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2004-2005
For plan years ending
between October 1, 2004
and September 30, 2005

Guide to the Financial Statements and General Interrogatories

Section I

Instructions

1. General Information

This Guide will assist administrators of pension plans subject to the *Pension Benefits Standards Act, 1985* (PBSA) in completing the financial statements that are required to be filed with the Office of the Superintendent of Financial Institutions (OSFI). Plan administrators are asked to read and carefully follow the instructions when completing form OSFI 60.

The Guide does not replace the PBSA, the Regulations, Directives, or any Guidelines that OSFI has issued or may issue regarding the administration of pension plans subject to the PBSA.

The financial statements and the information they contain must be presented in accordance with generally accepted accounting principles (GAAP).

In accordance with GAAP,

- the financial information must be based on an ongoing plan that is deemed to be an entity separate and distinct from the employers and members of the plan;
- the financial information must be determined according to the accrual basis of accounting, which requires that outstanding receivables and payables at plan year end be included in the calculation of the increase or decrease in assets, without consideration for the date on which payments will be received or made; and
- investments must be shown at their fair value as at plan year end.

Transactions concerning investment purchases or sales must be recorded as at the earlier of the actual date the transaction is made or at the date of the settlement of the contract.

Note: OSFI requires financial statements on the pension fund as opposed to the pension plan. The financial statements are not, therefore, general purpose financial statements because they exclude information regarding the pension obligations. OSFI will accept a statement in the Auditor's Report indicating that the financial statements have been prepared for filing with the regulator and are not appropriate for any other purpose.

Where the pension fund is invested in a Master Trust, only the portion of the assets belonging to the reporting pension plan are to be entered on the financial statements. The assets are to be determined using the proportionate consolidation method.

2. Definitions

Auditor's Report – also known as the *auditor's opinion*, is the opinion of the auditor with respect to the financial statements that have been prepared by the plan administrator. For the purposes of this document, however, the term Auditor's Report will include the financial statements (form OSFI 60) and the auditor's opinion attached to OSFI 60.

Certified Financial Statements – contain a statement of the fund's net assets and a statement of the changes in the fund's net assets available for benefits for the plan year under review.

Derivative instruments – include interest rate, equity, commodity, foreign exchange and other derivative contracts such as forward, futures, swaps and options.

Fair value – in respect of an asset, means the price that would be obtained from the sale of the asset in an open market under conditions of a fair transaction between parties who are at arm's length and acting prudently, knowledgeably and willingly.

Insured plan – is a pension plan for which all benefits are paid by means of an annuity or insurance contract issued by a person authorized to carry on a life insurance business in Canada and under which the person is obligated to pay all the benefits set out in the plan.

Master Trust – comprises two or more pension funds, often for plans of one employer, for investment purposes. Each plan holds an undivided portion of the trust assets that corresponds to a percentage of participation or to units of participation.

Mutual Fund – is a fund that includes several securities or categories of securities (shares, bonds, mortgages, etc.) established by a corporation that is duly authorized to operate a fund in which moneys from two or more depositors are accepted for investment and where units allocated to each depositor serve to establish the proportionate interest at any time of each depositor in the assets of the fund.

PBSA/PBSR – *Pension Benefits Standards Act, 1985*/Pension Benefits Standards Regulations, 1985

Pooled Fund – see **Mutual Fund**

Proportionate Consolidation Method – consists of reporting the assets, income and expenses in the *Statement of Changes in Net Assets* and the *Statement of Net Assets* on the basis of a pro rata share for each investment held by the pension fund.

Segregated Fund – is a fund established by a life insurance company authorized to carry on business in Canada, in which contributions to a pension plan are deposited and the assets of which are held exclusively for the purposes of that plan alone or that plan and one or more other pension plans.

Special payment – is a payment or one of a series of payments established for the purpose of liquidating an unfunded liability or solvency deficiency.

3. Filing Requirements

In accordance with the PBSA, the Regulations and the Directives, pension plans, other than insured plans, are required to file an Auditor's Report on the pension fund as of the end of each plan year. The Auditor's Report is to be filed with the Superintendent within six months of the plan year end. The Auditor's Report consists of the auditor's opinion, which is attached to the *Statement of Changes in Net Assets,* the *Statement of Net Assets,* and the *Notes to the Financial Statements* on OSFI 60. However, OSFI has permitted plans that meet certain conditions to file a Certified Financial Statement (CFS) in place of an Auditor's Report.

I A plan may file a CFS on form OSFI 60 if the pension fund is deposited as follows:

- (a) all funds are held by one insurance company in any type of account, or
- (b) all funds are held in the pooled funds of one trust company, or
- (c) all funds are managed by one trust company but are held outside the pooled funds in some other funding arrangement and both of the following conditions are met:
  - (i) there are fewer than 100 members; and
  - (ii) there is less than $5,000,000 in total assets (fair value).

