Ontario raises threshold for pension plans requiring audited financial statements

Yaelle Gang, the Canadian Investment Review | January 22, 2020

Pension plan sponsors in Ontario are celebrating a small win.

The government is changing the rules so plans with less than $10 million in assets will no longer be required to file annual audited financial statements. Since 1992, plans with less than $3 million in assets weren't required to file audited financial statements with the regulator. Now, the threshold is $10 million.

That said, plans will still be required to file financial statements with the Financial Services Regulatory Authority of Ontario, but these statements won't have to be audited.

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The Ontario government has been under pressure for years to raise the threshold because $3 million was viewed as too low and hasn't been increasing with inflation, says Jason Vary, president of Actuarial Solutions Inc.

The change is great news for any pension plan with assets between $3 million and $10 million, as they can save money on paying an auditor to complete this annual work, he adds. "It's a definite cost savings for smaller pension plans."

It will also save plans the effort required to complete the audited report. "And the clients don't really value the auditor's report," says Vary. "They view it as a necessary evil because the auditor rarely finds anything in my experience."

He acknowledges there's value in a review by an independent auditor, but says this isn't necessarily the case for many small plans. ". . . If you're a pension plan with $8 million and all of your $8 million is with a large insurance company in Canada, are you really worried that the large insurance company in Canada is misrepresenting or misstating the value of the assets or the transactions and things like that? Probably not."

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Some other jurisdictions in Canada don't require audited statements if the plan is invested with one insurance company.

"In my view, if a pension plan — almost no matter what the size is —is invested in a bunch of pooled funds with a large insurance company, then there's no risk," Vary says.

However, in the case of a trustee investing in various asset classes that aren't always readily valued or don't have a market price, an independent auditor would be valuable, he notes. "But that's not the world that I live in. The world that I live in, virtually all of my clients are investing with an insurance company as the custodian and are investing in pooled funds that everyone's heard of. And so in that world, there's very little risk."

While the rules vary by province, the change brings Ontario in line with Alberta and British Columbia.

The new regulation took effect Dec. 11, 2019.

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