

2019 OSC

ANNUAL REPORT



OSC

ONTARIO
SECURITIES
COMMISSION



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SECURITIES
COMMISSION

OSC Vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

OSC Mandate

To provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and confidence in capital markets, and to contribute to the stability of the financial system and the reduction of systemic risk.

OSC Values

Professional

- Protecting the public interest is our purpose and our passion
- We value dialogue with the marketplace
- We are professional, fair-minded and act without bias

People

- To get respect, we give it
- Diversity and inclusion bring out our best
- Teamwork makes us strong

Ethical

- We are trustworthy and act with integrity
- We strive to do the right thing
- We take accountability for what we say and do

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2019 OSC

ANNUAL REPORT

AT A GLANCE IN 2018-19

Overseeing Canada's largest capital market

- 68,366 registered individuals in Ontario
- Ontario-based listed issuers account for 50% of Canada's equity market value
- \$362.2 billion in corporate bonds outstanding from Ontario-based issuers¹
- 1,807 foreign firms operate in Ontario capital markets
- 63% of registered firms with head offices in Canada have their head office in Ontario
- 95% of all Canadian over-the-counter (OTC) derivatives trading includes an Ontario market participant²

Paving the way for business opportunities

- Established the OSC Burden Reduction Task Force to cut red tape
- 61,970 registration filings processed
- 783 public company, investment fund and structured product prospectuses reviewed
- Provided regulatory support to 74 fintech companies through OSC LaunchPad

Communicating with investors and businesses

- Assisted 3,635 investors through our Inquiries and Contact Centre
- Responded to 11,620 market participant inquiries
 - 92% of phone calls are answered in under five seconds, providing direct access to OSC staff with no wait time

- Hosted free educational and outreach seminars and webinars for more than 2,100 registrants and businesses³
- 963 market participants attended policy roundtables and industry conferences hosted by OSC (in person or online)
- Staff participated in more than 800 in-person stakeholder engagements⁴

Improving investor education and insights

- OSC's online educational resources received 5.4 million visits
- Delivered 79 in-person investor education and anti-fraud presentations in communities across Ontario — more than half of these presentations delivered to older Canadians
- Provided investor insights on millennials, retirement planning, and cannabis and crypto-asset investment activity through four research studies

Taking action against misconduct

- 565 cases assessed by the Enforcement branch
- 79 administrative sanctions handed down
- One no-contest settlement led to \$11 million returned to investors
- 51 months of jail sentences ordered
- 22 individuals banned from trading or serving as a director for an average of 10.5 years each

1 Canadian dollar denominated corporate bonds

2 Proportion of OTC derivative transactions by outstanding notional, reported to the OSC, compared to the aggregate Canadian outstanding notional reported by DTCC, CME, ICE as of March 31, 2019 - Commodity trades are excluded

3 Through our Registrant Outreach and OSC SME Institute programs

4 Includes meaningful interactions with stakeholders that fall outside of expected daily activities

Message from the Chair

As markets evolve, so too must regulators. Continued technological advancement, evolving client expectations, changing investment patterns and shifting demographics have made our role more important today than ever.

At the OSC, we are evolving our approach to securities regulation in response to these changes. It is critically important that regulation strengthens our market but does not stand in the way of economic opportunity. At the same time, everything we do must be considered through the lens of the investors for whom the market is designed to serve, and whose investments drive our economy.

Our team is focused on enhancing the competitiveness of our capital markets to reduce the cost of capital for our issuers, minimize regulatory costs for financial intermediaries, and provide an enhanced investor experience.

Modernizing regulation

In response to rapid changes to business models and technology, the OSC is undergoing a comprehensive review of our rules and processes, led by our Burden Reduction Task Force. Working in close consultation with our government and our stakeholders, we are revisiting what we do, getting back to the original intent, and seeing if there is a way to make it more efficient.

Through letters, consultations and roundtable discussions during the year, our stakeholders provided carefully considered suggestions to make regulation simpler and more technology-based, with less duplication. We are listening, and we are confident that this exercise will provide enhanced transparency, more useful data, and strong protections for investors.

Sensitivity to regulatory burden continues to be built into our rule-making processes in keeping with our mandate to foster fair and efficient capital markets. Where there is an identifiable need for change, we will work to develop targeted, precise regulation weighing the costs against potential benefits, setting appropriate fees, and working to deliver national harmonization wherever possible.

As we shift to a modern, data-driven regulatory model, we are investing in the technology required to collect and manage ever-growing amounts of data while preserving industry and investor confidence in the security of their information.

We are working with the Canadian Securities Administrators (CSA) to replace CSA national systems with a more centralized CSA IT system via the National Systems Renewal Program (NSRP). The renewed system includes a modern, browser-based interface and better search capabilities, intended to improve market participants' filing experience as well as offer investors better access to disclosure information.

We are also aligning our workforce to have the technical expertise and people skills to embrace new technologies and to apply these technologies to assist us in meeting our policy objectives.

Responding to a changing economy

Ontario's competitiveness and economic growth are tied to our capital markets' capacity to foster financial innovation and anticipate its future role in the global economy. We continue to actively support fintech businesses seeking to offer innovative products, services and applications in Canada through initiatives such as OSC LaunchPad. We are reviewing our regulatory framework for these businesses, with the CSA, to determine how best to support innovation in financial services.

MESSAGE FROM THE CHAIR

Building on our existing collaborations with international partners, we joined the Global Financial Innovation Network (GFIN), a group of 35 financial organizations collaborating to create easier cross-border navigation for innovative firms.

The OSC's seat at International Organization of Securities Commissions (IOSCO), puts us at the forefront of international collaboration on global developments in areas such as crypto assets, initial coin offerings (ICOs) and in addressing key emerging risks. Our work has contributed to Canada's significant progress toward making determinations on the application of securities laws to the sale of, and investment in, crypto assets, and issuing guidance on navigating these laws. We have worked with the CSA to publish staff notices related to the securities law implications for token offerings, as well as a joint CSA/IIROC consultation paper that sets out a proposed regulatory framework for crypto-asset trading platforms.

We are also enhancing our oversight of OTC derivatives, given their growing role in the global marketplace and implications for systemic risk. In response to international regulatory proposals and legislative development in this area, the CSA published a registration and business conduct regime for derivatives market participants in the Canadian market.

Building confidence in markets

Investors and market participants must have confidence in Ontario's capital markets as a place where businesses can grow, where people can benefit from investing while understanding the risks, and where all parties play on a level playing field and are complying with the rules. The OSC will move forward with the five-point Capital Markets Plan outlined in Budget 2019, which will ensure greater confidence in Ontario's capital markets.

We are moving forward on reforms that strive to better align financial advice with clients' expectations. We have received comments on the CSA's proposed Client Focused Reforms and are working to finalize a suite of reforms that

will enhance the client and advisory relationship. We are also working closely with the Ontario government and our stakeholders on a path forward to address regulatory concerns with embedded mutual fund fees. We are listening to feedback and considering alternatives that can achieve our policy objectives while addressing industry concerns.

We are challenging ourselves to deliver modern, effective regulation that supports a strong economy.

Market confidence also comes from protecting our most vulnerable investors. We continue to implement the OSC Seniors Strategy, including the delivery of ongoing community outreach events across Ontario, and working with the CSA on the development of a regulatory framework for addressing matters relating to financial exploitation and cognitive impairment. The OSC has also launched targeted resources in six languages to help protect newcomers to Ontario from frauds and scams, including additional educational materials for individuals without internet access.

Underpinning confidence in our market is the OSC's ongoing commitment to pursue innovative enforcement strategies to broaden our reach in detecting and deterring misconduct, and to resolve matters in a more efficient and timely way.

Our announcement of the first-ever financial awards to whistleblowers by a Canadian securities regulator demonstrates the effectiveness of our Whistleblower Program. We are exposing complex misconduct that might not otherwise come to light. Along with other tools such as our no-contest settlements available to those who self-report, and respondents' option to seek a resolution through an independent third-party mediator, we are using our resources more effectively while protecting investors and our market.

At the OSC, we are challenging ourselves to deliver modern, effective regulation that supports a strong economy. We are using our renewed focus on burden reduction as an unprecedented opportunity to adapt our regulatory functions to a more dynamic and complex environment while maintaining the focus on our mandate. We are also strengthening our governance, with the establishment of a Risk Committee dedicated to assisting the Board in its risk oversight role.

Our team continues to rise to meet the challenges of an evolving market. We are focused on developing our staff and incorporating new skill sets across our workforce to support our ongoing efforts. We will continue to keep our operations streamlined and manage our finances prudently, while recognizing the need to make strategic investments in critical areas to support a stronger capital market that instils confidence and attracts investment from around the world.

I would like to thank our former Lead Director, AnneMarie Ryan, and our outgoing Commissioners, for their dedicated service to the OSC. I would also like to recognize Lorie Haber, our new Lead Director, and extend a warm welcome to our new Commissioners.

In particular, I would like to thank our Executive Director, Leslie Byberg, and the entire staff at the OSC. The chance to work with them every day, and to contribute to a more prosperous Ontario and Canada, is what makes this an engaging and rewarding role. I look forward to the year ahead.



Maureen Jensen

Chair and Chief Executive Officer
Ontario Securities Commission

The Team

Executive Management

Leslie Byberg	Executive Director and Chief Administrative Officer
Mary Campione	Director, Financial Management and Reporting
Raymond Chan	Director, Investment Funds and Structured Products
Kevin Fine	Director, Derivatives
Tyler Fleming	Director, Investor Office
Debra Foubert	Director, Compliance and Registrant Regulation
Susan Greenglass	Director, Market Regulation
Naizam Kanji	Director, Office of Mergers and Acquisitions and Special Advisor to the Chair, Regulatory Burden Reduction
Jeff Kehoe	Director, Enforcement
Grace Knakowski	Secretary to the Commission
Elle Koor	Director, Strategy and Research
Cameron McInnis	Chief Accountant
Sonny Randhawa	Director, Corporate Finance
Carolyn Shaw-Rimmington	Director, Communications and Public Affairs
James Sinclair	General Counsel
Russell White	Chief Information Officer
Lisa Wilkins	Chief Human Resources Officer and Director, Corporate Services

Governance

Composition of the Board and Senior Management

The OSC is a self-funded Crown corporation, accountable to the Ontario Minister of Finance. The OSC operates under the direction of the Commission, which has three related but independent roles. It serves as the Board of Directors of the OSC, and it performs a regulatory function, which includes making rules and policies, and adjudicating administrative proceedings.

Our Board of Directors – the Commission – consists of nine to 16 members, called Commissioners. The Chair and Vice-Chairs are full-time Commissioners, and the other Commissioners are part-time. Each Commissioner is appointed for a fixed term by the Ontario Lieutenant Governor in Council, and appointments are made according to the procedures of the Public Appointments Secretariat of the Government of Ontario. Government appointments reflect the needs of the entity to which they have been appointed, but also reflect the diversity of the people of Ontario and the need to deliver services and decisions in a professional, ethical and competent manner.

As a regulatory body that sets standards for the governance of public companies, the Commission has adopted best practices in its own governance. This includes the policies outlined in National Instrument 58-101 *Disclosure of Corporate Governance Practices* relating to women on boards and in executive officer positions, which were implemented in December 2014 by the OSC and other CSA members.

You can find more information about our governance practices in our annual Statement of Governance Practices, which is available on the OSC's website at www.osc.ca.

	2017-18				2018-19			
	Female		Male		Female		Male	
	#	(%)	#	(%)	#	(%)	#	(%)
Board of Directors (Commission)	7	44	9	56	5	56	4	44
Executive Committee (Chair, Vice-Chair, Executive Director)	2	50	2	50	2	50	2	50
Senior Management (including Executive Committee)	9	43	12	57	9	45	11	55

GOVERNANCE

Members of the Commission (as at March 31, 2019)

- Mary Anne De Monte-Whelan
- Garnet W. Fenn
- Lawrence P. Haber (Lead Director)
- Maureen Jensen (Chair)
- Timothy Moseley (Vice-Chair)
- Poonam Puri
- D. Grant Vingoe (Vice-Chair)
- M. Cecilia Williams
- Heather Zordel

More information about the Members of the Commission is available at www.osc.ca.

Board and Commission Committees (As at March 31, 2019)

Audit and Finance Committee

Garnet W. Fenn (Chair)
Lawrence P. Haber
M. Cecilia Williams

Governance and Nominating Committee

Lawrence P. Haber (Chair)
Maureen Jensen (non-voting member)
Poonam Puri
M. Cecilia Williams

Human Resources and Compensation Committee

M. Cecilia Williams (Chair)
Garnet W. Fenn
Lawrence P. Haber
Poonam Puri

Adjudicative Committee³

Tim Moseley (Chair)
Garnet W. Fenn
Lawrence P. Haber
Grace Knakowski (non-voting member)
Poonam Puri
D. Grant Vingoe
M. Cecilia Williams

The mandates of the Committees and of the Chair, Vice-Chairs, and Lead Director are available at www.osc.ca.

Remuneration for Appointees (April 1, 2018 to March 31, 2019)

Members of the Commission receive remuneration for fulfilling three distinct roles in support of the Commission's mandate - regulation, governance and adjudication.

	Remuneration by Role ¹			
	Member Remuneration	Regulation	Governance	Tribunal
Chair and Vice-Chairs	\$ 1,647,496	Included	Included	Included ²
Part-time Members	\$ 1,285,034	\$ 446,678	\$ 285,428	\$ 552,928
Total	\$ 2,932,530			

1 Part-time Member annual retainers and remuneration for orientation and approved events are also included in these amounts.

2 The Chair of the Commission does not participate in the activities of the OSC tribunal.

3 The Adjudicative Committee is a standing policy committee of the Commission.

Meeting attendance

(April 1, 2018 to March 31, 2019)

Member	Type of meeting ¹					
	Commission ²	Board	Audit and Finance Committee	Governance and Nominating Committee	Human Resources and Compensation Committee	Adjudicative Committee ³
P. Anisman ⁴	10/10	4/4		3/3		3/3
P. W. Currie ⁴	13/13	5/6	6/6		4/4	
M.A. De Monte-Whelan ⁵	2/2	2/2				
G. W. Fenn	16/16	8/8	8/8		4/6	
W. J. Furlong ⁴	13/13	6/6	6/6			4/4
L. P. Haber ⁶	16/16	8/8	2/2	3/3	5/5	1/1
R. P. Hutchison ⁴	12/13	6/6	6/6	3/3		
M. Jensen	15/16	7/8		4/4		
F. Kordyback ⁴	13/13	6/6	6/6	3/3		
D. Leckman ⁴	13/13	6/6	6/6		4/4	
J. Leiper ⁴	12/13	4/5		3/3		3/4
T. Moseley	15/16	8/8				4/5
P. Puri	15/16	7/8		1/1	6/6	3/3
A. M. Ryan ^{4,6}	13/13	6/6				4/4
M. J. Sandler ⁴	11/13	6/6			3/4	4/4
D. G. Vingoe	16/16	8/8				4/5
M. C. Williams	15/16	7/8	7/8	1/1	5/6	1/1
H. Zordel ⁵	2/2	2/2				
Attendance	97%	95%	98%	100%	89%	91%

1 Includes both regular and special meetings

2 Policy and rule-making matters

3 The Adjudicative Committee is a policy committee of the Commission

4 Member's term of appointment ended during the year

5 Member appointed to the Commission during the year

6 Lead Director may attend the meetings of the Board committees as a non-voting member

Advisory Committees

(March 31, 2019)

Investor Advisory Panel

Neil Gross (Chair)

Jacqueline Allen

Larry Bates

Paul Bates

Patti Best

Daniel Brunet

Malcolm Heins

Harvey Naglie

Ilana Singer

Continuous Disclosure Advisory Committee

Ivan Chittenden

Ernst & Young LLP

Joe Cosentino

Magna International Inc.

Catherine De Giusti

TMX Group Limited

Lucy Durocher

PricewaterhouseCoopers LLP

Bill Gorman

Goodmans LLP

Wendi Locke

McCarthy Tétrault LLP

Catherine McCall

Canadian Coalition for Good Governance

Matthew Merkley

Blake, Cassels & Graydon LLP

Chris Polson

The Brattle Group

Penny Rice

Shorecrest Group

Anthony Scilipoti

Veritas Investment Research Corporation

Julia Suk

Deloitte LLP

Jonathan Tong

Miller Thomson LLP

Robin Upshall

Davies Ward Phillips & Vineberg LLP

Chris Vollmershausen

Agnico Eagle Mines Limited

Financial Reporting Advisory Committee

Carolyn Anthony	PwC LLP
Susan Bennett	Deloitte
Richard Cracknell	BDO LLP
Craig Cross	RSM Canada
Lara Gaede	Alberta Securities Commission
Carla-Marie Hait	British Columbia Securities Commission
Guy Jones	Ernst & Young LLP
Brad Owen	KPMG LLP
Nicole Parent	Autorité des marchés financiers
Rinna Sak	Grant Thornton LLP
Eric Turner	Auditing and Assurance Standards Board

Fintech Advisory Committee

Bram Abramson	Decentral Inc.
George Bordianu	Balance
Torstein Braaten	Instinet Canada Ltd
Geoffrey Cher	Wildeboer Dellelce LLP
Lucille D'Souza	Royal Bank of Canada
Brady Fletcher	TMX
Paritosh Gambhir	KPMG LLP
Karim Gillani	Luge Capital
Andrew Graham	Borrowell
Brian Mosoff	Ether Capital
Randee Pavalow	Regulatory and Legal Consultant
Laurence Rose	Omega ATS Inc., 4C Clearing Corp.
Omar Soliman	Stikeman Elliott LLP
Bradley Tagieff	BDO Canada LLP
Peter-Paul Van Hoeken	FrontFundr
John Willock	Tritum Inc.
Tanya Woods	Chamber of Digital Commerce Canada

ADVISORY COMMITTEES

Investment Funds Product Advisory Committee

Steve Elgee	Periscope Capital Inc.
Robert Lemon	CIBC World Markets Inc.
Steven Leong	BlackRock Asset Management Canada Limited
Erin Marof	Portland Investment Counsel Inc.
Paul Mayhew	RBC Global Asset Management
Colin Miller	Canoe Financial
Florence S. Narine	AGF Investments Inc.
Marian Passmore	Canadian Foundation for Advancement of Investor Rights (FAIR Canada)
Derek Saliba	Manulife Investments
Matthew Stern	Sun Life Global Investments (Canada) Inc.
Atul Tiwari	Vanguard Investments Canada Inc.
Rob Turnbull	BMO Capital Markets
Megan Vesely	Sigma Analysis & Management Ltd.

