the financial statements to some other statements and such other statements are filed with the Superintendent. Such other statements will be considered to be part of the financial statements and subject to the same requirements for disclosure to plan members and others.

Such other statements are generally comprised of management discussion and analysis (MD&A) or management commentary. They may also include supplemental schedules of additional information, subsequent to the notes to the financial statements, presenting an analysis of the nature and extent of the risks arising from financial instruments to which the plan is exposed through its pooled fund holdings.

In providing this disclosure, FSCO does not anticipate that the administrator will need to develop a new set of data or statistics, as the administrator can rely on information that was already provided internally to key management personnel.

FSCO will consider, on a case by case basis, submissions from the administrator that provide support for disclosure that varies from FSCO's expectations described in this Guidance Note, but are appropriate for the pension plan.

FSCO'S DISCLOSURE EXPECTATIONS

1. Statement of Changes in Pension Obligations

Section 4600 of the Handbook introduces the requirement that a pension plan's financial statements must present the pension obligations of a defined benefit plan and the resulting surplus or deficit on the face of the statement of financial position. Furthermore, it also requires a statement of changes in pension obligations. Section 4100 from the previous version of the Handbook, allowed a pension plan to present the pension obligation in the notes to the financial statements.

It should be noted that FSCO will accept pension plan or pension fund financial statements that are filed under section 76 of the Regulation. Pension fund statements do not disclose pension obligations. The PBA specifies the requirements for determining and disclosing pension liabilities in actuarial valuation reports filed with FSCO.

When financial statements are prepared for regulatory filings (as pension fund financial statements), the statement of financial position (which excludes pension obligations), is generally renamed as the "statement of net assets available for benefits".

FSCO expects the following disclosure relating to GAAP's obligation to include the Statement of Changes in Pension Obligations:

The pension plan or pension fund financial statements will disclose the following:

- *the departure from the principles and standards set out in the Handbook (where applicable) to exclude the Statement of changes in Pension Obligations; and*
- *for pension fund financial statements the auditors' report will:*
    - *state that the financial statements are prepared in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act*
    - *include a paragraph on the restriction on use.*

2. Interest in a Master Trust

The Handbook no longer allows the use of proportional consolidation or equity accounting for a pension plan's participation in master trusts.

This means that pension plans — some of whose assets are primarily (and sometimes solely) invested in a master trust — could present only a single line item to report their investment assets as **an interest in a master trust**. Section 4600 stresses the importance of distinguishing investment assets and liabilities “by type, because that information is useful to users in understanding the risks associated with a pension plan’s investments”. FSCO expects more detailed information on the master trust holdings as they relate to the pension plan.

FSCO expects the following disclosure relating to the Interest in a Master Trust:

The pension plan or pension fund financial statements will disclose in a note to the statements:

- *sufficient information (quantitative and qualitative) to understand the risks associated with a plan’s or fund’s investment in master trusts, subject to the materiality requirement;*
- *information on the types of investments, fair value hierarchy (see section 4) and disclosure required under section 76(13) of Regulation 909 for the entire master trust, in addition to the single line presentation on the face of the statement, as required under Section 4600 of the Handbook; and*
- *the plan’s or fund’s position in the master trust (e.g., number of units over total issued, or percent holding of the total).*

3. Capital Management (including SIP&P and Contributions)

Under the accounting standards that are set out in the Handbook, administrators are required to disclose information regarding capital management, in accordance with the requirements of IFRS in Part I of the Handbook. Administrators that decide to use accounting standards for private enterprises, in Part II of the Handbook, are nevertheless required by section 4600 to provide capital disclosures in accordance with IFRS in Part I of the Handbook.

Plan’s objectives, policies and processes for managing capital

When these disclosures are provided, the administrator can rely on the information that is provided internally to key management personnel including the pension plan’s Statement of Investment Policies & Procedures (SIP&P) (section 78 of the Regulation). The administrator should draw a succinct and significant portrait on how it has achieved (or not achieved) the SIP&P’s objectives in managing the plan’s capital assets. There is no need for the administrator to develop a new set of data and statistics.