II All other plans are required to file form OSFI 60 and an Auditor's Report regardless of where funds are deposited:

- (a) plans that do not meet criteria (a), (b) or (c) above; or
- (b) plans funded through Pension Fund Societies.

Section II

Financial Statements

1. Basic Plan Information Cover Page (page 30.005)

Line 001: Name of the Pension Plan – as defined in the plan documents. The name indicated on the financial statements must be distinguishable from any other plan sponsored by the employer.

Line 002: Registration Number **–** is the number assigned by OSFI (five digit number beginning 55, 56 or 57) and should not be confused with the Canada Revenue Agency's registration number.

Indicate the type of pension plan: defined benefit, defined contribution (money purchase) or a combination plan. A combination plan is one with defined benefit and defined contribution components.

Line 003: Plan Year End – is the year end as stated in the plan documents. The first financial statements after a change in a plan year end will cover a period of less than 12 months. Such financial statements should reflect the activity for the period covered and an explanatory note given in the *Notes to the Financial Statements*.

Note: A plan year end may be changed by amendment or resolution, which must be filed with OSFI.

2. Statement of Changes in Net Assets (page 30.010)

Note: Assets must be rounded to the nearest thousand and reported in $000s throughout.

Increase in Fund Assets

Line 010: Investment income is interest, dividends, rents and sums earned on investments other than by an increase in their value, whether or not the income has been realized. For example, the yield realized when treasury bonds are cashed and income generated by securities loans should be reported on this line.

Line 015: Realized gains or (losses) on investments, which are to be shown on this line, are amounts gained (or lost) following an investment transaction. They are to be measured from the fair value at the most recent financial statement date. These amounts are also referred to as realized fair value.

Line 016: Unrealized gains (or losses) on investments, which are to be reported on this line, are amounts gained (or lost) following a change in the fair value of investments or an adjustment following a change in the way they were valued. Unrealized gains (or losses) are to be measured from the fair value at the most recent financial statement date. These amounts are also called unrealized fair value.

Line 020: Members' required contributions, as defined in the plan documents, are to be reported on this line.

Line 021: Members' voluntary contributions, including member contributions for the purchase of flexible benefits, are to be reported on this line.

Line 025: For defined contribution plans, the employer's required contributions, as defined in the plan documents, net of amounts taken from unvested forfeitures, are to be reported on this line. For defined benefit plans, employer's required current service contributions as recommended in the latest *Valuation Report* net of amounts taken from surplus, plus any special payments, are to be reported on this line. For the purpose of this line, special payments, in addition to those established for the purpose of liquidating an unfunded liability or solvency deficiency, include amounts for amendments that were made during the year under review and amounts to cover the full pension benefit credits of terminated members where the plan is not fully solvent.

Note: In accordance with the accrual basis of accounting, employee and employer contributions receivable should be reported on line 070 or line 071 respectively of the *Statement of Net Assets.*

Line 039: Transfers to the pension fund from another pension plan, an RRSP or a LIF, will be reported on this line. Transfers receivable at plan year end must be reported, including amounts receivable resulting from a merger during the period. If OSFI has not yet authorized the transfer of assets as a result of a merger, this should be disclosed in the *Notes to the Financial Statements.*

Line 049: For the purposes of this line include:

- dividends, refunds or other advantages granted during the fiscal year by an insurer, enterprise or person doing business with the plan;
- interest charged on contributions, transfers or other sources of increase in assets because of late payments;
- interest due on outstanding amounts at plan year end;
- accounting adjustments made to correct bookkeeping errors.

Note: Realized and unrealized gains on interest rate, equity, commodity, foreign exchange and other derivative contracts, including forward, futures, swaps and options contracts, should be included on line 015 or line 016 as appropriate.

Decrease in Fund Assets

Line 060: Expenses related to managing investments that were paid by the fund are to be included on this line. Examples are:

- brokerage or transaction fees, if they were not added to the cost base of the investment or deducted from the proceeds of disposition;
- securities broker's or financial manager's fees;
- other expenses related to managing investments.

If such expenses were deducted from investment income, they should not be listed on this line.

If the expenses for managing investments are determined according to a percentage set in advance by an investment contract, these expenses must be determined in accordance with the provisions of the contract.

Investment management fees paid by the employer are not to be reported unless they were reimbursed by the pension fund.

Line 070: Professional fees for accountants, lawyers and actuaries that were paid by the fund will be shown on this line. Professional fees paid by the employer are not to be reported unless they were reimbursed by the pension fund.