Market Structure Advisory Committee

Jamie Anderson	Canadian Securities Exchange
Torstein Braaten	Instinet Canada Ltd.
Norm Cappell	Independent
Doug Clark	ITG Canada Corp.
Peter Coffey	Liquidnet Canada Inc.
Craig Hurl	Ontario Teachers' Pension Plan
Heather Killian	CIBC World Markets
Patrick McEntyre	National Bank Financial
Lafleche Montreuil	Desjardins Securities
David Panko	TD Securities
Andreas Park	University of Toronto
Kari Tavener	Bloom Burton & Co
Joacim Wiklander	Aequitas NEO Exchange
Mark Wilkinson	Citadel Securities Canada

Mining Technical Advisory and Monitoring Committee

Brian Abraham	Dentons Canada LLP
Lynda Bloom	Analytical Solutions Ltd.
Kurt Breede	Lassonde Institute of Mining
James Brown	Osler Hoskin & Harcourt LLP
Chris Collins	British Columbia Securities Commission
Christopher Davis	Vale Base Metals
Guy Desharnais	Osisko Gold Royalty Ltd.
Catherine Gignac	Corporate Director
Greg Gosson	Wood PLC
Steve King	M Partners
Darcy Krohman	IIROC
Andre Laferriere	Autorité des marchés financiers
Stefan Lopatka	TSX Venture Exchange
Deborah McCombe	Roscoe Postle Associates Inc.
Joseph Ringwald	ScoZinc Mining Ltd.
Paul Teniere	TSX

Registrant Advisory Committee

Denys Calvin	Nexus Investment Management Inc.
Julie Clarke	Private Capital Markets Association of Canada
Patrick Farmer	Edgepoint Wealth Management
Supriya Kapoor	Aurelius G.R.P (Canada)
John Kruk	Fasken Martineau DuMoulin LLP
Sunny Mann	18 Asset Management Inc.
Robyn Mendelson	Fidelity Investments Canada ULC
Peter Moulson	CIBC Asset Management Inc.
Paul Spagnolo	Sionna Investment Managers Inc.
Rob Wortzman	Edgepoint Wealth Management
Gina Yee	Portfolio Management Association of Canada

ADVISORY COMMITTEES

Securities Advisory Committee

Anita Anand	University of Toronto
Linda Fuerst	Norton Rose Fulbright LLP
Rhonda Goldberg	IGM Financial Inc
Margaret Gunawan	BlackRock Asset Management
Barbara Hendrickson	Bax Securities Law
Jennifer F. Longhurst	Davies Ward Phillips & Vineberg LLP
Julie Mansi	Borden Ladner Gervais LLP
Jeffrey Meade	TD Bank Group
Leila Rafi	McMillan LLP
Ron Schwass	Wildeboer Dellelce LLP

Securities Proceedings Advisory Committee

Daniel Bach	Siskinds LLP
Andrea Burke	Davies Ward Phillips & Vineberg LLP
David Conklin	Goodmans
Andrew Gray	Torys LLP
Lara Jackson	Cassels Brock & Blackwell LLP
Susan Kushneryk	Hansell LLP
Brad Moore	Fasken Martineau DuMoulin LLP
Ryan Morris	Blake, Cassels & Graydon LLP
Bruce O Toole	Crawley MacKewn Brush LLP
Laura Paglia	Borden Ladner Gervais LLP
Shara Roy	Lenczner Slaght LLP
Usman Sheikh	Gowling WLG

Seniors Experts Advisory Committee

Dr. Joe Bornstein
 Dr. Lee Anne Davies
 Arthur Fish
 Harold Geller
 Marta C. Hajek
 Kelley Keehn
 Sidney Peters
 Lindsay Rogan
 Keith Sjogren
 Laura Tamblyn Watts
 Danielle Tetrault
 James (Jim) Turner
 Minal Upadhyaya
 Kimberly Whaley
 Terri Williams

Small and Medium Enterprises Committee

Sherri Altshuler	Aird & Berlis LLP
Tim Babcock	TSX Venture Exchange
Robert Cook	Canadian Securities Exchange
Elaine Ellingham	Ellingham Consulting Ltd.
Michael Hanley	Torkin Manes LLP
Dayle Hogg	Aerie
Peter Irwin	Formerly CIBC World Markets
Andrea Johnson	Dentons LLP
Bradley Tagieff	BDO Canada LLP
Mark Trachuk	Osler, Hoskin & Harcourt LLP
Robert Trager	Vault Mortgage Corporation
Peter Waugh	Mercana Growth Partners

2018-2019 Report Card

Each year, the OSC publishes a Statement of Priorities that sets out the OSC's strategic goals, priorities and specific initiatives for the year.

Our 2018-2019 OSC Goals were:

1

DELIVER STRONG INVESTOR PROTECTION

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

3

DELIVER RESPONSIVE REGULATION

4

PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

This section reports on the OSC's performance against the priorities set out in the 2018-2019 Statement of Priorities.

1

DELIVER STRONG INVESTOR PROTECTION

Priority

**Publish regulatory reforms that address the best interests of the client
(Client Focused Reforms)**

Why it's important

We work to make Ontario an attractive place for investors. When our rules are clear, fair and help to better align the interests of advisors with the interests of their clients, investor outcomes will be improved.

Success measures

- Regulatory reforms proposed to improve the advisor/client relationship published for comment
- Focused consultations on rule proposals completed and comments evaluated
- Implementation project plan for further reforms developed

Actions

Publish proposed amendments to regulatory requirements under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Client Focused Reforms) (including conflicts of interest, know your client, know your product, suitability, relationship disclosure and titles and designations)

Develop plans to advance remaining reforms such as next phase of a titles and designations project and proficiency and provide recommendations to the Commission

Provide a regulatory impact analysis of the proposed regulatory provision

Progress

Completed: Published for comment proposed amendments (Client Focused Reforms) to National Instrument (NI) 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and its related companion policy. Reviewed 135 comment letters received. Working with the CSA, we have proposed a higher standard of conduct for the industry that would be harmonized across the country. The proposed changes would require securities advisers, dealers and registrants to address conflicts of interest in the best interest of the client, put the client's interest first when making a suitability determination, and do more to clarify for clients what they should expect from their registrants.

Delayed: The plan for the titles and designations project is still under development.

Completed: The CSA published a regulatory impact analysis (RIA) of the Client Focused Reforms. The RIA included the anticipated benefits and costs related to the implementation of the proposed Client Focused Reforms.

1

DELIVER STRONG INVESTOR PROTECTION

Priority

Publish regulatory actions needed to address embedded commissions

Why it's important

When investors understand the costs of their investments, they are better positioned to make decisions that support their overall financial goals. A more transparent fee model better balances the interests of investors with those of advisors and mitigates any potential conflicts of interest.

Success measures

- Increased cost transparency, product access and cost competition
- Advisors will highlight their value propositions to help investors evaluate the costs for services

Actions

Publish policy recommendations on embedded commissions to mitigate the investor protection and market efficiency issues identified in Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*

Publish policy provisions to enact the recommendations

Complete analysis of the potential impacts of proposed policy changes relating to the use of embedded commissions in securities products

Progress

Completed: Published CSA Staff Notice 81-330 *Status Report on Consultation on Embedded Commissions and Next Steps*, which included recommendations to implement enhanced conflict of interest mitigation rules and guidance for registrants, prohibit all forms of the deferred sales charge option and their associated upfront commissions, as well as the payment of trailing commissions to dealers who do not provide suitability advice.

Completed: Published for comment proposed amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to implement enhanced conflict of interest mitigation rules and guidance for registrants.

Completed: Published for comment proposed amendments to NI 81-105 *Mutual Fund Sales Practices* to prohibit all forms of the deferred sales charge option and their associated upfront commissions, and the payment of trailing commissions to dealers who do not provide suitability advice. Reviewed all public comments received.

Completed: Published an impact analysis of the proposed policy changes related to embedded commissions.

Priority

Advance retail investor protection, engagement and education through the OSC's Investor Office

Why it's important

Financial markets are evolving and becoming increasingly complex with new investment opportunities and products continually being introduced. It is essential that investors have the information they need to make informed financial decisions. We are committed to improving outcomes for retail investors through policy, research, education and outreach initiatives led by our Investor Office.

Success measures

- A regulatory framework to address issues of financial exploitation and cognitive impairment developed together with regulatory colleagues
- An update is published detailing how we are addressing the recommendations in the independent evaluator's report on OBSI and our progress on developing a regulatory roadmap
- Retail investor research informs OSC work and provides insights for investors and market participants
- Behavioural insights principles integrated into OSC policies and programs

Actions

Implement the OSC Seniors Strategy, including the development of a regulatory framework for addressing financial exploitation and cognitive impairment that includes a safe harbour for firms and their representatives

Strengthen OBSI and publish a plan to enhance compliance with OBSI's recommendations and a response to the OBSI independent evaluator's other recommendations, while providing a robust oversight framework

Progress

In progress: Developing with the CSA and self-regulatory organizations a regulatory framework for addressing financial exploitation and cognitive impairment of older or vulnerable clients. The CSA is also developing staff guidance for registrants regarding engaging older or vulnerable clients.

Delayed: With the CSA, we considered a regulatory framework that would enable the Ombudsman for Banking Services and Investments (OBSI) to make awards that are binding on firms. We will continue to monitor refusals and settlements for less than recommended amounts before further considering whether to move forward with the work necessary for binding decisions.

In progress: Continue to monitor data on investment-related complaints in relation to OBSI recommendations through the Joint Regulators Committee.

1

DELIVER STRONG INVESTOR PROTECTION

Actions

Implement an education and outreach strategy for new Canadians, with a focus on older investors

Publish timely and responsive retail investor and behavioural research

Progress

Completed: Undertook the following actions in support of our outreach strategy:

- Formed a partnership with Elder Abuse Ontario for outreach events, including OSC in the Community events focused on seniors.
- Launched enhanced online resources in six languages (English, French, Chinese simplified and traditional, Hindi and Punjabi) on InvestingIntroduction.ca.
- Published new brochures and other educational materials for newcomers and seniors without internet access.
- Delivered 83 investor outreach events with 6,517 participants. Of these presentations, 37 reached 1,135 newcomers and seniors in the South Asian, Chinese and Filipino communities.

Completed: Published *Taking Caution: Financial Consumers and the Crypto Asset Sector*, a research study on Ontarians' knowledge, attitudes and behaviour relating to crypto assets.

Published *Getting Started: Human-Centered Solutions to Engage Ontario Millennials in Investing*, a study into the barriers faced by millennials regarding investing.

Published OSC Notice 11-783 *Encouraging Retirement Planning through Behavioural Insights*, new evidence and potential tactics for designing products, programs and services that can make retirement planning simpler and less stressful.

Published *National Investor Research Study*, insights into different demographical groups and their attitudes and behaviours related to investing.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Priority

Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework

Why it's important

Our compliance oversight benefits investors and supports the integrity of our capital markets. We actively monitor market participants to ensure they are following the rules as intended, to identify and correct any misunderstandings and prevent misconduct before it causes harm to investors and our markets.

Success measures

- Compliance is improved by identifying significant areas of non-compliance and ensuring that these issues are resolved by registrants within agreed timelines, or by firms before registration is granted
- 2018 RAQ revised, completed and released on time

Actions

Maintain effective oversight of registrants by conducting targeted compliance reviews focused on:

- New registrants and high-risk, problematic (for cause), large/high impact firms identified from the 2018 Risk Assessment Questionnaire (RAQ)
- Sales practices of registrants
- Emerging risk areas including evolving business models and expansion of the exempt market

Update and issue the 2018 RAQ

Progress

Ongoing: Completed compliance reviews on key issues, including referral arrangements, short-term trading, high-risk firms, pre-registration reviews, and sales practices reviews.

Completed: Issued the 2018 RAQ to 1,058 registrants. RAQ data was used to identify trends and select firms for desk reviews and sweeps.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Priority

Increase deterrent impact of OSC enforcement actions and sanctions by actively pursuing timely and consequential enforcement cases involving serious securities laws violations

Why it's important

We will not tolerate fraud, misconduct or non-compliance with Ontario securities law. Dishonest behaviour deprives investors of their right to make informed investment decisions and undermines confidence in our markets. To deter further misconduct, we will take the necessary enforcement actions against individuals or firms that contravene our rules.

Success measures

- Enhanced profile for the OSC Whistleblower program increases the number of credible tips
- Increased visibility of areas targeted for priority enforcement actions
- Enhanced market analytics capability generates more timely, accurate and actionable information for improved compliance and enforcement outcomes
- OSC collection presence is improved

Actions

Investigate and prosecute complex quasi-criminal and criminal matters that harm market integrity or erode confidence in Ontario's capital markets

Progress

Ongoing: Investigating matters involving recidivists and large-scale fraud contrary to the Securities Act.

Completed: Participated with other regulators and law enforcement agencies in the investigation and prosecution of violations of securities law international in scope and with a clear connection to Ontario. Ten referrals were made to policing agencies, one extradition was achieved from a foreign jurisdiction, and 51 months of jail sentences were ordered.

Focus on cases involving repeat offenders, fraudulent activity and other serious breaches of the Securities Act or violations of the Criminal Code

Completed: Eight repeat offenders were referred directly from case assessment to the Joint Serious Offences Team. This included a repeat offender who was sentenced to two years in jail and ordered to pay \$158,000 in restitution.

Other cases that involved serious breaches of the Securities Act included the \$28.5 million settlement with Katanga Mining Limited; the US\$1.8 million disgorgement paid by Cyprus-based eToro (Europe) Ltd.; the \$2.9 million voluntary payment by Questrade Wealth Management Inc.; and robust sanctions and administrative penalties to senior officers of Aston Hill Asset Management Inc.

Actions

Progress

Our actions in these and other cases of serious misconduct resulted in meaningful sanctions being laid to address misleading disclosures, internal control and governance failures, unregistered trading and the distribution of securities without a prospectus or exemptions, as well as the failure to address conflicts of interest, insider tipping and misleading staff.

Improve the efficiency and reduce the timelines of our enforcement efforts through:

- Streamlined investigative and prosecution processes
- Strategic case selection that is focused on core aspects of our regulatory framework — disclosure, governance, conflicts of interest and market integrity
- Greater use of technology, including working with the CSA to develop a new market analytics platform (MAP) for investigations
- By using data analytics tools and the expertise of strategic partners in law enforcement

Completed: Developed and implemented a framework for proactive case assessment of risk trends and targeted issues and implemented greater use of advanced analytics tools. We have used advanced analytics in 18 cases.

Implemented new methods of disruption including warning letters (five issued this year) and in-person visits (19 visits conducted this year) to ensure earliest possible intervention in cases of suspected securities laws violations where warranted.

In progress: With the CSA, started the Market Analytics Platform (MAP) project that will replace the current system to support market abuse cases.

Continue to raise awareness of the OSC Whistleblower Program (OWB) including:

- Promoting better understanding of the anti-retaliation protections for whistleblowers
- Developing a more proactive outreach program to reach potential high-value whistleblowers

Ongoing: Improved awareness of the OWB through enhanced stakeholder engagement. The OWB participated in 38 outreach activities, an increase of 90% over the prior year, and received 117 tips, a 17% increase over the last fiscal year.

Completed: Awarded \$7.5 million to three whistleblowers, demonstrating the value of the information received. Through this program, we were able to uncover misconduct that we otherwise would have been unable to detect.

Improve the process for collection of unpaid monetary sanctions and continue a pilot program to collect unpaid monetary sanctions on a contingency basis

Completed: Will continue the collections pilot as a permanent program. During the successful pilot phase, a large number of respondents were referred to a specialized collections law firm and we collected more than \$800,000 in unpaid monetary sanctions.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

OSC Enforcement activity

OSC Enforcement Branch: Intake

Fiscal year	2017-18	2018-19
Number of cases assessed	429	565
Number transferred for investigation	37	42

OSC Enforcement Branch: Investigations

Fiscal year	2017-18	2018-19
Number of completed investigations	49	42
Number transferred for litigation	25	23

OSC Enforcement Branch: Litigation

Fiscal year	2017-18	2018-19
Proceedings commenced before the Commission	21	19
Number of respondents	49	74
Quasi-criminal proceedings	1	4
Number of accused	2	9
Criminal Code proceedings	3	0
Number of accused	3	0
Search warrants executed	99	26

ENFORCEMENT TIMELINES:

Average number of months from intake to commencement of a proceeding	18.9	18.8
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Concluded matters before the Commission

In addition to issuing sanctions following contested hearings or through conventional settlements, this year the Commission approved one no-contest settlement with two registered firms, where they had self-reported that clients paid excess fees. As part of the settlement, the firms undertook to pay compensation totalling approximately \$11 million to the affected clients. They also committed to take corrective action, including implementing enhanced procedures, controls, and monitoring systems designed to prevent a recurrence of the alleged inadequacies.

This settlement represented an efficient resolution where systemic problems had been identified; namely, weak compliance systems, and market participants resolved to improve controls and correct their conduct in a timely manner.

Concluded matters before the Commission

Fiscal year	2017-18	2018-19
Number of proceedings concluded	20	25
Number of respondents	50	49
SANCTIONS INCLUDE:		
Cease trade orders	29	20
Exemptions removed	27	20
Director and Officer bans	19	22
Registration restrictions	22	17
Administrative penalties, disgorgement orders, settlement amounts	\$ 13,677,706	\$ 126,488,622
Costs ordered	\$ 2,027,333	\$ 8,440,720
Amounts ordered or undertaken to be returned to investors (includes no-contest settlements)	\$ 49,396,644	\$ 10,970,518

Collections

The Commission's annual collections rate is calculated based on the amounts ordered during that year and the amounts collected from those orders. The rate may later be adjusted upward if amounts are recovered on an unpaid order in a future year. Collections actions can generally only be commenced after all appeals have been concluded and they often take time to produce results.

The Commission's collections rate with respect to orders in both contested proceedings and settlements is 35% for the fiscal year. This is below last year's rate of 47% due in part to the large outstanding order in the Sino-Forest matter, which is currently under appeal.

Concluded matters before the courts

Fiscal year	2017-18	2018-19
Total number of proceedings	7	7
Total number of accused	8	8
SANCTIONS INCLUDE:		
Jail sentences	21.5 months	51 months
Conditional sentences/House arrest	6 months	0
Fines	\$ 50,000	\$ 100,000
Restitution	\$ 2,059,997	\$ 2,707,636

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Adjudicative activities of the Commission

Proceeding type ¹	2017-18			2018-19		
	Applications commenced ²	Applications closed ³	Oral hearing days scheduled ⁴	Applications commenced ²	Applications closed ³	Oral hearing days scheduled ⁴
Enforcement proceeding⁵ (an application for an order requested in a statement of allegations – s. 127)	34	35	102	39	44	127
Authorization to disclose (an application to authorize disclosure of information – s. 17)	31	33	1	23	19	9
Temporary order (an application for a temporary order – s. 127)	6	2	18	2	5	11
Hearing and review (an application for a review of a Director's or a self-regulatory organization's decision – s. 8 or s. 21.7)	10	7	18	8	10	6
Further decision/revocation or variation of a decision (an application for a further decision or a revocation or variation of a decision – s. 9(6) or s. 144)	4	4	1	0	0	0
Transactional proceeding (an application relating to a take-over bid, issuer bid, amalgamation, statutory arrangement, merger or acquisition, related party transaction or meeting of security holders – s. 104 or s. 127(1))	3	3	9	0	0	0
Other (an application for an order not specified above)	1	1	3	1	1	0
Total	89	85	152	73	79	153

1 Sections cited relate to *Securities Act* (Ontario).

2 An application is commenced when it is filed with the Registrar.

3 An application is closed when a final order or reasons, if any, are issued, or an application is withdrawn.

4 The number of oral hearing days scheduled that proceeded. Excludes written hearings.

5 Includes enforcement proceedings, inter-jurisdictional proceedings and settled enforcement proceedings.

3

DELIVER RESPONSIVE REGULATION

Priority

Work with fintech businesses to support innovation and capital formation through regulatory compliance

Why it's important

Financial innovation offers economic opportunity and choices for investors. We support the creation of a globally competitive, efficient and strong capital markets regulatory system that attracts investments from around the world. The OSC actively assists fintech businesses seeking to offer innovative products, services and applications in Canada.