Most administrators define their capital either as net assets available for benefits, or net funded position. In such cases, the statement of net assets available for benefits, or the statement of financial position (as applicable), could be used for the disclosure requirement. Similarly, the statement of changes in net assets would be adequate for the requirement that asks for details of changes.

Contributions accrued and due are externally imposed capital requirements

Section 56(1) of the PBA requires that the administrator “who is responsible for receiving contributions under the pension plan shall ensure that all contributions are paid when due”. FSCO considers required contributions as “externally imposed capital requirements”, for the purpose of complying with capital disclosures.

FSCO expects the following disclosure relating to the Capital Management (including SIP&P and Contributions):

Capital *– the financial statements should include sufficient information for the regulator to be able to evaluate the administrator's objectives, policies and processes for managing capital. The disclosures should include:*

- *a description of what the administrator manages as capital; and*
- *the dollar amount of the capital being managed, or a reference as to where it can be found.*

SIP&P *– the following disclosures should be included with respect to the SIP&P:*

- *a statement that the administrator has adopted a SIP&P and the date when it was established;*
- *the date the SIP&P was last amended;*
- *if a SIP&P has not been established as required, a statement that the plan does not have one;*
- *if the SIP&P was amended during the period covered by the financial statements, the details of the change;*
- *a description of the following included in the SIP&P:*
    - *categories of investments and loans referred to in the SIP&P*
    - *asset mix targets*
    - *rate of return expectations*
    - *investment options offered to plan members of a defined contribution plan*
- *a measurement of the results achieved by the administrator during the period related to targets or benchmarks included in the SIP&P; and*
- *a statement that the pension plan investments fell within the asset mix target ranges for a defined benefit plan as at the end of the year.*

Contributions *– the financial statements should include:*

- *a disclosure on whether or not any required contributions were past due at the end of the period*
- *multi-employer pension plans (MEPPs) which cannot certify that no contribution remains past due at the end of the period should acknowledge the situation and describe their internal control processes regarding the remittance of contributions*

4. Financial Instruments: Disclosures

Under accounting standards as set out in the Handbook, administrators are required to provide (in regards to investments that are financial instruments) the disclosures that are required by IFRS 7 – Financial Instruments: Disclosures. Pension plans that decide to use accounting standards for private enterprises, in Part II of the Handbook (instead of the IFRS in Part I of the Handbook), are nevertheless required by section 4600 to provide financial instrument disclosures using IFRS 7, as indicated in Part I of the Handbook.

When these disclosures are provided, the administrator can rely "on the information provided internally to key management personnel", to offer useful insight on how the administrator views and manages financial instruments risk. There is no need for the development of a new set of data and statistics.

Administrators are required under section 4600 in Part IV of the Handbook to measure all investment assets and liabilities at fair value [(2)]. The Handbook requires an administrator to also provide the disclosures in IFRS 7 for all of its investment assets and investment liabilities in financial instruments. It also requires a description of how fair values have been determined, in regards to investments that are not financial instruments.

When fair value is estimated by valuation techniques, the result is more subjective than those established from an observable market price. Accordingly, IFRS 7 requires financial instruments to be classified in a three-level measurement hierarchy, to help assess the extent of this subjectivity when making these measurements. Additional disclosures are required under IFRS 7 for financial instruments that are classified as "not based on observable market data" (Level 3).

IFRS 7 requires administrators to "disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period." For each type of risk, some **qualitative disclosures** (i.e., exposures to the risk, how they arise, administrator's objectives, policies and processes for managing the risk, and method used to measure it) and **quantitative disclosures** must be disclosed.

