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

Ontario

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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

In 2010, the Canadian Institute of Chartered Accountants' Handbook (CICA Handbook) was restructured and updated. New accounting standards for pension plans are set out in Part IV of the CICA Handbook, as Section 4600 replaced Section 4100 (from the previous version of the CICA Handbook). The CICA 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 some of the disclosure requirements in the CICA Handbook may not be necessary for special purpose financial statements that are filed under the PBA and Regulation, and 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 is to specify FSCO's expectations for disclosure, in regards to:

1. **Statement of Changes in Pension Obligations** (refer to sections 4600.10(c) and 4600.28 in the CICA Handbook);
2. **Interest in a Master Trust** (refer to sections 4600.05(q)(i), 4600.05(r) and 4600.15 in the CICA Handbook);
3. **Capital Management (including SIP&P and Contributions)** (refer to sections 4600.37 and paragraphs 135-136 of IAS 1– Presentation of Financial Statements in Part I of the CICA Handbook)**;** and
4. **Financial Instruments: Disclosures** (refer to sections 4600.32 and IFRS 7 – Financial Instruments – Disclosure in Part I of the CICA Handbook).

All pension plan or pension fund financial statements that are prepared for filing with FSCO under section 76 of the Regulation, are expected to follow these disclosure requirements. By providing this disclosure, FSCO does not anticipate that the administrator of the pension plan (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.

BACKGROUND

Under the PBA and the Regulation, the administrator is required to file financial statements for the pension fund or plan as of the plan's fiscal year end date. Subject to the requirements of section 76 of the Regulation, the financial statements and the auditor's report (where required), must be prepared in accordance with the principles and standards that are set out in the CICA Handbook. FSCO has posted some questions and answers on its website to address the differences between the CICA Handbook and section 76 of the Regulation. In addition, when financial statements that need to be filed with FSCO are being prepared, the administrator should refer to FSCO Policy F100-102 – Requirement to File Pension Plan or Pension Fund Financial Statements for guidance.

FSCO'S DISCLOSURE EXPECTATIONS

1. Statement of Changes in Pension Obligations

Section 4600 of the CICA Handbook introduces the requirement that a pension plan's financial statements must present the pension obligations of a defined benefit plan (refer to section 4600.12 (g)) and the resulting surplus or deficit (refer to section 4600.12(h)) on the face of the statement of financial position. Furthermore, section 4600.10(c) also requires a statement of changes in pension obligations, as described in section 4600.28. Section 4100 from the previous version of the CICA 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, which do not disclose pension obligations, since 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 in order to satisfy the requirements of section 76 of the Regulation:

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

- *the basis of accounting in a note to the financial statements;*
- *the departure from the principles and standards set out in the CICA Handbook (where applicable)to meet the requirements of section 76 of the Regulation; and*
- *for pension fund financial statements, Canadian Auditing Standard 800 — the special purpose framework for financial statements — will be applicable and the auditor's report will:*
    - *state that the financial statements are prepared in accordance with the financial reporting provisions of section 76 of Regulation 909 of the PBA; and*
    - *include a paragraph on the basis of accounting and restrictions on its use.*

2. Interest in a Master Trust

Master trust holdings make up more than 50 per cent of the assets that are held by defined benefit plans which are regulated by FSCO. Section 4600.15 of the CICA 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** (as per section 4600.05 (q)(i)). Section 4600.14 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 requires more detailed information on the master trust holdings as they relate to the pension plan.

FSCO expects the following disclosure in order to satisfy the requirements of section 76 of the Regulation:

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; 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 CICA Handbook, pension plans administrators are required to disclose information regarding capital management, in accordance with the requirements in paragraphs 135-136 of IAS 1 – Presentation of Financial Statements. Pension plans administrators that decide to use the accounting standards for private enterprises from Part II of the CICA Handbook (instead of the IFRS in Part 1 of the CICA Handbook), are nevertheless required by section 4600.37 to provide capital disclosures, as indicated in paragraphs 135-136 of IAS 1 in Part 1 of the CICA 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, which includes the pension plan's Statement of Investment Policies & Procedures (SIP&P) (as per 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 plan administrator to develop a new set of data and statistics.

Most pension plans administrators define their capital 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 that is required under IAS 1, paragraph 135(b). Similarly, the statement of changes in net assets would be adequate for the portion of paragraph 135(c) that asks for details of changes in paragraph 135(b).