Success measures

- Greater use of creative regulatory approaches (e.g. limited registration and other exemptive relief) provides an environment for innovators to test their products, services and applications
- Ontario is viewed as a fintech innovation hub with a positive and supportive environment for investment
- CSA Regulatory Sandbox supports development of novel business models and facilitates more timely registration and exemptive relief processes for emerging firms
- Cryptocurrency, initial coin and related offerings, and blockchain issues and regulatory gaps are identified and addressed in a timely manner with minimal impacts on investors or disruptions to capital markets
- Enhanced guidance that defines when initial coin and similar offerings involve securities is published
- Time-to-market of novel fintech businesses is reduced while maintaining appropriate investor safeguards
- Capital formation and innovation supported through OSC LaunchPad

Actions

Support fintech innovation through OSC LaunchPad by:

- Offering direct support to innovative businesses in navigating the regulatory requirements and potentially providing flexibility in how they meet their obligations including participating in the CSA regulatory sandbox
- Working with FSRA to develop eligibility criteria and success measures for the Ministry of Finance (MOF) SuperSandbox
- Fostering the use of cooperation agreements with other regulators to support Ontario firms seeking to expand into other jurisdictions

Progress

Ongoing: OSC LaunchPad supported 74 fintech businesses this year and provided guidance to businesses that include online lending and crowdfunding platforms, private investment funds, RegTech providers and crypto asset businesses. We helped firms get registered, addressed key risks of novel businesses, and provided exemptive relief.

Completed: Along with 34 other financial regulators and organizations, we formed the Global Financial Innovation Network (GFIN), which aims to drive more collaboration among regulators and easier cross-border navigation for innovative firms.

In progress: As a part of the Ministry of Finance's Capital Markets Plan, the OSC is in the process of creating the Office of Economic Growth and Innovation, which will serve as a voice for financial innovation within the OSC. We will participate in GFIN's cross-border testing pilot for firms to test new technologies in multiple jurisdictions, gaining real-time insight into how a product or service might operate in the market.

3

DELIVER RESPONSIVE REGULATION

Actions

Integrate learnings from working with innovative businesses and identify opportunities to modernize regulation for the benefit of similar businesses by:

- Engaging the fintech community to better understand their needs and help them understand the regulatory requirements that apply to their businesses
- Liaising with other international regulators that have similar innovation hub initiatives to better understand international trends and developments
- Working with the OSC Fintech Advisory Committee to further understand the unique challenges raised with novel fintech businesses

Continue to identify issues and potential regulatory gaps arising from crypto-currency, initial coin and similar offerings, and blockchain developments by:

- Conducting ongoing monitoring and reviews of reporting issuers with crypto-currency and blockchain businesses including those seeking to become reporting issuers through reverse take-overs or initial public offerings and existing reporting issuers that are involved in change of businesses transactions
- Liaising with listing venues and the CSA to identify and discuss industry developments and consider the impact on disclosures
- Enhancing the guidance as to when initial coin and similar offerings involve securities

Progress

Completed: In collaboration with the CSA and IIROC, we developed a flexible framework for the regulation of crypto asset trading platforms. Published for comment the Joint CSA/IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms*.

We hosted or participated in more than 42 events through our OSC LaunchPad, engaging directly with individuals operating in the fintech space. We attended close to 130 meetings with external stakeholders, including Canadian and global regulators, fintech businesses and services providers.

We actively participated in international associations, networks and working groups that discuss issues related to fintech business oversight, crypto asset developments, and emerging trends and risks.

Ongoing: We are a member of the International Organization of Securities Commissions (IOSCO), including chair of the IOSCO Committee 2 on Secondary Markets; a member of the ICO Consultation Network, a forum to discuss experiences and concerns regarding initial coin offerings; and the Fintech Network, a forum for collaborative work on regulatory issues, trends and emerging risks.

We consulted regularly on novel policy issues with our Fintech Advisory Committee (FAC) and welcomed new members in February 2019.

Ongoing: We continued to monitor reporting issuers in this industry, including reviewing the disclosure of five issuers in this sector.

Completed: Published CSA Staff Notice 46-308 *Securities Law Implications for Offerings of Tokens* to help token issuers determine when an offering of tokens is considered a distribution of securities.

Completed: Published Joint CSA/IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms* which sets out a proposed regulatory framework for crypto asset trading platforms.

Priority

Implement additional investor protection measures for syndicated mortgage investments

Why it's important

Changes to the oversight of syndicated mortgage product offerings are intended to enhance and harmonize investor protections.

Success measures

- Transition plan for the updated oversight of syndicated mortgage offerings developed

Actions

On March 8, 2018, amendments to NI 45-106 *Prospectus Exemptions* and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, that substantially harmonize the regulatory approach to syndicated mortgage offerings across CSA jurisdictions and introduce additional investor protections, were published for comment. OSC and CSA staff will consider comments received and work toward finalizing the amendments by March 2019

Develop a plan for the registration and oversight by the OSC of certain market participants active in offering syndicated mortgages

Progress

Delayed and Ongoing: Published for additional comment revised proposed amendments to NI 45-106 *Prospectus Exemptions* and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* related to syndicated mortgages.

We are working with the CSA to finalize the amendments by the end of 2019, subject to Ministerial approval.

Completed: Through a joint working group, we assisted the Ministry of Finance and the Financial Services Commission of Ontario (FSCO) in developing investor protection-focused amendments to the current mortgage broker regulations for syndicated mortgages.

Ongoing: We are working to promote timely information sharing with FSRA and the Ministry of Finance to ensure the efficient transfer of oversight from FSRA to OSC of market participants distributing non-qualified syndicated mortgages. The transfer is expected to be completed by December 31, 2019.

3

DELIVER RESPONSIVE REGULATION

Priority

Address opportunities to reduce regulatory burden while maintaining appropriate investor protections

Why it's important

The intent of securities regulation is to protect investors and support the competitiveness of our capital markets. Excessive regulation can undermine this intent, be costly and burdensome. Our burden reduction activities are focused on identifying outdated, inefficient and duplicative rules to simplify the process for investors and public companies and eliminate any unnecessary costs or requirements.

Success measures

- Streamlined regulatory requirements and processes make it easier to participate in Ontario's capital markets
- Investor protection is maintained or strengthened

Actions

Draft amendments to the rules to implement identified opportunities to reduce investment fund disclosure requirements

Progress

Completed: Published CSA Staff Notice 81-329 *Reducing Regulatory Burden for Investment Fund Issuers* which announced the CSA's intention to publish proposed rule amendments for comment in spring 2019 to remove redundant information requirements in select disclosure documents and use web-based technology to provide certain information about investment funds. These amendments also aimed to codify exemptive relief that is routinely granted and minimize the filing of documents that may contain duplicative information, such as Personal Information Forms.

Initiate key policy initiatives to streamline reporting issuer requirements, including potential draft rule amendments (where applicable), related to:

- The criteria to file a business acquisition report
- Primary business requirements
- At-the-market offerings
- Identified opportunities to reduce continuous disclosure requirements
- Consideration of a potential alternative prospectus model

Completed: Together with our CSA partners, we initiated policy projects to streamline requirements for public companies, including draft rule amendments (where applicable), related to:

- The criteria to file a business acquisition report
- Primary business requirements
- At-the-market offerings
- Continuous disclosure requirements
- An alternative offering system
- Enhanced electronic delivery

Actions

Progress

With the CSA, we completed 20 consultations with public companies and their advisors, investors and other stakeholders regarding these initiatives to better understand concerns with the current regulatory requirements, potential areas of improvement and alternatives that should be considered.

In progress: Published for comment amendments to NI 44-102 *Shelf Distributions* in May 2019 to facilitate at-the-market offerings. The CSA is developing proposals regarding the other five initiatives.

Identify opportunities to use technology and data to reduce regulatory burden (e.g. electronic delivery of documents)

Completed: With the CSA, completed a review of the challenges faced by issuers and market intermediaries relating to the current rules governing shareholder communications and the approaches to shareholder communication in foreign jurisdictions.

In progress: The CSA is developing regulatory improvements to promote electronic access and delivery of documents. The National Systems Renewal Program (NSRP) is under development to replace aging, separate systems with a single user access web-based system. The first phase, with an expected launch in early 2021, will replace issuer-related systems and filings: SEDAR, the National Cease Trade Order (CTO) Database, the Disciplined List (DL), and certain filings made in paper format or in local electronic filing systems. Later phases will replace SEDI, NRD, the National Registration Search (NRS), and the remaining filings in local systems.

3

DELIVER RESPONSIVE REGULATION

Priority

Review the effectiveness of the disclosure requirements regarding women on boards and in executive officer positions (WOB) to determine if there is a need for further action

Why it's important

Diverse boards are better equipped to understand business risks and opportunities. With good corporate governance, investors receive the information they need to make investment and voting decisions.

Success measures

- An update on the key findings of the review of next steps regarding the WOB initiative is published

Actions

The OSC and its CSA partners are assessing the effectiveness of the disclosure requirements and, are considering whether:

- Changes to the disclosure requirements are warranted and, if so, the nature of those changes
- Strengthening the existing "comply or explain" disclosure model with guidelines regarding corporate governance practices is warranted

Progress

Completed: With the CSA, published Multilateral Staff Notice 58-310 *Report on Fourth Staff Review of Disclosure regarding Women on Boards and in Executive Officer Positions*, the fourth review of disclosure regarding women on boards and in executive officer positions. The report showed that the total percentage of board seats held by women increased to 15 per cent in 2018 from 11 per cent in 2015. In addition, the underlying data was published along with the data for additional issuers that were not included in past review samples for the balance of 2015, 2016 and 2017.

In progress: To help assess the effectiveness of the disclosure requirements, the CSA engaged in stakeholder consultations, revised and updated research to support evidence-based policy making and considered the key trends arising from the four annual disclosure reviews. We are working to develop a harmonized approach with our CSA partners.

Priority

Actively monitor and assess impacts of recently implemented regulatory initiatives

Why it's important

This project contributes to evidence-based rule making by providing data and analysis for the OSC and CSA. The research findings will provide empirical evidence of the post-implementation impacts of the Client Relationship Model 2 (CRM2) and Point of Sale (POS) regulatory requirements and whether the planned policy outcomes of these requirements are being achieved.

Success measures

- Analysis of the CRM2 and POS implementation identifies the impacts on investors and investment industry and confirms whether the policy projects achieved their stated goals. Applicable OSC/CSA policy is informed by the early results of the CRM2 impact analysis project
- Regulatory impact analyses completed for all Statement of Priorities initiatives and other initiatives with significant stakeholder impact

Actions

Continued participation in the CSA project measuring the post implementation impact of the CRM2 and POS initiatives

Progress

In progress: Research is continuing, including:

- Completion of two waves of investor surveys
- The advisor-use of Fund Facts and fund profile documents during the sale process
- An analysis of informational content differences in Fund Facts and fund profile documents
- Data collection to support the research on mutual fund fees and product offerings

4 PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

Priority

Enhance OSC systemic risk oversight

Why it's important

Identifying emerging risks in a timely manner leads to a better understanding of the key components of systemic risk and how they interact.

Success measures

- OTC derivative framework in place and oversight reviews completed
- Exemption requests for segregation and portability rules handled expeditiously and preliminary monitoring completed on the effects of mandatory clearing and segregation and portability rules on the market
- Proposed registration and business conduct rules completed on time, requiring responsible market conduct in the OTC derivatives markets
- Improved awareness of potential systemic vulnerabilities that can impact or be impacted by Ontario's capital markets
- New risk controls are identified and implemented as result of internal OSC analysis and/or inter-agency collaboration
- Provided update on proposal for regulation of financial benchmarks
- Market disruption protocol finalized and published

Actions

Continue to implement a framework for analyzing OTC derivatives data for systemic risk oversight and market conduct purposes including the development of analytical tools and the creation of snapshot descriptions of the Canadian OTC derivatives market

Progress

In progress: Continued to enhance the OSC derivatives data platform as part of a multi-year initiative. Once completed, the framework will improve our ability to access and analyze up-to-date over-the-counter (OTC) derivative and reference data from all sources and all file types in a fully integrated manner.

Enhance OTC derivatives regime by:

- Implementing rules for the segregation and portability of cleared OTC derivatives

Completed: Implemented the rules for the segregation and portability of OTC derivatives which apply to agencies and service providers that clear derivatives for customers in Ontario.

Established a system to monitor the customer clearing market in Ontario including regular analysis of customer collateral held at clearing agencies and clearing service providers.

Actions

- Hosting a Business Conduct Rule roundtable
- Republishing the Derivatives Business Conduct Rule for comment
- Publishing Derivatives Dealer Registration rule
- Publishing Margin for Uncleared Derivatives rule
- Proposing amendments to trade reporting rule with respect to internationally adopted data standards
- Conducting liquidity analyses on OTC derivative transactions to confirm public dissemination of trade details is appropriate and will not harm markets and market participants

Progress

Completed: Hosted a public roundtable for 200 attendees to discuss the business conduct and registration national instruments and received feedback on how to implement the rule and minimize regulatory burden while ensuring our policy objectives are achieved.

Completed: Published NI 93-101 *Derivatives: Business Conduct* and its proposed companion policy for public comment.

Completed: Published for comment NI 93-102 *Derivatives: Registration*.

Ongoing: Continued to monitor systemic risk, evaluate the activity of local OTC derivatives market participants and consider the appropriateness of implementing a CSA-wide margin rule.

Ongoing: Proposed amendments to the trade reporting rule are dependent on adopting globally harmonized OTC derivatives data elements. We are part of an international committee which harmonized reporting requirements of the OSC and other market regulators into standardized fields.

Delayed: Work to adopt globally harmonized OTC derivatives data is on hold while we focus our efforts on burden reduction. Once the CFTC releases its proposed rule changes, we will work on modifying our rule to ensure we are harmonized where possible.

Propose amendments to clearing rules with respect to clearable products

In progress: The CSA is expected to publish proposed amendments to the clearing rule in June 2019.

Conduct reviews of compliance with OTC Derivatives rules

Completed: Completed two trade reporting compliance reviews of large OTC derivatives dealers.

In progress: Currently conducting reviews of two US derivatives dealers for trade reporting compliance as well as compliance with NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions*.

Publish a Staff Notice on the Derivatives Trade Reporting Compliance reviews regarding findings and areas for improvement

In progress: Completed compliance reviews on derivatives trade reporting and finalized a Staff Notice which is expected to be published by summer 2019. Once published, we will monitor reporting to determine if the notice contributes to improve the quality of reporting of OTC derivatives trades.

4 PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

Actions

Progress

Develop OSC/CSA regulatory regime for financial benchmarks and publish for comment a proposed rule to establish a Canadian regulatory regime for financial benchmarks

Completed: Published NI 25-102 *Designated Benchmarks and Benchmark Administrators* to seek comment on a proposed rule to implement a comprehensive regime for the designation and regulation of benchmarks and those that administer them.

Continue to develop the OSC's capabilities to monitor liquidity conditions in the corporate debt market

Ongoing: We continue to enhance our internal capabilities to monitor and better understand liquidity conditions in Canada's corporate bond market using more granular data in our analysis.

Identify, assess, monitor and address (as required) potential financial stability risks in Ontario's capital markets

Ongoing: We continue to develop our internal framework and approach to monitoring systemic risk. Participated in the International Monetary Fund's Financial Sector Assessment Program for Canada, which will support a better understanding of how our approach to monitoring systemic risk compares to global best practices.

Respond to IOSCO's recommendations on liquidity management and leverage measurements and reporting including an assessment of the industry's readiness

Completed: Together with the Autorité des marchés financiers, we approached the Investment Funds Institute of Canada and the Portfolio Management Association of Canada to assess their members' readiness and adoption of IOSCO's recommendations on liquidity risk management.

We completed targeted reviews on 15 fixed income mutual funds to assess how derivatives are used for hedging and non-hedging purposes.

Priority

Promote cyber security resilience through greater collaboration with market participants and other regulators on risk preparedness and responsiveness

Why it's important

Cyber risk represents a significant and growing threat to the integrity and efficiency of our capital markets and erodes investor confidence. We will continue to encourage market participants to maintain and improve their cyber defenses to effectively respond to cyber attacks.

Success measures

- Evidence of improved cyber security awareness and growing cross-industry collaboration on cyber risk

Actions

Progress

Promote cyber resilience through greater collaboration with market participants and regulators on risk preparedness and responsiveness

Completed: With the CSA, we finalized a more formal process and protocol to manage a market disruption, including those caused by a large-scale cybersecurity incident.

Improve coordination in case of cyber attack or disruption by finalizing a market protocol

Completed: Published CSA Notice 11-338 *Market Disruption Coordination Plan*, which informed the public of the CSA's plans to deal with a disruption in the Canadian capital markets and reiterated the obligations of market participants with respect to market disruption incidents.

Ongoing: Working with the CSA, we are developing our incident response plan for cyber attacks or security breaches of the CSA National Systems and routinely test these systems.

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

Priority

Develop and implement a strategic OSC workforce plan

Why it's important

We recognize that our people are the foundation for our long-term success. We will develop our long-term capabilities by investing in the recruitment of talented, expert staff across a range of disciplines, and the ongoing skills development of staff through targeted formal training and experience-based learning.

Success measures

- Work structures reflect the evolving approach to policy and file work that draws upon multiple skills and expertise
- Lower turnover of staff with sought-after skill sets
- Demonstrated examples of information sharing and/or cross-branch collaboration result in reduced training costs and enhanced productivity in support of OSC goals

Actions

Sustaining a workplace culture where employees have a sense of purpose and pride in their work, are productive, and enjoy being part of the OSC community

Progress

Completed: Introduced a Career Week initiative focused on building employee knowledge and professional skills in response to ideas generated at an employee hackathon held in 2018.

Ongoing: We continued to invest in programs and initiatives to enhance employee well-being.

Increasing efforts to identify, monitor, and manage talent risks to mitigate impact on operations

Completed: Successfully deployed alternative attraction and retention strategies for critical and hard-to-hire roles, reducing vacancies and ensuring experienced staff are retained in these positions.

Through the annual succession and talent assessment process, we identified talent risks in senior professional and leadership positions to inform our development planning and other strategies to mitigate retention risks.

Actions

Expanding the range of staffing approaches and employment relationships to increase its ability to attract, retain and leverage staff with specialized skills and experience

Progress

Completed: Initiated three strategic workforce planning pilots focused on different workforce challenges. We launched multiple educational co-op program partnerships aimed at developing a talent pipeline for hard-to-fill critical positions. We also developed a multi-year resource strategy focused on how to attract and retain individuals with rare and critical skills in a competitive talent market.

Continuing to strengthen and build on succession planning and talent mapping practices to ensure a robust talent pipeline for critical roles across the organization

Completed: Completed the annual succession planning and talent assessment process.

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

Priority

Enhance OSC business capabilities

Why it's important

We are committed to using our resources prudently. To meet the challenges of an evolving securities landscape and to effectively deliver on our mandate, we continually adapt our organizational tools, systems and workforce.

Success measures

- OSC data governance framework implemented
- Consistent cross-Commission compliance with data policies, standards and procedures
- Business needs supported by improved ability to effectively identify, collect, manage and use data
- Demonstrated examples of greater reliance on data to support priority setting and more evidence-based, policy/operational decision-making

Actions

Develop and implement a comprehensive data strategy that will provide the foundation for increased reliance on enterprise-wide data management and analytics to support risk and evidence-based decision making by:

- Developing clearly defined, approved and understood data strategies, policies, standards, procedures and metrics
- Improving staff efficiency and ability to generate quality work through - more accessible, cleaner, better organized data; enhanced data sharing; reduced time to access appropriate data; earlier identification of emerging risks/trends
- Working across the OSC to develop a community of practice focused on data analytics

Enhance current e-filings portal to address inefficiencies in the way e-filings are captured and integrated into the financial information system

Progress

Completed: Improved access to data through enhancements to our Reporting Issuer database. Also modified various user interfaces to improve access to various historical data sources.