The various types of risks defined in Appendix A of IFRS 7 are:

- **Credit risk** – failure to discharge an obligation by a counter party to a financial instrument will cause a financial loss to the pension plan.
- **Liquidity risk** – the pension plan will encounter difficulty in meeting pension and/or other obligations that are settled by delivering cash or another financial asset held for managing liquidity risk.
- **Market risk** – the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. IFRS 7 requires a pension plan to disclose **a sensitivity analysis for each type of market risk**, along with the methods and

(2) While section 76 of the Regulation refers to "market value", the accounting standards have evolved toward the use of "fair value" which is primarily a market-based measurement. FSCO recognizes the standards for fair value measurement as equivalent or superior to the legacy market value measurement. Similarly, section 76 of the Regulation also refers to "book value" which was in use when pension plans were required to account using historical prices only. FSCO also recognizes the expression "historical cost" as the equivalent of the legacy book value.

assumptions used in preparing it. IFRS 7 also allows an administrator who uses dynamic analysis (e.g., a value-at-risk model that combines many market variables to manage financial instrument risks) to disclose these types of model findings. The types of market risks, risk variables and risk factors are presented in the following table:

TYPE OF MARKET RISKS	RISK VARIABLES	RISK FACTORS
Currency risk – changes in foreign exchange rates	Foreign currencies exchange rates	Level of foreign currency hedging
Interest rate risk – changes in market interest rates	Interest rates	Duration of interest-bearing financial instruments
Other price risk – changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market.	Equity markets benchmark price index	Sensitivity of equity financial instruments to equity index benchmark prices (also known as Beta)

The sensitivity analysis that is required under IFRS 7 shows the effect on the net assets available for benefits (or net financial position, as applicable) of reasonably possible changes in an externally available risk variable, assuming such changes had occurred at the end of the reporting period, and had been applied to the risk exposures in existence at that date.

If the administrator believes that the model used to determine the fair value of a financial instrument that was classified as Level 3 (not based on observable market data) precludes the computation of a representative price risk sensitivity analysis required under IFRS 7, it should disclose that no sensitivity analysis is available for that financial instrument, identify which financial instruments (or groups of them) were excluded and their fair value as of the end of the period.

Administrators who invest in pooled funds may rely on the disclosure provided in the audited financial statements of the pooled funds in which the pension fund is invested. The statements for the pension fund should reflect a proration of the plan’s/fund’s share of each pooled fund’s disclosure impact on the pooled fund’s Net Assets Value (NAV) and be aggregated for each of the risk variables.

When a pooled fund uses a different level of reasonable possible change than those set out in this Guidance Note, the plan administrator would be expected to prorate the impact for the plan’s disclosure. Example #2 presents the case of a plan that invests in various pooled funds through a Master Trust.

FSCO will also accept the disclosure in supplemental schedules of additional information subsequent to the notes to the financial statements.

FSCO expects the following disclosure relating to the Financial Instruments - Disclosures:

The financial statements should contain sufficient information for the regulator to assess the level of subjectivity in fair value measurement, and to get insight on how the administrator views and manages financial instrument risks. More specifically, the disclosures should include:

- *for those investments that are financial instruments – a table presenting each type of investment assets and liabilities classified in the three-level measurement hierarchy of IFRS 7;*
- *when a plan has in interest in a master trust – the fair value hierarchy table presents each type of investment assets and liabilities of the whole master trust, along with the plan's position (total dollar amount or percentage) in the master trust;*
- *a description of the nature and extent of risks arising from financial instruments to which the plan is exposed at the end of the period, and how the administrator manages those risks.*
- *a credit ratings schedule of interest-bearing financial instruments (AAA, BBB etc.);*
- *a maturity analysis of interest-bearing financial instruments;*
- *a sensitivity analysis of the foreign currency denominated financial instruments, with regard to a possible change of 5 per cent in the foreign currency exchange rate (one analysis for each applicable foreign currency subject to the materiality requirement);*
- *a sensitivity analysis of interest-bearing financial instruments, with regard to a possible change of 1 per cent in the overall level of interest rates;*
- *a sensitivity analysis of equity financial instruments, with regard to a possible change of 10 per cent in the appropriate equity index benchmark (one analysis for each applicable category of equity investments permitted by the SIP&P and subject to the materiality requirement); and*
- *the methods and assumptions used in preparing these sensitivity analyses.*

Note: *Only the first three bullets are expected for defined contribution plans where members direct the investment decisions for the assets in their accounts.*

APPENDIX

FSCO has prepared some examples of financial statement notes that could be referred to by administrators, when preparing financial statements which will be filed in respect of section 76 of the Regulation. These are illustrative examples only and by no means a prescribed format required by FSCO.