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 paragraphs 135(a)(ii), 135(d) and 135(e).

FSCO expects the following disclosure in order to satisfy the requirements of sections 76 of the Regulation:

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

- *a description of what the plan 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 plan 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 plan administrator during the period related to targets or benchmarks included in the SIP&P; and*
- *a statement that the pension plan's investments fell within the asset mix target ranges for a defined benefit plan, as of the end of the year.*

***Contributions** – the financial statements must include:*

- *a disclosure on whether or not all required contributions that were due were paid, as of the end of the period.*

4. Financial Instruments: Disclosures

Under the accounting standards, as set out in the CICA Handbook, pension plan administrators are required to provide disclosures (in regards to investments that are financial instruments) that are required by IFRS 7 – Financial Instruments: Disclosures. Pension plans that decide to use the accounting standards for private enterprises, from Part II of the CICA Handbook (instead of the IFRS in Part 1 of the CICA Handbook), are nevertheless required by section 4600.32 to provide financial instrument disclosures using IFRS 7, as indicated in Part 1 of the CICA 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 pension plan's administrator views and manages financial instruments risk. There is no need for the development of a new set of data and statistics.

Pension plans administrators are required under section 4600.19 to measure all investment assets and liabilities at fair value[1]. Section 4600.32 of the CICA Handbook requires a pension plan administrator to also provide the disclosures that are required by IFRS 7 for its investments 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, paragraph 27 of 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.

[1] 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 recognises 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 recognises the expression "historical cost" as the equivalent of the legacy book value.

Paragraph 31 of IFRS 7 requires pension plans 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, the pension plan administrator's objectives, policies and processes for managing the risk, and method used to measure it) and **quantitative disclosures** (as described in paragraphs 36 – 42 of IRFS 7) 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. Paragraph 40 of IFRS 7 requires a pension plan to disclose **a sensitivity analysis for each type of market risk**, along with the methods and assumptions used in preparing it. Alternatively, paragraph 41 allows a plan 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, instead of those required by paragraph 40. 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 paragraph 40(a) 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.

FSCO expects the following disclosure in order to satisfy the requirements of section 76 of the Regulation:

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 plan 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, paragraph 27;*
- *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;

- *for all investments that are not financial instruments – a description of how fair value have been determined;*
- *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 required 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 should be referred to, when preparing financial statements which will be filed in respect of section 76 of the Regulation.

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 qualified and how the basis of accounting is disclosed in the notes:

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

We have audited the accompanying financial statements of the **fund 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, 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 based on the financial reporting provisions of Regulation 909 and Section 76 of the Pension Benefits Act (Ontario).

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 financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario). 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 financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

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 requirements of the Pension Benefits Act (Ontario) and the Financial Services Commission of Ontario (FSCO). 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

These financial statements have been prepared in accordance with the accounting policies set out below, to comply with the accounting guidance provided by FSCO for financial statements under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario). The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles (GAAP). It excludes the pension obligations of the plan's benefits and related information (and as a result do not purport to show the adequacy of the plan's assets to meet its pension obligations), and includes disclosures beyond that required by the CICA Handbook.

EXAMPLE 2: Investments in a Master Trust

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

The Fund of 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	2,525,000	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

This 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 plan's 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 plan 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 on the plan's provisions. More details on members and employer contributions that were paid during the period can be found in Note 7 – Funding Policy. All contributions that were accrued and due, as defined in the PBA, were indeed paid into the fund during the period covered by the financial statements.

* In the case of a defined contribution plan, this column heading would read as "Investment Options" and present 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 plan 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 market prices quoted in active markets;
- Level 2 – fair value based on observable market data; and
- Level 3 – fair value based on pricing models for which some key market data are unobservable.

	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** **$**	**Total** **$**
Cash	-	195,000	-	195,000
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
Interest and dividends receivable	-	225,000	-	225,000
	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	Currency	Change in exchange rates	Change in Net Assets Available for Benefits as of 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
Total			- / + 64,600	- / + 70,000

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 plan 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 interest rates**	**Change in Net Assets Available for Benefits as of 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	**Stock market benchmark**	**Change in prices index**	**Change in Net Assets Available for Benefits as of 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. 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.