Completed a data governance and strategy review to assess the current and planned status of our Data Management Program (DMP).

Ongoing: Significant work is underway on the multi-year DMP and several areas of the program have been completed, implemented or initiated.

Delayed: Certain planned initiatives in the DMP were reprioritized to give priority to work related to local systems enhancements connected to the NSRP initiative.

Ongoing: This work was reprioritized to provide resources for work on the DMP.

Priority

Work with CMRA partners on the transition of the OSC to the proposed CMRA

Why it's important

The CMRA is intended to give Canadians a straightforward and uniform approach to capital markets regulation. We view the proposed CMRA as an opportunity to enhance investor protection, foster efficient rulemaking and promote globally competitive markets in Canada.

Success measures

- The OSC is ready and able to transition to the proposed CMRA

Actions

Continue to work with participating jurisdictions and the proposed CMRA to develop a harmonized regulatory approach and seamless transition

Maintain an engaged and effective regulatory presence including a cooperative interface with the CSA

Progress

Ongoing: We continued to participate in the operational work to prepare for CMRA implementation.

Ongoing: We continued to engage cooperatively with our CSA colleagues on regulatory policy and operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A CONTENTS

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MD&A

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the OSC's financial performance for the fiscal year ended March 31, 2019. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out the OSC's plans and budget for the year ahead.

This MD&A should be read in conjunction with the OSC's 2019 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance and ability to meet its objectives.

Important information about this MD&A

- The information in this MD&A is prepared as of June 4, 2019.
 - The terms “we”, “us”, “our” and “OSC” refer to the Ontario Securities Commission.
 - This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on the OSC's current views of future events and financial performance. Key risks and uncertainties are discussed in the Risks and risk management section of this MD&A. However, some risks and uncertainties are beyond the control of the OSC and are difficult to predict. Actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
 - The words “believe”, “plan”, “intend”, “estimate”, “expect”, “anticipate” and similar expressions, as well as future conditional verbs, such as “will”, “should”, “would” and “could” often identify forward-looking statements.
 - The words “plan” and “budget” are synonymous in this MD&A and are used interchangeably. Both describe the planned budget revenue and expenses for the related fiscal year.
 - Unless otherwise specified, references to a year refer to the OSC's fiscal year ended March 31.
 - Notes to the financial statements refer to the OSC's 2019 Notes to the Financial Statements.
 - All financial information related to 2018 and 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, Note 2 *Basis of presentation*, Note 3 *Significant accounting policies* and Note 21 *Accounting pronouncements*.
 - Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
 - Due to rounding, some variances may not reconcile and analysis of components may not sum to the analysis for the grouped components.
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MANAGEMENT'S DISCUSSION AND ANALYSIS

About the OSC

A summary of our role, mandate and goals

The Ontario Securities Commission is responsible for regulating the capital markets of Ontario. We are an independent self-funded Crown corporation of the Province of Ontario. Our powers are given to us under the *Securities Act (Ontario)*, the *Commodity Futures Act (Ontario)* and certain provisions of the *Business Corporations Act*. We operate independently from the government and are funded by fees charged to market participants. We are accountable to the Ontario Legislature through the Minister of Finance.

We use our rule making and enforcement powers to help safeguard investors, deter misconduct and regulate market participants in Ontario. The OSC oversees the operation of marketplaces, self-regulatory organizations (SROs), clearing agencies, and investor protection funds in Ontario. We work to regulate market participants including: firms and individuals who sell securities and derivatives, firms who provide investment advice in Ontario and public companies.

The OSC operates under the direction of the Commission. The Commission has two related but independent roles. It serves as the Board of Directors of the OSC and it performs a regulatory function, which includes making rules and policies, and adjudicating administrative proceedings.

We are an active member of the Canadian Securities Administrators (CSA), the forum for the 13 securities regulators of Canada's provinces and territories. The CSA works to foster a nationally coordinated and modernized securities regulatory framework.

The OSC also contributes to the international securities regulatory agenda by actively participating in the International Organization of Securities Commissions (IOSCO) and other international organizations.

Mandate

To provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and confidence in capital markets, and to contribute to the stability of the financial system and the reduction of systemic risk.

Vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

Goals

1. **Deliver strong investor protection**
2. **Deliver responsive regulation**
3. **Deliver effective compliance, supervision and enforcement**
4. **Promote financial stability through effective oversight**
5. **Be an innovative, accountable and efficient organization**

For more information about our goals, see our Statement of Priorities at www.osc.gov.on.ca.

Cooperative Capital Markets Regulatory System (CCMR)

The OSC plays an important advisory role to the Ontario Ministry of Finance on the project to create the CCMR. The CCMR is an important initiative among the Ontario, British Columbia (BC), Saskatchewan, New Brunswick (NB), Nova Scotia (NS), Prince Edward Island (PEI), Yukon and Federal governments. The Ministers responsible for capital markets regulation in Ontario, BC, Saskatchewan, NB, NS, PEI and the Yukon published for comment a revised consultation draft of the uniform provincial/territorial Capital Markets Act (CMA), draft initial regulations and related materials in August of 2015. The CCMR, once established, would administer the uniform provincial/territorial CMA and a single set of regulations.

The CCMR's initial board of directors was announced on July 22, 2016. The board selected the initial Chief Regulator of the CCMR on November 17, 2016. On March 22, 2018, the Supreme Court of Canada held a hearing to

consider the constitutionality of the proposed initiative and the proposed federal legislation pursuant to two questions asked of it: (1) did the Memorandum of Agreement entered into by the participating jurisdictions regarding the CCMR violate the principle of parliamentary sovereignty, and (2) was the draft Capital Markets Stability Act within the power of the federal Parliament. In a decision issued on November 9, 2018, the Court unanimously upheld the constitutionality of the CCMR, answering both questions in favour of the initiative.

During 2019, the OSC expended approximately \$0.1 million in staff resources, in addition to the \$4.8 million expended from 2014 to 2018, for a total of \$4.9 million toward the creation of, and transition to, the CCMR. These totals do not include time spent by OSC's Executive who participate on the CCMR Transition Committee and are otherwise involved in the CCMR project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

A summary of our financial results and a discussion of our revenue and expenses

As a self-funded Crown corporation, the OSC operates on a cost-recovery basis. The chart below provides a comparison of results over the last three years. At the end of fiscal 2019, the general surplus was \$67.5 million, which increased by \$11.7 million from the prior year. Total revenues were 3.6% higher than the prior year and total expenses were 8.2% higher than the prior year. Revenues increased mainly from participation fees due to registrant revenue growth. Expenses increased primarily in salaries and benefits and professional services. Salaries and benefits increased due to the following: positions hired in high priority areas, higher employee termination expenditures and lower staff vacancies compared to the prior year. Professional services increased as a result of spending on the development of an integrated data-focused case management system, legal and collection services.

The general surplus is projected to decrease as revenues are projected to increase marginally over the next few years while critical investments occur to continue providing data driven, risk-focused, evidence-based regulatory oversight. Capital expenditures are also projected to increase to support these strategic initiatives and provide for facility rehabilitation.

Total assets increased from 2018 to 2019 by \$63.9 million primarily as a result of an increase in Funds held pursuant to designated operations, settlements and orders and Excess of revenue over expenses. Total liabilities also increased by approximately \$52.2 million primarily as a result of an increase in Funds held pursuant to designated operations, settlements and orders to be allocated in accordance with section 3.4(2)(b) of the *Securities Act* (Ontario).

The OSC's operations and revenue are directly affected by market conditions and trends. Our fee revenue fluctuates with market activity.

(Thousands)	2019	2018	2017
Revenue	\$ 129,353	\$ 124,819	\$ 119,927
Expenses	121,651	112,381	110,082
Excess of revenue over expenses (before recoveries)	7,701	12,438	9,845
Recoveries of insurance proceeds net of loss on asset disposals	471	521	—
Recoveries of enforcement costs	2,563	854	160
Recoveries of investor education costs	1,130	1,475	1,471
Excess of revenue over expenses	\$ 11,865	\$ 15,288	\$ 11,476
General surplus	\$ 67,516	\$ 55,787	\$ 40,613
Property, plant, equipment and intangibles (purchases)	\$ 5,657	\$ 3,384	\$ 2,743
Total assets	\$ 340,233	\$ 276,319	\$ 254,052
Total liabilities	\$ 252,717	\$ 200,533	\$ 193,440

About our fees

The OSC is funded by fees from market participants. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 Fees and 13-503 (*Commodity Futures Act*) Fees. The commission had planned to implement changes to the fee rule in April 2020, considering the existing surplus, projected level of revenue and expenses, capital spending and the level of cash resources required to fund operations through market downturns. In light of the OSC's commitment towards burden reduction, an analysis of planned changes is underway to properly assess the impact on future revenue projections to ensure the appropriateness of fees. Accordingly, an implementation date of April 2021 is targeted for the new fee rules. Specific measures taken as part of the burden reduction initiative may be introduced prior to the implementation of the new fee rules.

- **Participation fees** are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. Fees are calculated using an increasing tiered structure based on average market capitalization for issuers and revenues for registrants. Specified regulated entities are charged participation fees based on their market share or a fixed rate. The basis for calculating participation fees is on a market participants' most recent fiscal year. The timing of participation fee revenue affects our cash flow. For more information, see the Liquidity and financial position section.
- **Activity fees** are charged when market participants file documents, such as prospectuses and other disclosure documents, registration applications and applications for discretionary relief, and are set to reflect the costs associated with providing the related services. Activity fees are also charged for requests, such as making changes to a registration or searching for records. Activity fees are flat-rate fees based on the estimated direct cost for the OSC to review documents and respond to requests.
- **Late fees** are charged when market participants submit filings after applicable filing deadlines, and/or are late paying the fees related to a filing.

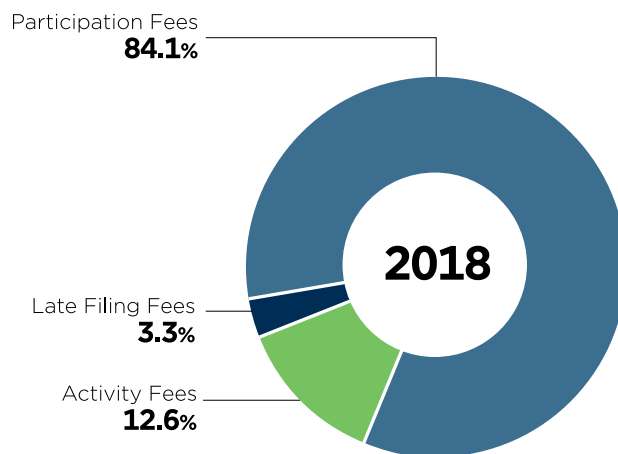
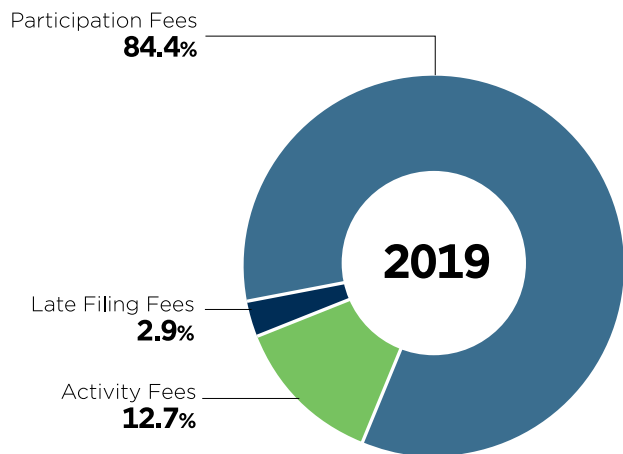
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Total revenues of \$129.4 million were up \$4.5 million (3.6%) from 2018. Total revenues for the year exceeded plan by \$9.4 million (7.8%), mainly due to higher participation and activity fees. Participation fees account for 59.4% of the

variance against plan, activity fees account for 23.3%, and miscellaneous revenue, late filing fees, and interest income together account for the remaining 17.3%.

(Thousands)	Budget	2019	2018	Variance			
				Budget		Prior Year	
				\$	%	\$	%
REVENUE							
Participation Fees	\$ 102,518	\$ 108,083	\$ 104,502	\$ 5,565	5.4%	\$ 3,581	3.4%
Activity Fees	14,133	16,312	15,648	2,179	15.4%	664	4.2%
Late Filing Fees	2,903	3,716	4,080	813	28.0%	(364)	-8.9%
Total Fees	\$ 119,554	\$ 128,111	\$ 124,230	\$ 8,557	7.2%	\$ 3,881	3.1%
Miscellaneous	\$ 70	\$ 156	\$ 77	\$ 86	122.7%	\$ 79	102.6%
Interest Income	366	1,086	512	720	196.7%	574	112.1%
Total Revenues	\$ 119,990	\$ 129,353	\$ 124,819	\$ 9,363	7.8%	\$ 4,534	3.6%



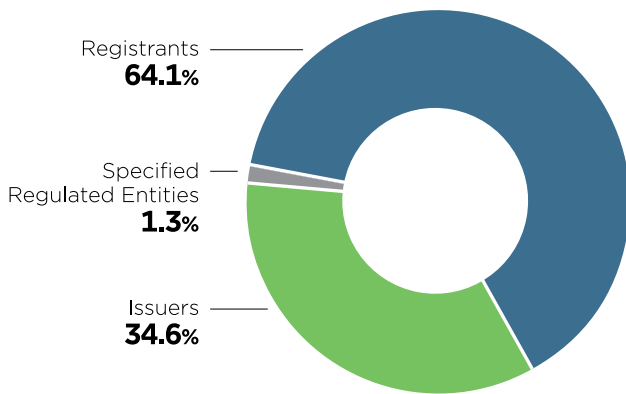
The following is a discussion of the significant changes in Revenue components.

Participation fees



Variance from prior year: Total participation fee revenues were \$3.6 million (3.4%) higher in 2019 compared to 2018 primarily as a result of revenue growth from large registrants, moving these firms into higher fee tiers.

Variance from current year plan: Participation fee revenues were \$5.6 million (5.4%) higher than the 2019 plan. This was primarily due to higher registrant participation fees of \$4.5 million (7.0%) and issuer participation fees of \$1.2 million (3.2%).

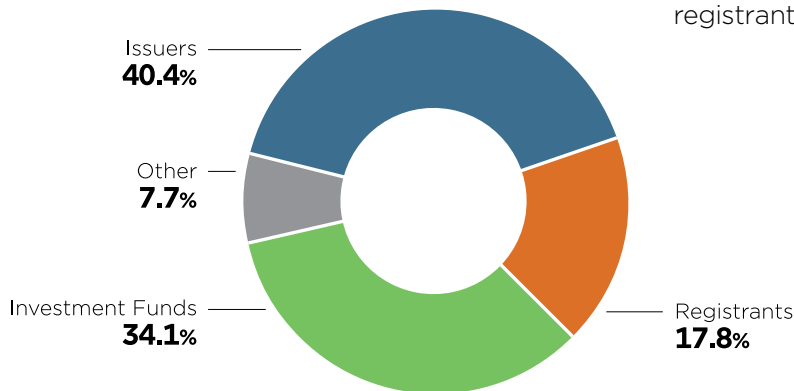


Activity fees



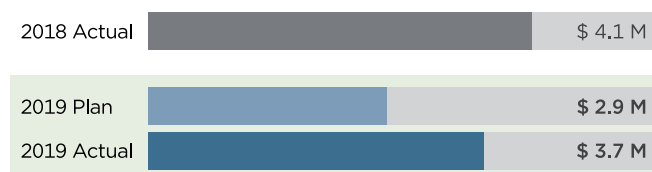
Variance from prior year: Activity fee revenues were \$0.7 million (4.2%) higher this year than the prior year, primarily due to higher prospectus filings from investment funds.

Variance from current year plan: Activity fee revenues were \$2.2 million (15.4%) above plan for the current year. The main reason for the increase is due to a higher volume of filings from issuers, registrants and investment funds.



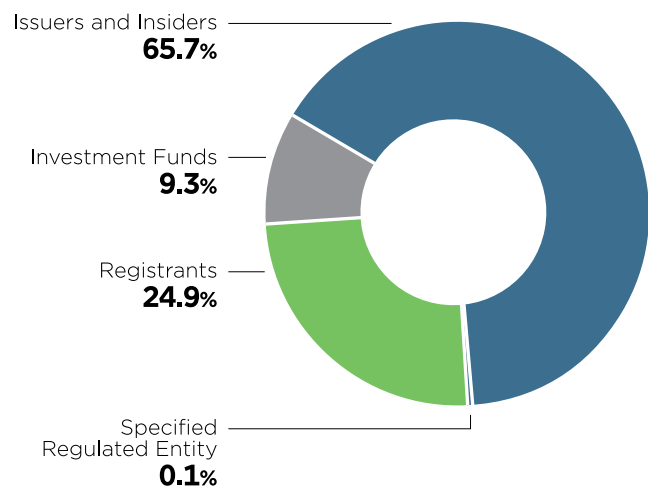
MANAGEMENT'S DISCUSSION AND ANALYSIS

Late fees



Variance from prior year: Late fee revenues were \$0.4 million (8.9%) lower than the prior year primarily as a result of a lower volume of late filings of registrant documents.

Variance from current year plan: Late fee revenues were \$0.8 million (28.0%) higher than plan for the current year. This is primarily due to a higher volume of late filings from issuers.

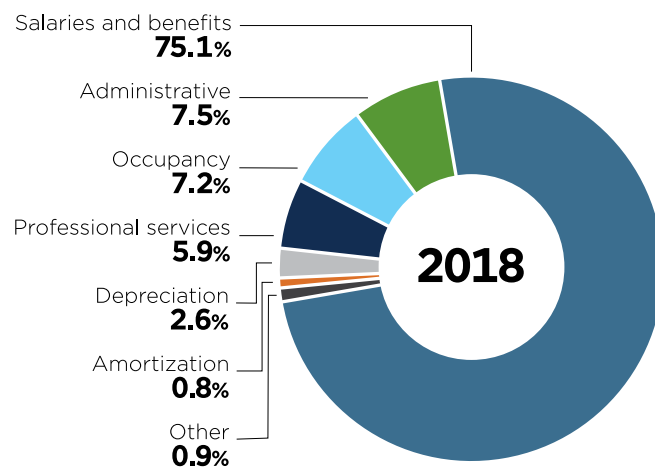
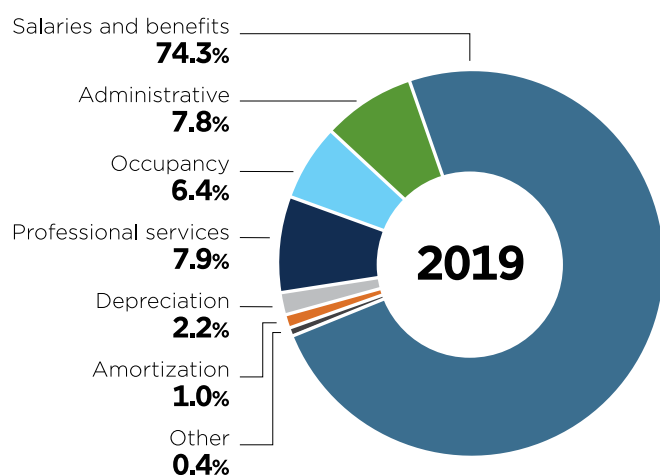


Expenses

In 2019, our total expenses were \$121.7 million, up \$9.3 million (8.2%) from \$112.4 million in 2018 (excluding Recoveries). The year-over-year increase is mainly attributable to higher Salaries and benefits costs as a result of additional positions hired in priority areas and higher Professional Services due to information

technology projects and external legal services required to support investigations and collections. Higher administrative costs, due to information technology maintenance and support on new software, were partially offset by lower Occupancy and Other costs, primarily consisting of travel.