Line 075: Plan administration costs, other than those reported on line 060 and line 070, that were paid by the fund will be reported on this line. Administrative costs paid by the employer are not to be reported unless they were reimbursed by the pension fund.

Line 080: Monthly or other periodic retirement pensions, disability pensions and death benefits paid by the pension fund are to be reported on this line. Only defined benefit and combination plans will have an entry on this line. Transfers from defined contribution plans will be entered on line 085 or line 087.

Line 085: Transfers to other registered pension plans from the pension fund are to be reported on this line.

Line 087: Transfers to an RRSP or a LIF, amounts used to purchase an immediate or deferred annuity with an insurer, and refunds to members are to be reported on this line.

Line 109: Other sources of decreases in assets include uncollectible items as contributions, investment income, transfers owing, and accounting adjustments.

Line 199: The net assets shown on this line should be the same as the net assets at plan year end that are shown on line 199 of the *Statement of Net Assets*.

3. Statement of Net Assets (page 30.020)

Assets

A plan's assets include all the assets belonging to or owed to the pension fund. Any deposit or investment made from the pension plan's assets must be made on behalf of the plan or credited to its account. Any deposit or investment in foreign funds must be translated into Canadian dollars at the year-end rate of exchange.

Cash on Hand

Line 009: For the purposes of this line, the pension fund's cash on hand includes:

- demand deposits in a bank or trust company's current, savings or operating accounts;
- cash held by investment managers on behalf of the pension fund;
- coins and bank notes;
- cheques, bank drafts and postal money orders.

Generally, cash on hand includes all securities that can be cashed within 30 days following the end of the plan year, except negotiable securities such as shares, corporate bonds, treasury bonds, etc.

Debt Securities (Canadian and Foreign)

Amounts on lines 010 to 024 are to include both Canadian and Foreign Securities.

Line 010: Short-term notes and securities that mature in less than six months are to be recorded on this line. They include loans made by means of financial instruments that are easily liquidated. They are also known as money market securities and short-term capital securities and include treasury bonds, municipal bonds, corporate promissory notes (also known as short-term notes), commercial paper, bearer securities, treasury bills (T-bills), bankers' acceptances (also known as bank paper), certificates of deposit, term deposits, savings certificates and guaranteed investment certificates issued by a financial institution. Other term deposits that mature in more than six months include certificates of deposit, savings certificates, and guaranteed investment certificates issued by a financial institution.

Line 011: Government bonds and debentures must be shown on this line. This line includes all bonds issued by the Government of Canada, a province, a municipality or a school board. The fair value for this category of securities must be determined using the year-end quoted market prices.

Line 012: Bonds and debentures issued by a corporation and not shown on Line 011 are to be shown on line 012. They must mature later than six months following their issuance and, if they are traded on an open market, their fair value must be determined using the year-end market prices. Otherwise, the value may be obtained using methods such as independent asset appraisals, comparison to published prices of comparable securities, use of recent trade prices, discounted cash flows based on current market yields, and estimation based on the underlying financial statements of the issuer.

Line 017: The fair value of units held in a Bond, Cash Equivalent or Mortgage Mutual or Pooled Funds must be determined using the year-end quoted market prices and reported on this line. Cash Equivalent Mutual or Pooled Funds include T-Bill funds and money market funds.

Line 019: The fair value of mortgage loans secured by real estate or chattels should be determined according to current market yields. Otherwise, the value may be obtained using a variety of methods such as independent asset appraisals, discounted cash flows based on current market yields, and estimation based on the underlying financial statements of the issuer.

Line 024: Only the portion of the pension fund invested in the general funds of an insurance company, often referred to as deposit administration accounts, should be recorded on this line. Investments should be listed at their fair value as determined by the insurer at plan year end. Interest accrued on these assets should be reported on line 073.

Equity (Canadian and Foreign)

Amounts on lines 030 to 037 are to include both Canadian and Foreign Equity.

Line 030: Shares in Investment, Real Estate or Resource Corporations, as defined in Schedule III to the Pension Benefits Standards Regulations are to be reported on this line at their fair value.

Line 033: Other shares traded on an open market will be reported on this line. If possible, fair value is to be determined using market prices at plan year end. Otherwise, share value is to be determined using a variety of methods, such as comparison to published prices of comparable securities, use of recent trade prices, independent asset appraisals, discounted cash flows based on current market yields, and estimation based on the underlying financial statements of the issuer. Shares include common and preferred shares of publicly traded corporations in Canadian and foreign markets.

Line 034: The fair value of units held in Stock Mutual or Pooled Funds must be determined using the year-end quoted market prices and reported on this line. Where a pension fund invests in a Stock Mutual or Pooled Fund made up of shares of both Canadian corporations and foreign corporations, the fair value of both must be shown.