EXAMPLE 1: Statement of Change in Pension Obligations

The financial statements of the pension plan for employees of XYZ Corporation were prepared without the disclosure of pension obligations. Here is an example of how the auditor's report was prepared on a disclosed basis of accounting:

Example of Independent Auditor's Report to the Administrator of the Pension Plan for Employees of XYZ Corporation

We have audited the accompanying financial statements of the **pension plan for employees of XYZ Corporation** (the Plan) as of December 31, 20XY. They include the statements of net assets available for benefits as of December 31, 20XY and 20XX, and the statements of changes in net assets available for benefits for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by the administrator in accordance with the basis of accounting disclosed in Note 2 – Basis of Accounting.

The Administrator's Responsibility for the Financial Statements

The administrator of the plan (the administrator) is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting disclosed in Note 2. This includes determining that the applicable financial reporting framework is acceptable for the preparation of the financial statements in these circumstances, and for such internal control as the administrator determines is necessary, to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards (GAAS). GAAS require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements. This is done 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 plan's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by the administrator, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the plan as of December 31, 20XY and 20XX, and the changes in net assets available for benefits for the years then ended in accordance with the basis of accounting disclosed in Note 2.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist the plan in meeting the filing requirements of the Ontario Pension Benefits Act. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the administrator and FSCO. It should not be used by parties other than the administrator or FSCO.

Note 2 – Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. The Financial Services Commission of Ontario (FSCO) allows the preparation of financial statements in accordance with Canadian generally-accepted accounting principles (GAAP) for pension plans, excluding recognition and disclosure of pension obligations, to comply with the filing requirements of Section 76 of Regulation 909 of the Ontario Pension Benefits Act. As such, these financial statements have been prepared in accordance with Part IV of the CPA Canada Handbook – Accounting and Canadian accounting standards for pension plans, which excludes recognition and disclosure of the pension obligation and includes certain additional disclosures required by Section 76 of Regulation 909. These financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations. These financial statements have been prepared to assist in meeting the financial reporting expectations of FSCO.

EXAMPLE 2: Investments in a Master Trust

The investment assets of the pension plan for employees of XYZ Corporation consist solely of units in the XYZ Master Trust. Here is an example of how such investments are reported on the statement of net assets available for benefits and how the master trust details are presented in the notes:

The Pension Plan for Employees of XYZ Corporation

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 20XY

	20XY $	20XX $
Assets		
Investments in a master trust (Note 3)	11,595,000	11,480,000
Employer contributions receivable (Note 7)	75,000	60,000
	11,670,000	11,540,000
Liabilities		
Accrued expenses (Note 8)	30,000	25,000
Net Assets Available for Benefits	**11,640,000**	**11,515,000**

Note 3 – Investments in a Master Trust

As of December 31, 20XY and 20XX, the assets of the plan were invested in the XYZ Corporation Master Trust Fund (the Master Trust Fund). The detail of the Master Trust Fund investments and the plan's proportionate share thereof are:

	20XY		20XX	
	Fair value **$**	**Cost** **$**	**Fair value** **$**	**Cost** **$**
Bond pooled funds	13,100,000	11,650,000	12,200,000	10,525,000
Canadian equity pooled funds	7,000,000	6,015,000	7,500,000	5,450,000
Foreign equity pooled funds	5,900,000	5,600,000	6,500,000	5,040,000
Other financial instruments	480,000	480,000	420,000	420,000
	26,480,000	23,745,000	26,620,000	21,435,000
Plan's share of Master Trust assets ($)	11,595,000	9,925,000	11,480,000	9,025,000
Plan's share of Master Trust assets (%)	43.8%		43.1%	

As of December 31, 20XY, the Master Trust Fund held the following investments where the fair value or cost exceeded 1% of the total fair value or total cost of the Master Trust Fund's assets.