(Thousands)	Budget	2019	2018	Variance			
				Budget		Prior Year	
				\$	%	\$	%
Salaries and benefits	\$ 90,705	\$ 90,394	\$ 84,476	\$ 311	0.3%	\$ (5,918)	-7.0%
Administrative	12,088	9,537	8,448	2,551	21.1%	(1,089)	-12.9%
Occupancy	8,148	7,735	8,083	413	5.1%	348	4.3%
Professional services	12,496	9,576	6,584	2,920	23.4%	(2,992)	-45.4%
Depreciation	3,320	2,703	2,960	617	18.6%	257	8.7%
Amortization	1,162	1,159	947	3	0.3%	(212)	-22.4%
Other	1,249	547	883	702	56.2%	336	38.1%
TOTAL EXPENSES (before recoveries)	\$ 129,168	\$ 121,651	\$ 112,381	\$ 7,517	5.8%	\$ (9,270)	-8.2%
Recoveries of insurance proceeds net of loss on asset disposals	\$ —	\$ (471)	\$ (521)	\$ 471	100.0%	\$ (50)	-9.6%
Recoveries of enforcement costs	(1,000)	(2,563)	(854)	1,563	156.3%	1,709	200.1%
Recoveries of investor education costs	(1,530)	(1,130)	(1,475)	(400)	-26.1%	(345)	-23.4%
TOTAL RECOVERIES	\$ (2,530)	\$ (4,164)	\$ (2,850)	\$ 1,634	64.6%	\$ 1,314	46.1%
TOTAL EXPENSES (net of recoveries)	\$ 126,637	\$ 117,487	\$ 109,531	\$ 9,150	7.2%	\$ (7,956)	-7.3%



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion of the significant changes in Expense components.

Salaries and benefits

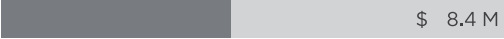


2018 Actual		\$ 84.5 M
2019 Plan		\$ 90.7 M
2019 Actual		\$ 90.4 M

Variance from prior year: Salaries and benefits were \$5.9 million (7.0%) higher this year than the prior year. This was primarily as result of an increase in the average number of positions and salary increases implemented at the beginning of the year. Eight permanent positions were added to support emerging regulatory issues, enhance collection efforts of outstanding monetary sanctions and support technology modernization initiatives. In addition, the OSC incurred higher employee termination expenditures and experienced lower staff vacancies compared to the prior year.

Variance from current year plan: Salaries and benefits were \$0.3 million (0.3%) lower than plan for the current year. This was mainly due to delays in filling vacant positions partially offset by higher employee termination expenditures.

For details on the composition of the Salaries and benefits expenses incurred, see Note 16 of the financial statements.

Administrative




2018 Actual		\$ 8.4 M
2019 Plan		\$ 12.1 M
2019 Actual		\$ 9.5 M

Variance from prior year: Administrative expenses were \$1.1 million (12.9%) higher this year than the prior year. This was a result of an increase in spending on information technology maintenance and support for new cloud based Enforcement analytics software.

Variance from current year plan: Administrative expenses were \$2.6 million (21.1%) lower than plan for the current year. This was the result of: lower commission expenses due to fewer hearings for the year; lower media spending and data subscriptions; lower information technology maintenance; lower employee training and lower supplies.

For details on the composition of Administrative expenses incurred, see Note 17 of the financial statements.

Professional services

2018 Actual		\$ 6.6 M
2019 Plan		\$ 12.5 M
2019 Actual		\$ 9.6 M

Variance from prior year: Professional services expenses were \$3.0 million (45.4%) higher this year than the prior year. This was mainly due to increased spending on information technology projects, external legal services to support enforcement investigations and collections of unpaid monetary sanctions.

Variance from current year plan: Professional services expenses were \$2.9 million (23.4%) lower than plan for the current year. This is due to the timing of external collection services of outstanding monetary sanctions, which accounts for \$0.7 million. Permanent savings from registration checks account for \$0.9 million. The remaining variance is due to the timing of technology initiatives, some of which have shifted to the following year.

CSA shared costs

CSA shared costs incurred by the OSC are included in Professional services expenses. As a member of the CSA, the OSC pays a portion of the costs to operate the CSA's office and joint CSA projects. In 2019, total CSA spending on shared projects was \$2.3 million (\$1.9 million in 2018). The OSC contributed \$0.9 million (\$0.8 million in 2018). CSA shared costs incurred by the OSC are included in Professional services expenses.

CSA project costs are allocated to each CSA member based on the population of its jurisdiction as a percentage of all participating jurisdictions. The OSC's percentage is 38.7% (38.6% in 2018). All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2019, the OSC contributed \$0.5 million (\$0.5 million in 2018) to support the CSA Secretariat.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Depreciation

2018 Actual		\$ 3.0 M
2019 Plan		\$ 3.3 M
2019 Actual		\$ 2.7 M

Variance from prior year: Depreciation expense was \$0.3 million (8.7%) lower than the prior year due to a lower number of additions and a significant disposal late in the prior year.

Variance from current year plan: Depreciation expense was \$0.6 million (18.6%) lower than plan for the current year due to delays in facility rehabilitation.

Recovery of investor education costs

During the year, the OSC recorded \$1.1 million in Recoveries of investor education costs from Funds held pursuant to designated settlements and orders. These recoveries are reviewed by the Audit and Finance Committee and are approved quarterly.

Subparagraph 3.4(2)(b)(ii) of the *Securities Act* (Ontario) states that enforcement monies may be designated “for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets.”

Recovery of enforcement costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is issued, unless management determines that collecting the settlement amount is significantly doubtful in which case, recovery is recognized when payment is received. In 2019, \$2.6 million was recorded (\$0.9 million in 2018).

Liquidity and financial position

A discussion of our liquidity, cash flows, financing activities and changes in our financial position

Liquidity

At March 31, 2019, the OSC held \$74.0 million in Cash (\$58.9 million in 2018) and \$20.0 million in Reserve fund assets (\$20.0 million in 2018), for a combined total of cash and cash equivalent resources available of \$94.0 million (\$78.9 million in 2018).

We hold enough Cash, Reserve fund assets and credit access to ensure liquidity for our forecast cash requirements.

At March 31, 2019, the OSC had current assets of \$79.6 million (\$65.0 million in 2018) and current liabilities of \$20.8 million (\$16.5 million in 2018) for a current ratio of 3.8:1 (3.9:1 in 2018).

The OSC uses multi-year forward-looking operational forecasts to anticipate potential future cash requirements.

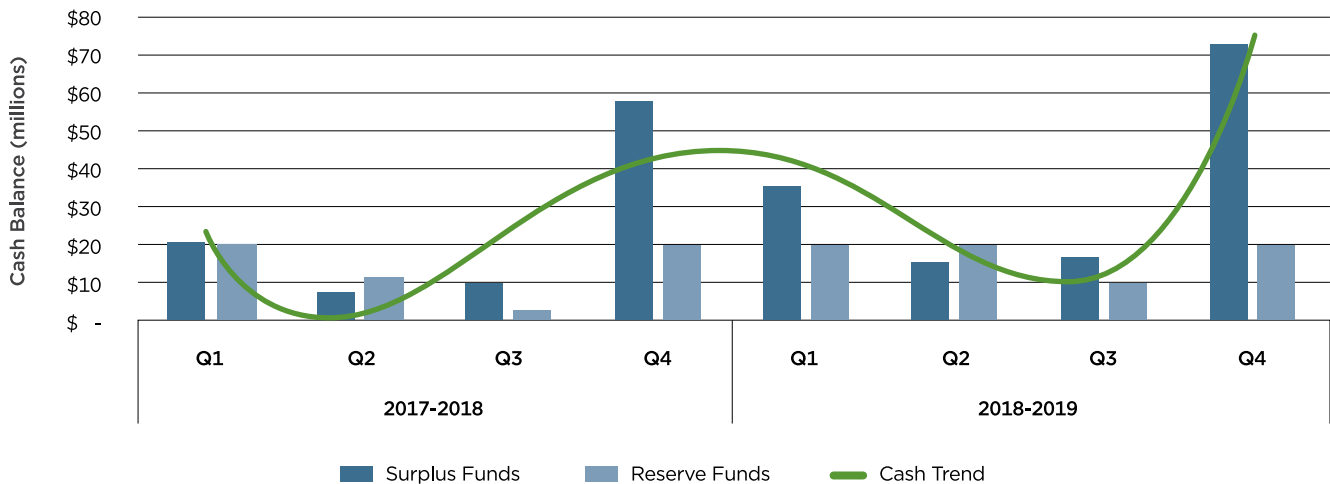
Cash flows

In 2019, Cash flows from operating activities produced an inflow of \$19.3 million (\$18.8 million in 2018). In 2019, the OSC paid \$4.2 million (\$2.2 million in 2018) towards capital expenditures.

Approximately 75% of our revenues are received in the last quarter of each fiscal year, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in decreasing cash balances from the second quarter to the beginning of the fourth quarter of each fiscal year. The OSC currently has two key tools to manage this decrease in cash: a \$20.0 million general operating reserve and a \$52.0 million revolving line of credit, both as approved by the Minister of Finance. The \$20.0 million reserve represents approximately 2 months of operational expenses. The graph below depicts the seasonality of cash flows.

In 2019, we used \$10.0 million in Reserve fund assets and \$0 (\$0 in 2018) of our revolving line of credit to fund operations. We restored the \$20.0 million in Reserve fund assets in early January 2019 when most registrant participation fees were received. In 2019, the OSC did not draw on the line of credit. The agreement for the current line of credit expires on June 30, 2020.

Cash Flow Trend



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial instruments

The OSC uses Cash and Reserve fund assets to manage its operations. Both are recorded at fair value. See Note 3(a) of the financial statements for the OSC's accounting policies related to financial instruments.

The OSC acts as a custodian of Funds held pursuant to designated settlements and orders, and Funds restricted for CSA Systems operations and redevelopment. Both are recorded at fair value. Funds restricted for CSA Systems operations and redevelopment includes investments of \$122.8 million. The OSC is not exposed to significant interest rate, currency or liquidity risks from these investments because they are short-term in nature, redeemable and all balances are denominated in Canadian dollars. For a complete analysis of the risks relating to

these financial instruments, see Note 4 of the financial statements.

Trade and other receivables, Trade and other payables and accrued liabilities are recorded at amortized cost, which approximates fair value given their short-term maturities. For more information on Trade and other receivables, see Note 5 of the financial statements. For more information on Trade and other payables (including accrued liabilities), see Note 11 of the financial statements.

The OSC is not exposed to significant interest rate, currency or liquidity risks.

Financial position

	2019	2018	Variance	
			\$	%
ASSETS				
Current				
Cash	\$ 74,005	\$ 58,917	\$ 15,088	25.6%
Trade and other receivables	3,548	3,653	(105)	-2.9%
Prepayments	2,002	2,380	(378)	-15.9%
Non-Current				
Funds held pursuant to designated settlements and orders	84,380	42,095	42,285	100.5%
Funds restricted for CSA Systems operations and redevelopment	143,054	137,825	5,229	3.8%
Reserve funds	20,000	20,000	—	0.0%
Property, plant & equipment	8,224	10,111	(1,887)	-18.7%
Intangible assets	5,020	1,338	3,682	275.2%
LIABILITIES				
Current				
Trade and other payables	\$ 20,839	\$ 16,508	\$ 4,331	26.2%
Non-Current				
Pension liabilities	4,444	4,105	339	8.3%
Funds held pursuant to designated settlements and orders	84,380	42,095	42,285	100.5%
Funds restricted for CSA Systems operations and redevelopment	143,054	137,825	5,229	3.8%

The following is a discussion of the significant changes in our Statement of Financial Position.

Assets

Cash



The OSC's Cash position increased \$15.1 million (25.6%) from 2018 as a result of an operational surplus in 2019 adjusted by investments in property plant and equipment and intangible assets and various non-cash items. In 2019, Excess of revenue over expenses was \$11.7 million (\$15.2 million in 2018).

Funds held pursuant to designated settlements and orders



The Commission may impose monetary sanctions for breaches of Ontario securities law. The sanctions reflect what the Commission believes is appropriate for the circumstances, regardless of a respondent's ability to pay. This practice is intended to deter others from contravening the *Securities Act* (Ontario).

The OSC may designate funds under settlement agreements and orders from enforcement proceedings to be allocated in accordance with section 3.4(2)(b) of the *Securities Act* (Ontario) to or for the benefit of third parties or for use by the Commission for education and knowledge enhancement. This includes allocating money to harmed investors in appropriate cases, whistleblowers or investor education.

As depicted in the table below, in 2019, \$137.4 million in orders was assessed (\$60.4 million in 2018). Included in the \$137.4 million in orders assessed by the OSC is one order for which the respondents were required to make payment directly to harmed investors, totaling \$11.0 million (\$48.4 million in 2018). While this amount is considered for our enforcement sanctions statistics, it does not form part of the Funds held pursuant to designated settlements and orders balance as the amounts owing are paid from respondents to investors directly and not by the OSC. The OSC distributed \$1.1 million (\$1.1 million in 2018) directly to harmed investors.

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to an administrative proceeding where these amounts total \$1 million or more. The maximum amount of the award has been set at \$1.5 million where monetary sanctions and/or voluntary payments are not collected and \$5 million where these amounts have been collected. Whistleblowers will be paid out of Funds held pursuant to designated settlements and orders. In 2019, the OSC paid \$7.5 million to whistleblowers (\$0 in 2018).

As authorized by its Board, the OSC recovered \$1.1 million (\$1.8 million in 2018) towards the recovery of investor education costs.

In 2014, the Board authorized a payment of \$2.0 million to the Canadian Foundation for the Advancement of Investor Rights (FAIR Canada) as an endowment. In 2018, the OSC concluded an agreement with FAIR Canada that allows FAIR to draw from the OSC's endowment contribution to cover operating expenses up to \$0.5 million per year. The funds continue to be endowed, except for any funds withdrawn in accordance with the 2016 agreement.

(Thousands)	2019	2018
Total monetary sanctions assessed during the year	\$ 137,437	\$ 60,449
Total amount paid or payable to investors	12,128	49,466
Total amount paid to whistleblowers	7,499	—
Total amount recovered by the OSC for investor education	1,146	1,799

MANAGEMENT'S DISCUSSION AND ANALYSIS

At March 31, 2019, the accumulated balance of Funds held pursuant to designated settlements and orders was \$84.4 million (\$42.1 million in 2018). Of this amount, \$82.0 million was held in cash (\$40.9 million in 2018) and \$2.4 million was deemed as being receivable (\$1.2 million in 2018). After considering funds set aside for possible allocation to harmed investors, \$21.7 million (\$31.6 million in 2018) of the funds on hand is available for distribution. The decrease in funds on hand for distribution in 2019 is mainly due to an allocation of funds to the Whistle Blower program.

For more information on Funds held pursuant to designated settlements and orders, see Note 6 of the financial statements.

Collecting monetary sanctions

While the OSC actively works to collect outstanding sanction amounts, material differences between sanction assessments and collections have persisted since we began imposing monetary sanctions. Historically, collection rates from market participants have been much higher than from respondents sanctioned on matters related to fraud – where assets are typically non-existent or inaccessible.

We continue to look for ways to improve our collections rates, including reviewing the experiences of other public and private sector organizations to identify methods that can be used by the OSC. We actively pursue collections using internal and external resources. An external collections firm has been retained under a contingency arrangement to provide

debt collection legal services to collect unpaid monetary sanctions.

A list of respondents who are delinquent in paying monetary sanctions to the Commission is available on the OSC website at www.osc.gov.on.ca.

Funds restricted for CSA Systems operations and redevelopment



The core CSA Systems consist of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). The CSA is developing a new marketplace surveillance and analytical system to improve market analytics capacity.

The OSC has been appointed the Designated Principal Administrator – Operations (DPA) to collect, hold, and administer the surplus funds accumulated from system fees charged to market participants that use the CSA Systems. This role is essentially that of a custodian. The funds restricted for CSA Systems operations and redevelopment include surplus funds accumulated from operation of the CSA Systems, which are received, held and managed by the DPA on behalf of the PAs, and IIROC (in the case of NRD system fee surplus funds accumulated to October 13, 2013). The use of these surplus funds is restricted by various agreements between the PAs.

The table below shows the collection rates on sanction amounts for the last two years.

(Thousands)			
2018	Assessed*	Collected	% Collected
Settlements	\$ 6,086	\$ 5,681	93.3%
Contested hearings	5,967	—	0.0%
Total	\$ 12,053	\$ 5,681	47.1%
2019	Assessed*	Collected	% Collected
Settlements	\$ 48,484	\$ 44,194	91.2%
Contested hearings	77,982	—	0.0%
Total	\$ 126,466	\$ 44,194	34.9%

* Does not reflect amounts paid directly by respondents to investors.

CGI Information Systems and Management Consultants Inc. (CGI), as service provider, hosts and maintains the CSA Systems. A CSA Systems Governance Committee (SGC), consisting of members of the four PAs, was established through an agreement signed on April 2, 2013. This agreement also created a governance framework for management and oversight of the CSA Systems, including that of CGI. It outlines how user fees will be collected and deployed, and addresses allocation and payment of liabilities that may arise. User fees are charged to recover systems operations and redevelopment costs, which are used to benefit the CSA National Systems users.

In June 2016, the PAs signed an agreement with CGI to replace the core CSA National Systems with one system to support existing and future requirements for the benefit of market participants. Services in the scope of the agreement include software acquisition, application development, systems integration and application support. Redevelopment began in a multi-year phased approach beginning in fiscal 2018. The PAs have certain rights to terminate the agreement, with and without cause, as set out in the agreement.

For more information on CSA National Systems contractual arrangements and financial results, see Note 7 and Note 18(a) of the financial statements.

For more information on the judgement exercised with respect to the appropriate accounting treatment of these surplus funds, see Note 2(d) of the financial statements.

Reserve fund assets

Since 2001, the OSC has held \$20.0 million in Reserve fund assets, as approved by the then Minister of Finance, to guard against revenue shortfalls or unexpected expenses, or to cover discrepancies between timing of revenue and expenses. Our primary investment consideration is protection of capital and liquidity. The OSC records Interest income generated by the Reserve fund assets with general operations. The Reserve fund assets are segregated as a Reserve operating surplus to reflect their restricted use.

For more information on Reserve fund assets, see Note 8 of the financial statements.

Property, plant & equipment



Property, plant & equipment decreased 18.7% to \$8.2 million (\$10.1 million in 2018). The decrease is the result of higher depreciation on assets compared to purchases during the year. For more information on Property, plant & equipment, see Note 9 of the financial statements. Intangible assets were reclassified to a separate line item on the Statement of Financial Position to provide more relevant and reliable information, recognizing the increasing materiality of intangible assets.

