UNDERTAKING JT2.38

Undertaking

TO PROVIDE OPG'S POSITION ON WHAT SHOULD HAPPEN IF IT CEASES TO BE ALLOWED TO USE US GAAP DURING THE IRM PERIOD

Response

As noted at Ex. A2-1-1, p. 1, lines 9-15, OPG is required to prepare its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP") by O. Reg. 395/11 under the *Financial Administration Act* (Ontario) ("FAA"). Additionally, OPG is a reporting issuer under the *Securities Act* (Ontario), which includes such continuous disclosure obligations as the filing of annual and interim consolidated financial statements with the Ontario Securities Commission ("OSC"). The above requirements of O. Reg. 395/11 take precedence over the *Securities Act* requirements in Ontario (but not the equivalent requirements of other provincial securities regulators). The OEB has approved OPG's use of US GAAP for regulatory accounting, reporting and rate-making purposes effective January 1, 2012.[1]

OPG has received exemptive relief from the OSC from the requirements of section 3.2 of *National Instrument 52-107* (and thereby equivalent requirements of other provincial securities regulators), which allows OPG to file consolidated financial statements with the OSC based on US GAAP, rather than International Financial Reporting Standards ("IFRS"), without becoming a U.S. Securities and Exchange Commission registrant. Subject to certain conditions, this relief was initially granted in 2011 until January 1, 2015 and was subsequently renewed, in 2014, until January 1, 2019 and, in April 2018, until January 1, 2024. The current exemption would terminate prior to January 1, 2024 if OPG ceases to have activities subject to rate regulation or on the mandatory effective date of an accounting standard within IFRS specific to entities with rate regulated activities as issued by the International Accounting Standards Board ("IASB").[2,3]

Presently, OPG has not determined what course of action it will pursue for purposes of continuous disclosure obligations under *Securities Act* (Ontario) (and equivalent requirements of other provincial securities regulators) upon expiration of the current exemptive relief. At the appropriate time, OPG expects to evaluate whether it will seek a further extension to the exemptive relief, seek to permanently adopt US GAAP, or

[1] OEB's oral decision (EB-2012-0002 Tr. Vol. 1, pp. 25-26) approving settlement proposal.
[2] Ex. A2-1-1, Attachment 1, p. 63 and Ex. L-A2-01-Staff-015, Attachment 1, p. 68.
[3] Although the IASB has recently proposed an accounting standard specific to entities with rate regulated activities, the proposal is currently subject to comments from stakeholders and the final standard (and its effective date) has not been issued.

potentially adopt IFRS. In the event OPG were to adopt IFRS for continuous disclosure purposes upon the expiration of the current exemptive relief during the 2022-2026 IR term, it also would remain legally required to prepare consolidated financial statements in accordance with US GAAP pursuant to O. Reg. 395/11.

Should OPG determine that it is likely to adopt IFRS for continuous disclosure purposes, it would assess whether it would also seek to adopt IFRS for regulatory accounting, reporting and rate-making purposes. In such circumstances, OPG would be guided by the OEB's existing guidance on the adoption of IFRS, including the *Report of the Board* in EB-2008-0408. As necessary, this would include an application to the OEB for approval of a deferral account to record the applicable financial impacts resulting from the transition to and implementation of IFRS during the 2022-2026 IR term, similar to the EB-2011-0432 application related to OPG's adoption of US GAAP.

Given the range of factors that may impact on the evolution, assessment and possible outcomes of the above matters during the 2022-2026 IR term and the availability of the OEB's existing guidance on the adoption of IFRS, OPG does not believe that it is necessary to consider these matters in the current proceeding. The EB-2016-0152 proceeding similarly did not address these matters, although the OSC exemptive relief in place at the time was set to expire partway through the 2017-2021 IR term (i.e., as of January 1, 2019).