	Fair value **$**	**Cost** **$**
ABC Canadian Bonds Universe Exchange Trade Fund	5,305,000	5,225,000
ABC Canadian Long Bonds Fund	7,795,000	6,425,000
DEF Canadian Equity Exchange Trade Fund	4,375,000	4,050,000
DEF Small Caps Alpha Fund	2,625,000	1,965,000
GHI U.S. Large Caps Equities Fund	2,995,000	2,575,000
GHI EAFE Equities Index Exchange Trade Fund	2,905,000	3,025,000

EXAMPLE 3: Capital Management

The note is prepared with the information available to the administrator through its Statement of Investment Policies and Procedures (the SIP&P), investment managers' quarterly reports and performance measurement monitoring documentation. There is no need to repeat information that is already available elsewhere in the financial statements (e.g. details of contributions paid may be included in another note dealing with the Funding Policy prepared for compliance with section 4600.29(c)).

Note 4 – Capital Management

The capital of the plan is represented by the net assets available for benefits. The plan's objective when managing the capital is to safeguard its ability to continue as a going concern and to maintain adequate assets to support pension obligations.

The administrator has adopted a Statement of Investment Policies and Procedures (the SIP&P) which states investment objectives, guidelines and benchmarks used in investing the capital of the plan, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was last amended effective July 1st, 20XV.

The plan's absolute return expectation over a five-year horizon has been set in the SIP&P at 6% annualized rate of return, net of investment management fees. The plan's annualized five-year average rate of investment return (net of fees) as of December 31st, 20XY was 3.9% (5.2% as of December 31st, 20XX).

The SIP&P permits four broad categories of assets. A set of benchmarks has been identified to measure against each category's annual rate of investment return (net of fees). The total investments annual rate of return is measured against a composite index made up of the weighted average of each category's benchmark return using the target allocation of the SIP&P to weight the various categories. The plan's relative annual rate of investment return expectation is to equal or exceed the composite index on a net of fees basis. The plan's investment was allocated within the allowed asset categories range, as of the date of the financial statements. The following table presents the asset allocation and annual rate of investment return for each asset category, and total investments, along with appropriate benchmarks.

Asset categories *	Benchmark	Asset allocation (%)			Annual rate of investment return (%)			
		SIP&P Target**	As of December 31st		Benchmark		Actual (net of fees)	
			20XY	20XX	20XY	20XX	20XY	20XX
Cash & Equivalents	DEX 91 days T-Bills Index	2.0	1.8	1.6	1.0	0.5	0.4	0.4
Fixed-Income	DEX Mid Term Bond Index	48.0	49.5	45.8	10.9	7.8	11.8	6.7
Canadian Equities	S&P/TSX 60 Index	25.0	26.4	28.2	-9.1	13.2	-6.3	13.4
Foreign Equities	MSCI World Index (C$)	25.0	22.3	24.4	-3.2	5.9	-1.4	5.0
Total Investments	**Composite Index**	**100.0**	**100.0**	**100.0**	**2.2**	**8.7**	**3.5**	**7.8**

The plan invests in units of the Master Trust Fund, which itself invests in pooled funds managed by ABC Asset Management Ltd, DEF Canada Group of Funds and GHI Global Investors (the investment managers), in accordance with the SIP&P and investment mandates specific to each investment manager. The plan's investment positions expose it to a variety of financial risks which are discussed in Note 5 – Financial Instrument Risks. The allocation of assets among various asset categories is monitored by the administrator on a monthly basis. A comprehensive review is conducted quarterly, which includes measurement of returns, comparison of returns to appropriate benchmarks, ranking of returns to appropriate universes and risk analysis.