Intangible assets



Intangible assets increased 275.2% to \$5.0 million (\$1.3 million in 2018). The increase is due to spending on the development of an integrated data-focused case management system. For more information on Intangible assets, see Note 10 of the financial statements.

Liabilities

Trade and other payables



Trade and other payables increased 26.2% to \$20.8 million (\$16.5 million in 2018). The increase is primarily due to the timing of vendor payments.

For more information on Trade and other payables, see Note 11 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2020 Strategy

Our plans and budget for fiscal year 2020

Statement of Priorities

Every year, the OSC publishes a Statement of Priorities for the current fiscal year. It sets out the specific areas we will focus on to fulfil our mandate. The public has an opportunity to comment on the draft document before the Statement of Priorities is published and delivered to the Minister of Finance.

The Statement of Priorities is our cornerstone accountability document.

On March 28, 2019, the OSC published its 2019 OSC Draft Statement of Priorities – Request for Comments. The draft Statement of Priorities was open for public comment until May 27, 2019 and is available on the OSC website at www.osc.gov.on.ca. The final Statement of Priorities are published on the OSC website.

2020 Budget approach

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and be supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2020 Statement of Priorities sets out the OSC's key priorities to meet these challenges.

Achieving these priorities is a key driver of the proposed increases to the 2020 OSC Budget over 2019 as this will require focused investments in the following areas:

Promote Confidence in Ontario's Capital Markets

- Continue Developing and Consulting on Client Focused Reforms
- Continue CSA Policy Work on Mutual Funds Embedded Commissions
- Improve the Investor Experience
- Expand Systemic Risk Oversight of Derivatives
- Timely and Impactful Enforcement Actions
- Enhance Economically-Focused Rule-Making
- Support Transition to the Cooperative Capital Markets Regulatory System (CCMR)

Reduce Regulatory Burden

- Engage with Stakeholders on Burden Reduction Opportunities
- Initiate OSC Website Redevelopment

Facilitate Financial Innovation

- Engage with the Fintech/Start-Up Sector
- Establish the Office of Economic Growth and Innovation
- Implement Alternative Funds Regime

Strengthen our Organizational Foundation

- Implement Strategic Workforce Planning (SWP)
- Continue Redevelopment of National Systems Renewal Program (NSRP)
- Implement First Phase of Market Analysis Platform (MAP)
- Modernize OSC Technology Platform
- Build a Data Driven, Evidence Based, and Risk Focused Organization
- Ensure Competitiveness and Clear Service Standards

As a result, the budget reflects an increase in expenses of 1.3% from the 2019 budget and 9.3% from 2019 spending. The key reasons for the increase from 2019 spending are:

- Address workforce stabilization through a merit increase and the approval of 5 new permanent positions to support high priority Enforcement and Information Technology initiatives;
- Professional services to support technology modernization initiatives;
- A conservative estimate of recoveries from enforcement action aligned with prior years;
- The implementation of IFRS 16 impact on financing costs; and,
- Maintenance costs from onboarded IT applications systems.

The budget also includes internal resources for work toward the implementation of the CCMR.

As the complexity of the capital markets environment increases, multi-year investments in data and information systems are necessary to continue providing data driven, risk-focused, evidence-based regulatory oversight. Accordingly, the capital budget has increased compared to 2018 spending, reflecting costs towards a significant data management program initiative and technology infrastructure replacements. Capital funding is also required to support facilities rehabilitation within the existing OSC premises.

2020 Plan

(Thousands)	2018-2019	2018-2019	2019-2020	2019-20 Budget to 2018-19 Budget		2019-20 Budget to 2018-19 Actual	
	Budget	Actual	Budget	\$ Change	% Change	\$ Change	% Change
				Favourable/(Unfavourable)		Favourable/(Unfavourable)	
Revenues	\$119,990	\$ 129,353	\$ 126,839	\$ 6,849	5.7%	\$ (2,514)	-1.9%
Expenses	126,637	117,487	128,585	(1,948)	-1.5%	(11,098)	-9.4%
Excess (deficiency) revenue over expenses	\$ (6,647)	\$ 11,865	\$ (1,746)	\$ 4,901		\$ (13,611)	
Capital Expenditures	\$ 9,948	\$ 5,657	\$ 7,244	\$ 2,704		\$ (1,587)	

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical accounting estimates

Judgements, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with IFRS requires that management makes judgements, estimates and assumptions that affect reported amounts of assets and liabilities for the date of the financial statements, as well as reported amounts of the revenues and expenses for the periods.

These judgements, estimates and assumptions are considered "critical" if:

- They require assumptions about highly uncertain matters when made, or
- We could reasonably have used different judgements, estimates or assumptions in the period, or
- Related changes are likely to occur between periods that would materially affect our financial condition, changes in our financial condition or results of our operations.

Judgement was used to determine the appropriate accounting treatment for the Recoveries of investor education costs and Funds restricted for CSA Systems operations and redevelopment.

Sources of estimation uncertainty primarily consisted of the supplemental pension plan defined benefit obligation pension liabilities, Funds held pursuant to designated settlements and orders, and Recoveries of enforcement costs.

For more information on judgements and sources of estimation uncertainty that impact the OSC, see Note 2(d) of the financial statements.

Accounting Pronouncements

Refer to Note 21 of the audited financial statements for new and revised in issue, but not yet effective.

Risks and risk management

Risks and uncertainties facing us, and how we manage these risks

Risk can relate to threats to the OSC's strategy or operations, or failure to take advantage of opportunities. The OSC seeks to fully address or mitigate the strategic and business risks that are most likely to impair achievement of our mandate.

Effective April 1, 2019, the Board of Directors transferred broader risk management oversight activities within current committees' mandates to a newly created Risk Committee to provide enhanced focus.

Strategic risks

The OSC applies International Risk Management Standard ISO 31000 to its enterprise risk management. We do this through a Risk Management Framework, which we adopted in November 2012. The goal of the framework is to embed risk management at key strategic decision points, within all elements of our operations and through all levels of staff. The framework sets out a process for identifying and assessing risks, and highlighting and reviewing controls.

Enterprise Risk Inventory

Information gathered through the risk management process is captured in the OSC's Enterprise Risk Inventory. It includes a "top-down" and "bottom-up" view of the risks and controls within the OSC. The top-down portion describes the environment in which the OSC works, while the bottom-up portion deals with day-to-day operational risks that affect our ability to do our work.

The OSC's Risk Committee reviews the Enterprise Risk Inventory each quarter to identify significant changes in the OSC's risk profile, including any new or emerging risks. This information is reported to Senior Management, the Audit and Finance Committee, and the Board of Directors.

Business risks

The OSC has established policies and processes to identify, manage and control operational and business risks that may impact our financial position and our ability to carry out regular operations. Management is responsible for ongoing control and reduction of operational risk by ensuring that appropriate procedures, internal controls and processes, other necessary actions and compliance measures are undertaken.

Operational risk can include risk to the OSC's reputation. Reputational risk, as it relates to financial management, is primarily addressed through the OSC's Code of Conduct and governance practices established by its Board of Directors (details available at www.osc.gov.on.ca), as well as other specific risk management programs, policies, procedures and training.

Internal audit

OSC Internal Audit is an assurance and advisory service to the Board of Directors and to management. Internal Audit helps the OSC develop, evaluate and improve risk management practices, risk-based internal controls, good governance and sound business practices.

The internal audit function is governed by a Charter approved by the OSC's Board of Directors and by an annual internal audit plan that is also approved by the Board. The Chief Internal Auditor reports the results of internal audits to the Audit and Finance Committee and provides an annual summary of key internal audit findings to the Board of Directors.

Systems risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs extensive security and vulnerability assessments annually to highlight potential areas of risk. All key findings and recommendations from these assessments are tracked along with a management response and target remediation date. The results of these assessments and the progress made to address these findings and recommendations are reported to the Audit and Finance Committee and are used to improve security of the OSC systems.

The OSC relies on CSA Systems, which are operated by CGI, to collect most of its fee revenue. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 - Type II) that reviews and evaluates the internal controls design and effectiveness of the CSA Systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually. The most recent test was performed in January 2019.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See Note 18 of the financial statements for more information. No material change is expected in the volume of fees collected through these systems.

Business continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. The BCP is continually reviewed and refined, and includes strategies to effectively address various market disruption scenarios.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial risk

The OSC maintains strong internal controls, including management oversight, to provide reasonable assurance of financial reporting reliability and preparation of financial statements for external purposes consistent with IFRS. These controls are tested annually through our internal control over financial reporting (ICFR) program.

For fiscal years ending March 31, 2019 and 2020, we require participants to use their most recent fiscal year as the basis for calculating their participation fees. As a result, actual revenues received may be different than plan, but are not expected to impair our operations.

Legal risk

Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. Settlements from these actions are accounted for when they occur. The outcome and ultimate disposition of any actions cannot currently be determined. However, management does not expect the outcome of any legal actions, individually or in aggregate, to have a material impact on the OSC's financial position.

Internal control over financial reporting (ICFR)

A summary of our ICFR program results

During the year, the OSC's ICFR processes were reviewed and documentation updated where necessary. Operating effectiveness was tested using the framework and criteria established in "Internal Control – Integrated Framework (2013 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2019. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission (the "OSC") as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding

the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We evaluated, or caused to be evaluated under our supervision, the effectiveness of the OSC's internal control over financial reporting at the financial year-end, and the OSC has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year-end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.



Maureen Jensen
Chair and Chief Executive Officer



Mary Campione
Director, Financial Management & Reporting

June 4, 2019



Independent Auditor's Report

To the Ontario Securities Commission

Opinion

I have audited the financial statements of the Ontario Securities Commission (OSC), which comprise the statement of financial position as at March 31, 2019, and the statements of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OSC as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the OSC in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the OSC's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless OSC either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OSC's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 OSC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OSC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the OSC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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Toronto, Ontario
June 4, 2019



Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Statement of Financial Position

(in Canadian dollars)

As at March 31, 2019	Note(s)	2019	2018
ASSETS			
Current			
Cash		\$ 74,005,444	\$ 58,917,413
Trade and other receivables	4, 5	3,547,647	3,652,751
Prepayments		2,001,847	2,380,100
Total current		\$ 79,554,938	\$ 64,950,264
Non-current			
Funds held pursuant to designated settlements and orders	3(e), 6	\$ 84,379,977	\$ 42,095,231
Funds restricted for CSA Systems operations and redevelopment	2, 7, 18	143,053,977	137,825,393
Reserve funds	8	20,000,000	20,000,000
Property, plant & equipment	9	8,224,013	10,110,971
Intangible assets	10	5,019,671	1,337,579
Total non-current		\$ 260,677,638	\$ 211,369,174
Total assets		\$ 340,232,576	\$ 276,319,438
LIABILITIES			
Current			
Trade and other payables	11	\$ 20,838,870	\$ 16,507,584
Total current		\$ 20,838,870	\$ 16,507,584
Non-current			
Pension liabilities	13(b)	\$ 4,443,754	\$ 4,104,618
Funds held pursuant to designated settlements and orders	3(e), 6	84,379,977	42,095,231
Funds restricted for CSA Systems operations and redevelopment	2, 7, 18	143,053,977	137,825,393
Total non-current		\$ 231,877,708	\$ 184,025,242
Total liabilities		\$ 252,716,578	\$ 200,532,826
SURPLUS			
General		\$ 67,515,998	\$ 55,786,612
Reserve	8, 14	20,000,000	20,000,000
Operating surplus		\$ 87,515,998	\$ 75,786,612
Total liabilities and surplus		\$ 340,232,576	\$ 276,319,438

The related notes are an integral part of these financial statements.

On behalf of the board of the commission.



Maureen Jensen
Chair



Garnet Fenn
Chair, Audit and Finance Committee

FINANCIAL STATEMENTS

Statement of Comprehensive Income

(in Canadian dollars)

For the year ended March 31, 2019	Note(s)	2019	2018
REVENUE			
Fees	3(d), 15	\$ 128,110,332	\$ 124,230,016
Miscellaneous		156,124	77,066
Interest income		1,086,172	511,625
		\$ 129,352,628	\$ 124,818,707
EXPENSES			
Salaries and benefits	16	\$ 90,394,112	\$ 84,477,723
Administrative	17	9,536,691	8,447,603
Occupancy		7,734,948	8,082,581
Professional services		9,576,112	6,584,053
Depreciation	9	2,703,147	2,959,698
Amortization	10	1,159,087	946,899
Other		547,231	882,803
		\$ 121,651,328	\$ 112,381,360
Recoveries of insurance proceeds net of loss on asset disposals	9	(471,358)	(521,938)
Recoveries of enforcement costs	3(h)	(2,563,215)	(853,902)
Recoveries of investor education costs	3(h), 20	(1,129,508)	(1,475,045)
		\$ 117,487,247	\$ 109,530,475
Excess of revenue over expenses		\$ 11,865,381	\$ 15,288,232
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit and loss:			
Remeasurements of defined benefit pension plans	13 (b)	\$ (135,995)	\$ (114,192)
Other comprehensive loss		\$ (135,995)	\$ (114,192)
Total comprehensive income		\$ 11,729,386	\$ 15,174,040

The related notes are an integral part of these financial statements.

Statement of Changes in Surplus

(in Canadian dollars)

For the year ended March 31, 2019	Note(s)	2019	2018
Operating surplus, beginning of year		\$ 75,786,612	\$ 60,612,572
Total comprehensive income		11,729,386	15,174,040
Operating surplus, end of year		\$ 87,515,998	\$ 75,786,612
Represented by:			
General		\$ 67,515,998	\$ 55,786,612
Reserve	8, 14	20,000,000	20,000,000
		\$ 87,515,998	\$ 75,786,612

The related notes are an integral part of these financial statements.

Statement of Cash Flows

(in Canadian dollars)

For the year ended March 31, 2019	Note(s)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenue over expenses		\$ 11,865,381	\$ 15,288,232
Adjusted for:			
Interest received		1,024,619	450,107
Interest income		(1,086,172)	(511,625)
Pension liabilities		203,141	150,498
Loss on disposal of property, plant & equipment	9	—	531,763
Depreciation	9	2,703,147	2,959,698
Amortization	10	1,159,087	946,899
		\$ 15,869,203	\$ 19,815,572
Changes in non-cash working capital:			
Trade and other receivables		\$ 166,657	\$ 1,203,823
Prepayments		378,253	(852,524)
Trade and other payables		2,873,483	(1,371,436)
		\$ 3,418,393	\$ (1,020,137)
Net cash flows from operating activities		\$ 19,287,596	\$ 18,795,435
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of intangible assets	10	\$ (3,791,731)	\$ (533,315)
Purchase of property, plant & equipment	9	(407,834)	(1,689,710)
Net cash used in investing activities		\$ (4,199,565)	\$ (2,223,025)
Net increase in cash position		\$ 15,088,031	\$ 16,572,410
Cash, beginning of year		58,917,413	42,345,003
Cash, end of year		\$ 74,005,444	\$ 58,917,413
SUPPLEMENTAL CASH FLOW INFORMATION			
Property, plant & equipment and intangible assets funded by trade and other payables		\$ 1,457,803	\$ 1,161,210

The related notes are an integral part of these financial statements.

FINANCIAL STATEMENTS

Notes to the Financial Statements

1. Reporting Entity

The Ontario Securities Commission (OSC) is a corporation domiciled in Canada. The address of the OSC's registered office is 20 Queen Street West, Toronto, Ontario, M5H 3S8. The OSC is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. Basis of Presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are as at March 31, 2019 and for the year then ended and includes comparatives. These financial statements were authorized for issue by the Board of Directors on June 4, 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain pension liabilities that are measured net of actuarial gains and losses, as explained in Note 3(f). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the OSC's functional currency. Amounts have been rounded to the nearest dollar.

(d) Use of judgements and sources of estimation uncertainty

(i) Judgements

The preparation of financial statements in accordance with IFRS requires that management make judgements in applying accounting policies that can affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenue and expenditures for the period.

The following are the judgements in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the financial statements.

Revenue Recognition

The OSC exercised significant judgement in determining whether participation fees and other certain fees are within the scope of IFRS 15. Since these fees do not arise from contracts with customers as envisioned in IFRS 15, the OSC has exercised judgement in deciding to apply IFRS 15, by analogy, to such fees.

Significant judgement is required to determine the nature and extent of the OSC's performance obligations arising from participation fees and determining the timing of the transfer of control – at a point in time or over time. OSC recognizes revenue when (or as) the organization satisfies a performance obligation by transferring the promised service to the market participant. This transfer happens when the market participant obtains control of the service.

Recoveries of investor education costs

Beginning April 1, 2015, the OSC began recovering costs that are in accordance with subparagraph 3.4(2)(b)(ii) of the Securities Act (Ontario) which was amended on June 20, 2012 to expand the purposes for which enforcement monies may be designated to include “for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets” (“investor education costs”). The OSC developed guidelines to assist in determining which costs would be in accordance with subparagraph 3.4(2)(b)(ii). The OSC exercised judgement in evaluating the types of costs incurred which would be in accordance with these guidelines. See Note 20 for a summary of costs recovered.

Funds restricted for Canadian Securities Administrators (CSA) Systems operations and redevelopment (Funds Restricted for CSA Systems)

The OSC was appointed to administer the financial management processes of the CSA Systems net assets and act as custodian over any surplus funds. The use of the CSA Systems surplus funds is governed by the four Principal Administrators (PAs), each having one vote on the CSA Systems matters. The four PAs are the OSC, British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC) and l'Autorité des marchés financiers (AMF). During the fiscal 2018 period, the OSC changed the application of its accounting policy for CSA Systems from the recognition of “*Net assets held for CSA Systems redevelopment*” to “*Funds restricted for CSA Systems operations and redevelopment*”. This change was made to provide users of OSC's financial statements with more relevant information as it recognizes only the elements for which the OSC holds and manages for CSA Systems (cash and investments with a corresponding liability for those assets).

Based on an evaluation of the contractual terms and conditions related to the arrangement, OSC management has exercised judgement to determine that participants in the capital markets, rather than the OSC (or other CSA members, including the Investment Industry Regulatory Organization of Canada (IIROC) in the case of NRD until October 13, 2013), obtain the benefit or rewards from the restricted funds or any future development of the CSA Systems. The OSC does not control or have significant influence over how the restricted funds are managed in performing its custodial role for the CSA Systems.

The OSC exercised judgement to determine that the Funds restricted for CSA Systems administered by the OSC on behalf of CSA Systems are best represented by the presentation of an asset and a corresponding liability. The change in the application of the accounting policy resulted in a reduction in the asset and corresponding liability of \$25.1 million in 2018.

See Note 7 for more information, including summary financial information related to CSA Systems operations and redevelopment.

(ii) Sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make assumptions about the future and other sources of estimation uncertainty that have a significant risk of affecting the carrying amounts of assets and liabilities within the next fiscal year. Determining

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the carrying amounts of some assets and liabilities requires management to estimate the effects of uncertain future events on those assets and liabilities at the end of the reporting period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's estimations. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the key assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Supplemental pension plan

Supplemental pension plan liabilities represent the estimated present value of the OSC's obligation for future payments on March 31, 2019. The OSC utilizes an independent actuarial expert to determine the present value of the defined benefit obligation of the Supplemental pension plan and related impact to the Statement of comprehensive income and Other comprehensive income (OCI).

In some cases, this determination will involve management's best estimates and information from other accredited sources. A change in one or more of these assumptions could have a material impact on the OSC's financial statements.