Line 036: Investment in a Real Estate Mutual or Pooled Fund may be made up of real estate or of shares of real estate. The fair value of the units are to be determined on the basis of market quotations published at plan year end and reported on this line.

Line 037: Only the amounts held by the pension fund in Real Estate investments, including real estate vehicles such as joint ventures and co-tenancies, should be reported on this line. The fair value of real estate must be determined by an expert, such as a licensed appraiser or assessor. Real estate valuations are generally made by an independent appraiser in accordance with generally accepted appraisal practices and procedures at least once every three years and are supplemented by an annual review of improvements to buildings and equipment.

Diversified and Other Investments (Canadian and Foreign)

Amounts on lines 040 to 048 are to include both Canadian and foreign investments.

Line 040: Balanced Mutual or Pooled Funds are also known as diversified Mutual or Pooled Funds. They comprise various securities such as shares, bonds, mortgages, real estate, etc. The fair value of a fund's units must be determined using the year-end quoted market prices.

Note: If the plan holds units of a Master Trust, the value of the units are not to be entered on line 040 because a Master Trust is not considered a balanced Mutual or Pooled Fund. In the case of a Master Trust, the proportionate consolidation method should be used and the value of the units distributed among the investment categories and sub-categories on lines 009 to 048.

Line 042: All types of Segregated Funds are to be reported on this line.

Line 048: Miscellaneous investments are those that do not fall into the categories on lines 009 to 042. They may include amounts relating to derivative instruments, including unrealized gains (losses are to be offset against gains only as permitted by Section 3860 of the Canadian Institute of Chartered Accountants' *Handbook*), deferred losses on hedging instruments, margin requirements and the unamortized balances of premiums paid.

Accounts Receivable

Receivables are any amounts owing to the pension fund at plan year end.

Lines 070 and 071: Member and employer contributions not received by plan year end are to be reported on these lines.

Line 073: Investment income and earnings receivable as at plan year end include interest, dividends and rents as well as amounts earned on investments but not yet cashed. Investment income and earnings receivable are to be shown on this line and not included in the fair value of the investments listed on lines 010 to 048. For example, income accrued or receivable on assets invested in the general fund of an insurer will be shown on line 073 and not on line 024. The same is true for income accrued or receivable on assets invested in a Mutual or Pooled Fund or a Master Trust.

Line 078: Other amounts receivable at plan year end include transfers not yet received, interest accrued on unpaid contributions, dividends, refunds or other advantages, amounts receivable from an indemnification agency such as the Canadian Health and Life Insurance Compensation Corporation (CompCorp) or the Canada Deposit Insurance Corporation (CDIC).

Liabilities: Liabilities are accounting liabilities made up of debts or amounts that the plan owes at plan year end. They are **not** the actuarial liabilities resulting from plan obligations.

Line 125: The amount of mortgage borrowings at plan year end should be reported on this line. A mortgage borrowing is a debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

Line 135: Refunds, transfers and benefits that are owed but have not been paid at plan year end should be shown on this line.

Line 140: Plan administrative and management costs that were owing at plan year end are to be shown on this line.

Line 148: Other amounts payable include payments owing at plan year end for mortgage borrowings, non-mortgage borrowings, overdrawn accounts or credit margins used to acquire securities, investments and amounts relating to derivative instruments, including unrealized losses (gains are to be offset against losses only as permitted by Section 3860 of the Canadian Institute of Chartered Accountants' *Handbook*), deferred unrealized gains relating to reserves for credit and market risks, deferred gains on hedging instruments and the unamortized balances of premiums received.

Line 199: The net assets shown on this line should be the same as the net assets at the end of the plan year that are shown on Line 199 of the *Statement of Changes in Net Assets*.

4. Notes to the Financial Statements (page 30.030)

This section is to be used to disclose additional information on the pension fund in accordance with GAAP.

OSFI does not require that actuarial liabilities resulting from plan obligations or related information be disclosed; however, but if this information is reported, it should be included in the Notes to the Financial Statements.

5. General Interrogatories (page 30.035)

This section requests information with respect to the Statement of Investment Policies and Procedures (SIP&Ps) and the pension fund investments. An external auditor is not expected to give an opinion on items included in the interrogatories.

Where foreign investments are reported in this section at a value other than fair market value, the basis used for reporting (e.g. book value) must be indicated in the *Notes to the Financial Statements* on page 30.030 of OSFI 60.

6. Certification (Page 30.040)

Plan administrators are required to certify the financial statements on page 30.040 whether or not an Auditor's Report is required.

For further information, please visit our website at www.osfi-bsif.gc.ca or contact us at:

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