The employer is required under the PBA to pay contributions, based on actuarial valuations, necessary to ensure the benefits are funded. More details on members and employer contributions that were paid during the period can be found in Note 7 – Funding Policy. No contributions remain past due as of the end of the period covered by the financial statements.

* In the case of a defined contribution plan, this column heading would read as "Investment Options" and presents the various options offered to plan members.
** Idem. There would be no such target for a defined contribution plan when options are elected by plan members.

EXAMPLE 4: Financial Instruments: Disclosures

This note is prepared with the information available to the administrator through internal documentation, investment managers' quarterly reports and performance monitoring documentation.

Note 5 – Financial Instruments Risks

The plan's investments in financial instruments are susceptible to the following risks:

1. Fair Value Measurement Risk

The following is a breakdown of the master trust investments and the plan's proportionate share of it using the fair value hierarchy set forth in paragraph 27 of IFRS 7 – Financial Instruments: Disclosures. The hierarchy assesses the subjectivity of inputs used in the fair value measurement in a three-level classification:

- Level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 – fair value based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				As of December 31st, 20XY
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Bond pooled funds and ETF	5,305,000	7,795,000	-	13,100,000
Canadian equity pooled funds and ETF	4,475,000	2,525,000	-	7,000,000
Foreign equity pooled funds	-	5,900,000	-	5,900,000
Other financial instruments	-	480,000	-	480,000
	9,780,000	16,700,000	-	26,480,000
Plan's share of master trust assets ($)	4,280,000	7,315,000	-	11,595,000

				As of December 31st, 20XX
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Bond pooled funds and ETF	4,650,000	7,550,000	-	12,200,000
Canadian equity pooled funds and ETF	4,750,000	2,750,000	-	7,500,000
Foreign equity pooled funds	-	6,500,000	-	6,500,000
Other financial instruments	-	420,000	-	420,000
	9,400,000	17,220,000	-	26,620,000
Plan's share of master trust assets ($)	4,055,000	7,425,000	-	11,480,000

2. *Credit Risk*

The plan is subject to indirect exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they are due. The SIP&P restrictions prohibit directly or indirectly investing more than 5% of assets in any one entity, or two or more associated or affiliated entities. Furthermore, the SIP&P restricts investing more than 5% of assets in fixed-income instruments with a credit rating below BBB.

The following are the master trust investments in interest-bearing financial instruments, the exposure to credit risk and the plan's proportionate share of it.

Credit Ratings	**AAA** $	**AA** $	**A** $	**BBB** $	**BB** $	**Total** $
As of December 31st, 20XY						
master trust	1,310,000	5,500,000	4,210,000	1,830,000	250,000	13,100,000
plan's share ($)	570,000	2,410,000	1.845,000	800,000	110,000	5,735,000
As of December 31st, 20XX						
master trust	1,100,000	5,240,000	4,025,000	1,595,000	240,000	12,200,000
plan's share ($)	470,000	2,260,000	1,735,000	690,000	105,000	5,260,000

3. *Liquidity Risk*

Liquidity risk is the risk that the plan may be unable to meet pension payment obligations in a timely manner and at a reasonable cost. Management of liquidity seeks to ensure that even under adverse conditions, the plan has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The SIP&P requires the plan's investments to be highly liquid, so they can be converted into cash on short notice. The plan's exposure to liquidity risk is considered negligible.

The following is a maturity analysis of the master trust investments that are held for managing liquidity risk and the plan's proportionate share of it.

Maturity	**< 1 year** $	**1 – 5 yrs** $	**5 – 10 yrs** $	**10 – 20 yrs** $	**> 20 yrs** $	**Total** $
As of December 31st, 20XY						
master trust	655,000	1,965,000	3,930,000	4,585,000	1,965,000	13,100,000
plan's share ($)	290,000	860,000	1.720,000	2,005,000	860,000	5,735,000
As of December 31st, 20XX						
master Trust	610,000	1,830,000	3,660,000	4,270,000	1,830,000	12,200,000
plan's share ($)	260,000	790,000	1,580,000	1,840,000	790,000	5,260,000

4. *Market Risk: Currency*

The master trust holds financial instruments denominated in currencies other the Canadian dollar — the measurement currency. The plan is therefore exposed to currency risk as the value of these financial instruments will fluctuate due to changes in foreign exchange rates. The SIP&P requires the plan's investments denominated in foreign currencies to be hedged back to the Canadian dollar to a minimum of 50%.