The significant actuarial assumptions used to determine the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used are outlined in Note 13(b).

Designated settlements and orders and Recoveries of enforcement costs

Funds held pursuant to designated settlements and orders and Recoveries of enforcement costs are recorded when settlements are approved or orders are made by the Commission, unless management determines that collecting the settlement and order is significantly doubtful, in which case it is recognized when payment is received. Estimation is required to determine the collectible amount of monetary sanctions, orders and Recoveries of enforcement costs.

Management considers the ability of the respondent to pay the sanction amount, the ability to locate the respondent and whether the respondent owns any assets. A change in any of these factors could have a material impact on the OSC's financial statements. Assets and liabilities will change based on estimated designated settlements and order amounts deemed to be collectible. Expenses may change based on Recoveries of enforcement costs. For more information on Designated settlements and orders, see Note 6.

Allowance for credit losses

The determination of the OSC's expected credit losses for trade receivables depends on several highly related variables and is subject to estimation uncertainty. In determining expected credit losses, the OSC considers historical data, existing market conditions, and forward-looking information to determine, among other things, expected loss rates. The OSC must rely on estimates and exercise judgement regarding circumstances that may cause future assessments of expected credit losses to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. See Note 21 for discussion related to accounting standards, interpretations and amendments that became effective in the year.

(a) Financial Instruments

IFRS 9 *Financial Instruments* was adopted on April 1, 2018.

Trade receivables and borrowings issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the OSC becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition. The measurement of financial instruments in subsequent periods and the recognition of changes in the fair value depend on the category in which they are classified.

Classification of financial assets depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset is subsequently measured at amortized cost if both of the following conditions are met.

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Currently, OSC's financial assets held meet the conditions for subsequent measurement at amortized cost. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income. Premiums, discounts and transaction costs are amortized over the term of the instrument on an effective yield basis as an adjustment to interest income. Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to receive the cash flows of the financial asset are transferred. A financial liability is derecognized when it is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. As mentioned, the OSC adopted IFRS 9 on April 1, 2018 and has elected not to restate comparative figures. The OSC did not identify any adjustments to the carrying amounts of financial instruments at the date of transition. The table below illustrates the changes to the classification of the OSC's financial assets under IFRS 9 and IAS 39 at the date of initial application of IFRS 9:

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	Original category under IAS 39	Original measurement under IAS 39	New measurement category under IFRS 9
Financial Assets			
Cash	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds restricted for CSA Systems operations and redevelopment	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Reserve funds	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds held pursuant to designated settlements and orders - Cash	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds held pursuant to designated settlements and orders - Receivables	Loans and receivables	Amortized Cost	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost	Amortized Cost
Financial Liabilities			
Trade and other payables	Other liabilities	Amortized Cost	Amortized Cost
Line of credit	Other liabilities	Amortized Cost	Amortized Cost
Funds held pursuant to designated settlements	Other liabilities	Amortized Cost	Amortized Cost
Funds restricted for CSA Systems operations and redevelopment	Other liabilities	Amortized Cost	Amortized Cost

The OSC recognizes an allowance for expected credit losses for all financial assets not held at fair value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the OSC expects to receive, discounted at an approximation of the original effective interest rate.

In relation to trade receivables, the OSC measures expected credit losses for trade receivables by setting up a provision based on aging at year end through the application of a provision matrix. The provision matrix is based on historical observed default rates over the expected life of the trade receivables, adjusted for forward looking estimates.

The carrying amount of the trade receivables is reduced through the use of an allowance account and the expected credit loss is recognized in the Statement of Comprehensive Income.

The gross carrying amount of a trade receivable is written off to the extent there is no reasonable prospect of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, insolvency of the debtor and the exhaustion of reasonable collection efforts.

(b) Property, plant & equipment

Items of Property, plant & equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of the Property, plant & equipment, less any residual value, is depreciated and recognized in excess of revenues over expenses on a straight-line basis over the estimated useful life of the asset, as follows:

Computer hardware and related applications	3 years
Network servers and cabling	5 years
Office furniture and equipment	5 to 10 years
Leasehold improvements	Lesser of lease term ¹ and useful life of asset

The estimated useful lives, residual values and depreciation method are reviewed at the end of each fiscal year. Any changes in estimates are accounted for on a prospective basis.

An item of Property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of Property, plant & equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in excess of revenues over expenses.

Items of Property, plant & equipment are reviewed for impairment at each reporting date. If any impairment is indicated, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

During the fiscal 2019 period it was determined that the presentation of property, plant and equipment would be changed on a restated basis to remove intangible assets and include them in a separate category. This change was made due to the increasing materiality of intangible assets and to provide reliable and more relevant information to the users of financial statements.

(c) Intangible Assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately or internally generated. The OSC's intangible assets consist primarily of software enhancement and development and purchased software.

Development costs that are directly attributable to internally developed software are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use it;
- there is an ability to use the software;

¹ The lease term is the non-cancellable period for which the OSC has contracted to lease the asset together with any renewal options that are reasonably certain to be exercised.

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- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditures attributable to the software during its development can be reliably measured.

For internally generated intangible assets, cost includes all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Subsequent expenditures on a specific intangible asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including maintenance, is recognized in profit or loss as incurred. Research expenditures and certain development expenditures that do not meet the criteria for capitalization above are recognized as an expense as incurred.

For purchased software, the cost of separately acquired intangible assets include its purchase price and directly attributable costs of preparing the asset for its intended use.

For software enhancement and development, amortization of an intangible asset begins when development is complete, and the asset is available for use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and accumulated impairment losses. Amortization expense is included in the Statement of Comprehensive Income. Intangible assets are amortized using the straight-line method over the following periods:

Software enhancement and development	10 years
Purchased software	3 years

Amortization methods, useful lives and residual values are reviewed at the end of each fiscal year and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired. If any impairment is indicated, the intangible asset's recoverable amount is estimated. The recoverable amount is the higher of an intangible asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the intangible asset's carrying amount exceeds its recoverable amount. An impairment loss is recognized on the Statement of Comprehensive Income in the period in which the impairment is identified.

Impairment losses recognized previously are assessed and reversed if the circumstances leading to the impairment are no longer present. Reversal of any impairment loss will not exceed the carrying amount of the intangible asset that would have been determined had no impairment loss been recognized for the asset in prior periods.

(d) Revenue recognition

Effective April 1, 2018, the OSC adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") on a modified retrospective basis with no restatement of the comparative period.

IFRS 15 sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. The standard replaces all historical standards and related interpretations on revenue. The application of IFRS 15 did not have a material effect on the OSC's financial statements.

Participation fees

Participation fees are recognized when the OSC has permitted (or not restricted) access to the market participant to the Ontario capital markets. Typically, this occurs at a point-in-time when both the access is granted (or not restricted) and the associated fees are received.

These fees represent the payment for the right to participate in the Ontario capital markets. The OSC has no specific obligations throughout the year to any individual market participant. As such, the OSC's performance consists of a single act, which is provision of access. Once the access is provided (or not restricted), the OSC has the right to the stipulated participation fees, there is no obligation to refund the fees, the market participant has the legal right to access and participate in the capital market including the risks and rewards associated with such participation and there are no unfulfilled conditions on behalf of the OSC to the participant.

Activity fees

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Activity fees are recognized when the filing is received, as the activities undertaken are normally completed in a relatively short period of time.

Late filing fees

Late fees may apply if certain documents that are required to be filed under Ontario Securities law are not filed on time. Additional fees may be charged for payments made past the required due date. Revenue from late fees is recognized when the respective document is filed or the corresponding outstanding fee is paid. In addition, the transaction price is measured as the amount of the fee.

(e) Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders are made by the Commission, unless management determines that collecting the settlement amount is significantly doubtful, in which case they are recognized when payment is received. Due to the restricted use of Funds held pursuant to designated settlements and orders, a corresponding Non-current liability that equals the related Non-current asset is reflected in the Statement of financial position.

(f) Employee benefits

Ontario Public Service Pension Plan (OPSP)

The OSC provides pension benefits to its full-time employees through participation in the OPSP. The Province of Ontario is the sole sponsor of the OPSP. This plan is accounted for as a defined contribution plan because sufficient information is not provided to the OSC or otherwise available for the OSC to apply defined benefit plan accounting to this pension plan.

The plan sponsor is responsible for ensuring that the pension funds are financially viable. Any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. The OSC is not exposed to any liability to the plan for other entities' obligations under the terms and conditions of the plan. There is no deficit or surplus in the plan that could affect the amount of future contributions for the OSC.

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In addition, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the OSC from the plan. Payments made to the plan are recognized as an expense when employees have rendered the service entitling them to the contributions. For more information on the OPSPP, see Note 13(a).

Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for its current and former Chairs and Vice-Chairs as described in Note 13(b). These plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of the target benefits provided depends on the member's length of service and their salary in the final years prior to retirement. In some plans, the target benefits are indexed with inflation. The target benefits are then offset by the benefits payable from the OPSPP (registered and supplemental plans), which are linked to inflation.

The defined benefit liability recognized in the Statement of financial position for the supplemental pension plans is the present value of the defined benefit obligation at the reporting date.

Actuarial gains and actuarial losses resulting from remeasurements of the net defined benefit liability arising from the supplemental pension plans are recognized immediately in the Statement of financial position with a corresponding debit or credit through OCI in the period in which they occur. Remeasurements are not reclassified to excess of revenues over expenses in subsequent periods.

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income, as described in Note 19(b).

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The OSC recognizes a liability and an expense for termination benefits at the earlier of the date the OSC has demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal or when the OSC has recognized costs for providing termination benefits as a result of a restructuring involving a fundamental reorganization that has a material effect on the nature and focus of OSC operations.

Short-term benefits

Short-term employee benefits, such as salaries, pension contributions, paid annual leaves and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided to the OSC.

(g) Leases

All leases currently recorded are classified as operating leases. Lease payments are expensed on a straight-line basis over the term of the lease.

If lease incentives are received to enter into operating leases, the aggregate benefit of the incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the period in which economic benefits from the leased asset are consumed.

(h) Recoveries*Recoveries of enforcement costs*

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order is issued by the OSC, unless management determines that collecting the settlement amount is significantly doubtful, in which case, recovery is recognized when payment is received.

Recoveries of investor education costs

Recoveries of investor education costs are recorded as offsets to total expenses on a quarterly basis based on the eligible expenses recorded in the quarter.

(i) Provisions

A provision is recognized when a present legal or constructive obligation results from past events, it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

4. Financial Instruments Risks

The OSC is exposed to various risks in relation to financial instruments. The OSC's objective is to maintain minimal risk. The OSC's financial assets and liabilities by category are summarized in Note 3(a). The main types of risks related to the OSC's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. This note provides information about the OSC's exposure to these risks and the OSC's objectives, policies and processes for measuring and managing these risks.

Currency risk

The OSC's exposure to currency risk is minimal due to the low number of transactions denominated in currencies other than Canadian dollars.

Interest rate risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Funds restricted for CSA Systems operations and redevelopment and Reserve funds are held by Schedule 1 financial institutions (and credit unions in British Columbia with respect to Funds restricted for CSA Systems operations and redevelopment). The bank balances earn interest at a rate of 1.85% below the prime rate. The average rate of interest earned on bank balances for the year was 1.89% (2018 - 1.22%).

A 25 basis points change in the interest rate would impact the OSC's operating surplus as follows:

	Impact on operating surplus	
	25 basis points increase in rates	25 basis points decrease in rates
Reserve funds	\$ 42,496	\$ (42,496)
Cash balance	87,980	(87,980)
	\$ 130,476	\$ (130,476)

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Credit risk

The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Funds restricted for CSA Systems operations and redevelopment, Reserve funds and Trade and other receivables.

Schedule 1 financial institutions hold approximately 83% of the OSC's financial assets including those held for Funds restricted for CSA Systems operations and redevelopment and another 17% are held in two credit unions in British Columbia (for cash components of Funds restricted for CSA Systems operations and redevelopment exclusively). The remaining balance of financial assets are accounts receivable. The Credit Union Deposit Insurance Corporation (CUDIC), a statutory corporation, guarantees the deposits of the British Columbia credit unions, as set out in the *Financial Institutions Act* of British Columbia. All other deposits are guaranteed to a maximum of \$100,000 by Canada Deposit Insurance Corporation. Given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

Trade receivable balances consist of a large number of debtors owing individually immaterial balances.

Other receivables in aggregate are material, with most debtors owing individually and in aggregate immaterial amounts, and a small number of debtors owing larger amounts, which are material in aggregate or individually, and are receivable from:

- Funds restricted for CSA Systems operations and redevelopment, to recover staff and space costs and other charges incurred,
- Funds held for designated settlements and orders, to recover investor education costs,
- Government of Canada for recovering Harmonized Sales Tax paid during the year, and
- Government of Canada to recover costs for OSC space under a sublease.

Therefore, the OSC's exposure to concentration of credit risk is minimal.

The OSC maintains an allowance for credit losses. Therefore, the carrying amount of Trade and other receivables generally represents the maximum credit exposure. Collection efforts continue for Trade and other receivables balances, including those that are captured in the allowance for credit loss.

The aging of Trade and other receivables is as follows:

	Note	March 31, 2019	March 31, 2018
Current		\$ 2,857,137	\$ 3,114,653
Past due 31 to 60 days		238,831	202,548
Past due 61 to 90 days		73,744	16,208
Past due greater than 90 days (net)		377,935	319,342
Total Trade and other receivables	5	\$ 3,547,647	\$ 3,652,751

Past due greater than 90 days detail	Note	March 31, 2019	March 31, 2018
Past due greater than 90 days (gross)		\$ 590,169	\$ 563,344
Allowance for credit losses	5	(212,234)	(244,002)
		\$ 377,935	\$ 319,342

Reconciliation of allowance for credit losses is as follows:

	Note	March 31, 2019	March 31, 2018
Opening balance		\$ 244,002	\$ 173,003
Current year provision		344,296	422,723
Written-off during the year		(376,064)	(351,724)
Closing balance	5	\$ 212,234	\$ 244,002

In 2019, after reviewing the collectability of the Trade and other receivables, it was determined that there was \$376,064 of uncollectable amounts and they were written off, resulting in a reduction to the allowance for credit losses and a corresponding reduction of Trade and other receivables for the same amount. The amount written off was charged to bad debt expense in prior years. The current year provision of \$344,296 was charged to bad debt expense in fiscal 2019.

Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has sufficient cash, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2019, the OSC had a cash balance of \$74.0 million and reserve fund assets of \$20.0 million to settle current liabilities of \$20.8 million.

The OSC has a \$52.0 million credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC did not utilize the credit facility (2018 - \$0).

The overall exposure to liquidity risk remains unchanged from 2018.

Supplemental pension plan risks

The OSC's overall exposure to supplemental pension plan risks is low due to the plan being a supplemental plan and the limited number of plan members entitled to plan benefits. For more information, see Note 13(b).

5. Trade and Other Receivables

	Notes	March 31, 2019	March 31, 2018
Trade receivables		\$ 621,850	\$ 726,748
Other receivables		1,952,107	2,440,437
Allowance for credit losses	4	(212,234)	(244,002)
		\$ 2,361,723	\$ 2,923,183
Interest receivable		167,301	105,748
Amount recoverable from investor education costs	20	400,438	363,644
HST recoverable		618,185	260,176
Total Trade and other receivables	4	\$ 3,547,647	\$ 3,652,751

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6. Funds Held Pursuant to Designated Settlements and Orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties in accordance with section 3.4(2)(b) of the *Securities Act* (Ontario). These funds are eligible to be allocated to the OSC for the purpose of educating investors, or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets, including such designated internal costs as approved by the Board.

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to an administrative proceeding where these amounts total \$1 million or more. The maximum amount of the award has been set at \$1.5 million where monetary sanctions and/or voluntary payments are not collected and \$5 million where these amounts have been collected. Whistleblowers will be paid out of funds held pursuant to designated settlements and orders. To date, \$7.5 million has been paid to three whistleblowers on separate matters.

The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The Board will allocate these funds as it determines appropriate at its discretion. This includes allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2019 the accumulated balance is determined as follows:

	Note	March 31, 2019	March 31, 2018
Opening balance		\$ 42,095,231	\$ 37,995,716
Assessed during the year		\$ 137,436,573	\$ 60,449,350
Less:			
Amounts paid or payable directly to investors		(10,970,518)	(48,396,642)
Orders deemed uncollectible		(80,072,434)	(5,955,936)
Amount recorded from assessments in year		46,393,621	6,096,772
Adjustments to amounts assessed in prior years		4,747,656	437,377
Total settlements and orders recorded		51,141,277	6,534,149
Add: Interest		1,118,016	505,032
Less: Payments to			
Whistleblowers		(7,499,000)	—
OSC for recovery of Investor education costs	20	(1,145,733)	(1,799,170)
External collections firm		(173,074)	(71,968)
Harmed investors		(1,156,740)	(1,068,528)
Closing balance		\$ 84,379,977	\$ 42,095,231
Represented by:			
Cash		\$ 82,030,183	\$ 40,850,699
Receivable		2,349,794	1,244,532
		\$ 84,379,977	\$ 42,095,231

The \$51,141,277 (2018 - \$6,534,149) identified as total settlements and orders recorded reflects the portion of \$137,436,573 (2018 - \$60,449,350) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes an increase of \$4,747,656 (2018 - \$437,377) in adjustments from orders assessed in prior years. These amounts include payments received in the current year for orders that were deemed uncollectible in prior years less orders that had been previously deemed as collectible that are now deemed as uncollectible in fiscal 2019. Included in the total assessed was \$10,970,518 (2018 - \$48,396,642) where the respondents were required to distribute monies directly to harmed investors, which are not captured in the OSC's accounting records.

The OSC collected a total of \$44,193,750 (2018 - \$5,681,000) of the designated settlements and orders assessed during the year, resulting in an average collection rate of 34.9% (2018 - 47.1%). As authorized by the Board, the OSC made payments from the designated funds totalling \$9,974,547 (2018 - \$2,939,666). Details on the recipients of these payments are included in the table above.

7. Funds Restricted for CSA Systems Operations and Redevelopment (Funds restricted for CSA Systems)

The core CSA Systems consist of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). The CSA is also developing the Market Analysis Platform (MAP), a new marketplace surveillance and analytical system to improve market analytics capacity.

The OSC has been appointed the Designated Principal Administrator - Operations (DPA) to collect, hold, and administer the surplus funds accumulated from system fees charged to market participants that use the CSA Systems. This role is essentially that of a custodian. The funds restricted for CSA Systems operations and redevelopment include surplus funds accumulated from operation of the CSA Systems, which are received, held and managed by the DPA on behalf of the PAs, and IIROC (in the case of NRD system fee surplus funds accumulated to October 13, 2013). The use of these surplus funds is restricted by various agreements between the PAs.

CGI Information Systems and Management Consultants Inc. (CGI), as service provider, hosts and maintains the CSA Systems. A CSA Systems Governance Committee (SGC), consisting of members of the four PAs, was established through an agreement signed on April 2, 2013. This agreement also created a governance framework for management and oversight of the CSA Systems, including that of CGI. It outlines how user fees will be collected and deployed, and addresses allocation and payment of liabilities that may arise. User fees are charged to recover systems operations and redevelopment costs, which are used to benefit the CSA National Systems users.

Use of the surplus funds within the terms of the various agreements requires the approval of members of the SGC. Majority approval is required for all permissible uses of the surplus funds as outlined within the various agreements, with the exception of the following, which all require unanimous approval of the PAs:

- any financial commitments in excess of the lesser of (i) \$5.0 million and (ii) 15% of the accumulated surplus at such date,
- significant changes to the design of the systems, and
- any changes to system fees.

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In the case of NRD, IIROC approval is required for any use of the surplus funds that deviates from the contractually agreed uses for funds accumulated prior to October 12, 2013.

The CSA is redeveloping the CSA Systems in a multi-year phased approach. Funding for the redevelopment is coming from the accumulated surplus funds.

The 2019 financial results of the CSA Systems operations and redevelopment are presented below. Assets include cash and investments of \$143.1 million (2018 - \$137.8 million) presented on the OSC's Statement of Financial Position. Assets also include intangible assets of \$27.0 million (2018 - \$18.4 million) primarily consisting of costs towards the redevelopment of the CSA National Systems.

Summarized Statement of Financial Position

As at March 31	2019	2018
Assets	\$ 175,794,307	\$ 164,523,346
Liabilities	\$ 2,355,825	\$ 1,587,219
Surplus	173,438,482	162,936,127
Liabilities and surplus	\$ 175,794,307	\$ 164,523,346

Summarized Statement of Comprehensive Income

For the year ended March 31	2019	2018
Revenue	\$ 29,033,983	\$ 27,317,404
Expenses	18,531,628	16,113,885
Excess of revenues over expenses	\$ 10,502,355	\$ 11,203,519

Summarized Statement of Cash Flows

For the year ended March 31	2019	2018
Net cash flows from operating activities	\$ 12,900,353	\$ 6,838,523
Net cash flows used in investing activities	(15,213,945)	(4,160,854)
Net (decrease)/increase in cash position	(2,313,592)	2,677,669
Cash, beginning of year	22,563,863	19,886,194
Cash, end of year	\$ 20,250,271	\$ 22,563,863

For more information on the Net assets held for CSA Systems operations and redevelopment, see Note 2(d) and Note 18.

8. Reserve Funds

As part of the approval of its self-funded status, the OSC was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

The prime investment consideration for the reserve is the protection of the principal and appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. Reserve funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%.

9. Property, Plant & Equipment

2019	Office furniture	Office equipment	Computer hardware and related applications	Networks and servers	Leasehold improvements	Total
COST						
Balance as at April 1, 2018	\$ 4,888,009	\$ 750,379	\$ 25,603,812	\$ 3,115,475	\$ 10,469,921	\$ 44,827,596
Reclassification to Intangibles	—	—	(3,287,123)	(1,184)	—	(3,288,307)
Additions	47,259	9,604	232,344	497,371	29,611	816,189
Disposals	—	—	—	—	—	—
Balance at March 31, 2019	\$ 4,935,268	\$ 759,983	\$ 22,549,033	\$ 3,611,662	\$ 10,499,532	\$ 42,355,478
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2018	\$ (4,704,416)	\$ (558,068)	\$ (20,957,128)	\$ (1,429,205)	\$ (5,730,229)	\$ (33,379,046)
Reclassification to Intangibles	—	—	1,949,837	890	—	1,950,728
Depreciation for the year	(88,750)	(32,388)	(1,033,320)	(319,840)	(1,228,849)	(2,703,147)
Disposals	—	—	—	—	—	—
Balance at March 31, 2019	\$ (4,793,166)	\$ (590,456)	\$ (20,040,611)	\$ (1,748,155)	\$ (6,959,078)	\$ (34,131,465)
Carrying amount at March 31, 2019	\$ 142,102	\$ 169,528	\$ 2,508,422	\$ 1,863,507	\$ 3,540,454	\$ 8,224,013
2018						
COST						
Balance as at April 1, 2017	\$ 4,836,379	\$ 710,515	\$ 23,935,095	\$ 3,326,954	\$ 10,391,206	\$ 43,200,149
Additions	51,630	39,864	1,677,802	1,536,224	78,715	3,384,235
Disposals	—	—	(9,085)	(1,747,703)	—	(1,756,788)
Balance at March 31, 2018	\$ 4,888,009	\$ 750,379	\$ 25,603,812	\$ 3,115,475	\$ 10,469,921	\$ 44,827,596
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2017	\$ (4,588,610)	\$ (528,962)	\$ (19,229,409)	\$ (1,866,187)	\$ (4,484,306)	\$ (30,697,474)
Depreciation for the year	(115,806)	(29,106)	(1,736,804)	(778,958)	(1,245,923)	(3,906,597)
Disposals	—	—	9,085	1,215,940	—	1,225,025
Balance at March 31, 2018	\$ (4,704,416)	\$ (558,068)	\$ (20,957,128)	\$ (1,429,205)	\$ (5,730,229)	\$ (33,379,046)
Carrying amount at March 31, 2018*	\$ 183,593	\$ 192,311	\$ 4,646,684	\$ 1,686,270	\$ 4,739,692	\$ 11,448,550

* prior to reclassification to Intangible assets

As a result of a change in presentation to reflect a separate intangible asset section [refer to note 3(b) and 3(c)]. The following reclassifications were processed in 2019:

The original property, plant and equipment cost for 2018 of \$44,827,596 was reduced by \$3,288,307 to \$41,539,289 and the original accumulated depreciation amount of \$33,379,046 was reduced by \$1,950,728 to \$31,428,318. The reclassified amounts of \$3,288,307 and \$1,950,728 are now presented separately as intangible assets and accumulated amortization respectively and are reflected in the schedule in Note 10. In addition, 2018 depreciation expense of \$946,899 was reclassified and presented as amortization expense.

FINANCIAL STATEMENTS

In the first quarter of fiscal 2018, flooding occurred at the OSC resulting in damages to certain Property, plant and equipment. Costs incurred to replace damaged equipment amounted to \$1.8 million in 2018 and have been capitalized. An insurance claim was initiated and proceeds of \$1.1 million were received. A loss on disposal of damaged capital assets of \$0.5 million has been recorded against insurance proceeds on the Statement of Comprehensive Income.

In 2019, an additional \$0.5 million was accrued at year end to reflect an expected partial settlement from the insurance company that was deemed to be a virtually certain event. Subsequent to year end, the claim was finalized and it was determined that further insurance proceeds of approximately \$0.6 million over the amounts accrued will be recognized in fiscal 2020.

10. Intangible Assets

Intangible assets consist of assets with finite useful lives. Finite life intangible assets comprise assets such as purchased software and software enhancement and development.

2019	Notes	Purchased software	Software enhancement and development	Total
COST				
Balance as at April 1, 2018		\$ 3,288,307	—	\$ 3,288,307
Additions		1,152,984	3,688,195	4,841,179
Disposals		—	—	—
Balance at March 31, 2019		\$ 4,441,291	\$ 3,688,195	\$ 8,129,486
ACCUMULATED AMORTIZATION:				
Balance as at April 1, 2018		\$ 1,950,728	—	\$ 1,950,728
Amortization expense		1,159,087	—	1,159,087
Disposals		—	—	—
Balance at March 31, 2019		3,109,815	—	3,109,815
Carrying Amount at March 31, 2019		\$ 1,331,476	\$ 3,688,195	\$ 5,019,671
2018				
COST				
Balance as at April 1, 2017		\$ 2,754,992	\$ —	\$ 2,754,992
Additions		533,315	—	533,315
Disposals		—	—	—
Balance at March 31, 2018		\$ 3,288,307		3,288,307
ACCUMULATED DEPRECIATION				
Balance as at April 1, 2017		\$ 1,003,829	—	\$ 1,003,829
Amortization expense		946,899	—	946,899
Disposals		—	—	—
Balance at March 31, 2018		1,950,728	—	1,950,728
Carrying Amount at March 31, 2018		\$ 1,337,579		\$ 1,337,579

11. Trade and Other Payables

	March 31, 2019	March 31, 2018
Trade payables	\$ 413,191	\$ 424,461
Payroll accruals	13,706,710	12,417,094
Other accrued expenses	6,718,969	3,666,029
	\$ 20,838,870	\$ 16,507,584

12. Lease Commitments

Operating leases

The OSC has entered into operating lease agreements for equipment and office space, and is committed to operating lease payments as follows:

	March 31, 2019	March 31, 2018
Less than one year	\$ 8,572,175	\$ 8,025,122
Between one and five years	35,914,480	35,131,322
More than five years	31,509,161	40,675,751
	\$ 75,995,816	\$ 83,832,195

Lease expense recognized during 2019 was \$7,196,721 (2018 - \$7,634,287). This amount consists of minimum lease payments. A portion of the OSC's office space is subleased to the CSA IT Systems Project Office and the Government of Canada on a full cost recovery basis. During the year, the OSC recorded sublease payments totaling \$770,884 (2018 - \$785,089) from these two organizations.

The OSC entered into a new lease as of September 1, 2017 for a term of ten years, ending August 31, 2027. The lease contains two consecutive options to extend the term beyond August 31, 2027, each for a period of five years. The lease was approved by the Minister of Finance under the *Financial Administration Act* section 28, which required review of contingent liabilities inherent in the lease.

13. Pension Plans

(a) Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the OPSP. The OSC's contribution to the OPSP for the year ended March 31, 2019 was \$5,713,340 (2018 - \$4,986,418), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for fiscal 2020 are \$6,047,678.

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(b) Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for its current and former Chairs and Vice-Chairs. These supplemental pension plans have no plan assets. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions. The supplemental defined benefit pension plans are non-registered plans. The benefit payments are made by the OSC as they become due.

The OSC is responsible for governance of these plans. The OSC Board's Audit and Finance Committee assists in the management of the plans. The OSC has also appointed experienced, independent professional actuarial experts to provide a valuation of the pension obligation for the supplemental plans in accordance with the standards of practice established by the Canadian Institute of Actuaries.

Under the projected benefit method, the Pension liabilities are the actuarial present value of benefits accrued in respect of service prior to the valuation date, based on projected final average earnings. The current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. The current service cost, expressed as a percentage of pensionable earnings, will be stable over time if the demographic characteristics of the active membership remain stable from valuation to valuation. However, all other things being equal, the current service cost of an active membership whose average age rises between actuarial valuations will result in an increasing current service cost.

The supplemental pension plans expose the OSC to the following risks:

- Changes in bond yields – a decrease in corporate bond yields will increase the plans' liabilities.
- Inflation risk – in plans where the target benefit is not indexed, given that the pension offset amounts are linked to inflation, higher inflation will lead to lower liabilities. Conversely, for plans where the target benefits are linked to inflation, the OSC's liability increases when inflation increases.
- Life expectancy – the majority of the obligations are to provide benefits for the life of the members. Therefore, increases in life expectancy will result in an increase in the plans' liabilities.

There were no plan amendments, curtailments or settlements during the period. The duration of all plans combined is approximately 12 years (2018 – 12 years).

	March 31, 2019	March 31, 2018
Defined benefit obligation, beginning of year	\$ 4,104,618	\$ 3,839,928
Current service cost	300,303	254,812
Interest cost	137,562	132,311
Benefit payments	(234,724)	(236,625)
Actuarial loss on obligation	135,995	114,192
Defined benefit obligation, end of year	\$ 4,443,754	\$ 4,104,618

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation were as follows:

	March 31, 2019	March 31, 2018
Discount rate(s)	3.25%	3.45%
Inflation	2.00%	2.25%
Expected rate(s) of salary increase	0%	0%
CPP YMPE increase	2.50%	2.75%
Increase in Canada Revenue Agency limit	\$ 3,025.6	\$ 2,944.4

The assumptions for mortality rates are based on the 2014 Public Sector Mortality Table (CPM2014Publ), with a size adjustment factor for monthly income of \$6,000 and more, and with fully generational projections using the improvement scale CPM-B.

Sensitivity analysis

Changes in the actuarial assumptions used have a significant impact on the defined benefit obligation.

The following is an estimate of the sensitivity of the defined benefit obligation to a change in the significant actuarial assumptions (the sensitivity assumes all other assumptions are held constant):

	March 31, 2019	March 31, 2018
Discount rate increased by 0.5% (obligation will decrease by)	5.7%	5.4%
Discount rate decreased by 0.5% (obligation will increase by)	6.3%	5.9%
Life expectancy increased by 1 year (obligation will increase by)	2.7%	2.6%
Life expectancy decreased by 1 year (obligation will decrease by)	2.7%	2.6%
Inflation rate increased by 0.5% (obligation will decrease by)	0.6%	1.2%
Inflation rate decreased by 0.5% (obligation will increase by)	1.3%	1.8%

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2019 was \$437,865 (2018 - \$381,703). The OSC expects to incur \$233,801 in benefit payments relating to the supplemental pension plan during the next fiscal year.

14. Capital Management

The OSC has a \$20.0 million reserve fund, as described in Note 8, which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

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The OSC maintains an investment policy where Reserve funds are restricted to direct and guaranteed obligations of the Government of Canada and its provinces, and to instruments issued by Canadian Schedule 1 financial institutions to protect the principal.

The OSC has a \$52.0 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. The Ministry of Finance approved the renewal of the credit facility on July 1, 2018 for a further two years expiring on June 30, 2020.

The OSC is not subject to any externally imposed capital requirements.

15. Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities, and are intended to serve as a proxy for the market participants' use of the Ontario capital markets.

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Late fees represent fees applied to market participants for not filing required documents and/or paying their participation and activity fees on time.

The commission is currently revisiting the fee rule for implementation in April 2021. Factors considered while reviewing the fee structure are the existing surplus, the projected levels of revenue and expenses, projected capital expense and the level of cash resources required to fund operations through market downturns and simplification.

Fees received are as follows:

	March 31, 2019	March 31, 2018
Participation fees	\$ 108,082,005	\$ 104,501,605
Activity fees	16,311,842	15,648,189
Late filing fees	3,716,485	4,080,222
	\$ 128,110,332	\$ 124,230,016

16. Salaries and Benefits

	March 31, 2019	March 31, 2018
Salaries	\$ 73,717,590	\$ 69,924,102
Benefits	8,787,700	8,411,061
Pension expense	6,151,205	5,368,994
Severance/termination payments	1,737,617	773,566
	\$ 90,394,112	\$ 84,477,723

17. Administrative

	March 31, 2019	March 31, 2018
Commission expense	\$ 1,318,968	\$ 1,620,405
Communications & publications	2,016,176	1,799,864
Maintenance & support	4,228,008	2,768,072
Supplies	425,348	517,131
Other expenses	799,189	1,080,760
Training	749,002	661,371
	\$ 9,536,691	\$ 8,447,603

18. Contingent Liabilities and Contractual Commitments

(a) The OSC has committed to paying in full any liability with respect to CSA Systems operations and custody of the related surplus funds that arises as a result of wilful neglect or wilful misconduct on behalf of the OSC.

Under the agreements described in Note 7, the OSC, ASC, BCSC and AMF, as PAs, have committed to paying an equal share of any claim or expenses related to operation and redevelopment of the CSA Systems that exceed the surplus funds held.

In 2018 and 2019, there were no such claims or expenses. As described in Note 7, the OSC, in its capacity as DPA, is holding funds in segregated bank and investment accounts that may be used to settle claims and expenses relating to the operation and redevelopment of the CSA Systems.

(b) Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. Settlements from these actions are accounted for when they occur. The outcome and ultimate disposition of these actions cannot currently be determined. However, management does not expect the outcome of any legal actions, individually or in aggregate, to have a material impact on the OSC's financial position.

19. Related Party Transactions

(a) Funds restricted for CSA Systems operations and redevelopment

In the course of normal operations, the OSC fulfills transactions for CSA Systems with the Funds restricted for CSA Systems operations and redevelopment. During the year, total related party charges incurred and to be reimbursed were \$4.8 million (\$4.2 million in 2018). At March 31, 2019, \$0.4 million was still owed to the OSC (\$0.6 million in 2018). For more information, see Note 7.

(b) The Province of Ontario

In the course of normal operations, the OSC entered into the following transactions with the Province of Ontario:

- (i) The *Securities Act* (Ontario) states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 15 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Minister.

FINANCIAL STATEMENTS

- (ii) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income.
- (iii) Certain payments to harmed investors from the Funds held pursuant to designated settlements and orders are made through the Civil Remedies for Illicit Activities Office (CRIA). Payments are made to CRIA from the OSC pursuant to forfeiture orders obtained by CRIA under the *Civil Remedies Act*. CRIA is an office of the Ministry of the Attorney General of Ontario.

(c) Compensation to key management personnel

The OSC's key management personnel are the members of the Board of Directors, Chair, Vice-Chairs and Executive Director.

The remuneration of key management personnel includes the following expenses:

	March 31, 2019	March 31, 2018
Short-term employee benefits	\$ 3,283,719	\$ 3,610,842
Post-employment benefits	514,986	451,687
	\$ 3,798,705	\$ 4,062,529

20. Recoveries of Investor Education Costs

During the year, as described in Note 3(h), the OSC recorded recoveries of investor education costs from the Funds held for designated settlements and orders as follows:

Summary of Investor Education costs for Recovery

	March 31, 2019	March 31, 2018
Payroll costs	\$ 678,739	\$ 679,997
OSC in the Community costs	25,704	14,602
Media Campaign costs	182,855	243,112
Website and other IT costs	—	185,080
Consulting costs	242,210	352,254
Total	\$ 1,129,508	\$ 1,475,045

The amount recorded in the year is \$1,129,508 (2018 - \$1,475,045), of which \$400,438 (2018 - \$363,644) is owing to the OSC at March 31, 2019.

21. Accounting Pronouncements

Current period changes in accounting policies

IFRS 9, *Financial Instruments*

Effective April 1, 2018, the OSC adopted IFRS9 Financial Instruments ("IFRS 9") and as permitted by the transitional provisions in IFRS 9, the OSC elected not to restate comparative figures. The application of IFRS 9 did not have a material effect on the OSC's financial statements. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 15, *Revenue from Contracts with Customers*

Effective April 1, 2018, the OSC adopted IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) on a modified retrospective basis with no restatement of comparatives. This standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretation on revenue. The application of IFRS 15 did not have a material effect on the OSC’s financial statements.

New and revised Standard not yet effective

The following new IFRS standard which has been issued but is not yet effective for the year ended March 31, 2019, has not been applied in preparing these financial statements. This pronouncement is currently under consideration.

IFRS 16, *Leases*

In 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard replaces IAS 17, *Leases* and related interpretations.

The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively, subject to certain practical expedients, using either a retrospective approach or a modified retrospective approach. The standard is applicable to the OSC’s financial statements for the year ending March 31, 2020, with an initial application date of April 1, 2019.

The OSC is a party to various leases, as lessee and as a lessor. Where the OSC is a lessee, all leases will be recorded on the Statement of Financial Position, except short-term leases and leases of low-value items. This is expected to result in a material increase to both assets and liabilities upon adoption of the standard, and changes to the timing of recognition and classification of expenses associated with such lease arrangements. The standard substantially carries forward the lessor accounting requirements. Accordingly, the OSC expects to continue to classify such leases as operating leases or finance leases, and to account for each differently.

The adoption of IFRS 16 is expected to materially affect the OSC’s financial statements. On adoption, the OSC expects to recognize approximately \$55-\$60 million of additional assets and lease liabilities primarily arising from the office lease on the statement of financial position. This will increase depreciation and interest expense in future periods. As a result, cash flow from operating activities will also increase because lease payments for most leases will be recorded as cash flows from financing activities in the statements of cash flows under IFRS 16.

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Ontario

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act* and the provincial *Commodity Futures Act*, and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown corporation accountable to the Ontario Legislature through the Minister of Finance.