The following sensitivity analysis summarizes the impact on the plan's net assets available for benefits, following reasonably possible changes in foreign currency exchange rates, for each currency to which the plan has a significant exposure.

Currency risk			**Change in Net Assets Available for Benefits as of**	
	Currency	**Change in exchange rates**	**December 31st 20XY** $	**December 31st 20XX** $
United States dollar	US $ / C$	+ / - 5%	- / + 38,000	- / + 43,100
Euro	€ / C$	+ / - 5%	- / + 13,400	- / + 12,500
Japanese Yen	¥ / $C	+ / - 5%	- / + 8,300	- / + 9,800
Great Britain Pound	£ / C$	+ / - 5%	- / + 4,900	- / + 4,600
Other currencies		+ / - 5%	- / + 6,500	- / + 6,200
Total			- / + 71,100	- / + 76,200

5. Market Risk: Interest Rate Risk

The master trust holds interest-bearing financial instruments. The plan is therefore exposed to interest rate risk, as the value of interest-bearing financial instruments will fluctuate with changes in interest rates. The administrator views interest rate risk on interest-bearing financial instruments as a hedge that offset the larger interest rate risk on pension benefit liabilities. In order for this offset to significantly reduce the overall level (on assets and pension benefit liabilities) of the plan's interest rate risk, the SIP&P requires that at least 50% of holdings in interest-bearing financial instruments be invested in long maturities.

The following sensitivity analysis summarizes the impact on the plan's net assets available for benefits following a reasonably possible change in interest rates for all maturities (a parallel shift in the yield curve).

Interest rate risk		**Change in Net Assets Available for Benefits as of**	
	Change in interest rates	**December 31st 201XY $**	**December 31st 20XX $**
Interest-bearing financial instruments	+ / - 1%	- / + 757,000	- / + 641,700

6. Market Risk: Equity Prices Risk

The master trust holds equity financial instruments. The plan is therefore exposed to equity price risk as the value of equity financial instruments will fluctuate due to changes in equity prices. In order to limit the level of equity price risk, the SIP&P limit the sensitivity of the plan's investments in equities with regard to specific stock market benchmarks (also known as Beta or "ß") to a maximum of 1.00.

The following sensitivity analysis summarizes the impact on the plan's net assets available for benefits, following reasonably possible changes in equity prices for each stock market benchmark to which the plan has a significant exposure.

Equity prices risk			**Change in Net Assets Available for Benefits as of**	
	Stock market benchmark	**Change in prices index**	**December 31st 20XY $**	**December 31st 20XX $**
Canadian equities	S&P/TSX 60 Index	+ / - 10%	+ / - 291,200	+ / - 313,700
Foreign equities	MSCI World Index (C$)	+ / - 10%	+ / - 235,100	+ / - 257,900
Total			+ / - 526,300	+ / - 571,600

7. Market Risk: Methods and Assumptions Used in Preparing the Sensitivity Analyses

The various sensitivity analyses are based on similar disclosures presented in the audited financial statements of the various fund holdings of the master trust. When the master trust invests in more than one fund with similar financial instruments risk, the impact on the plan's net assets available for benefits is calculated separately for each of these funds, and then added together. The fiscal years of these funds are not necessarily coincident with plan year-end and varies from April 30th 20XY through December 31st 20XY. When funds with similar financial instruments risk use a different level of reasonably possible change to assess the impact on their net assets value, this impact is prorated in order to use a consistent level of reasonable possible change in presenting the aggregate impact on the plan's net assets available for benefits.