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.

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.

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

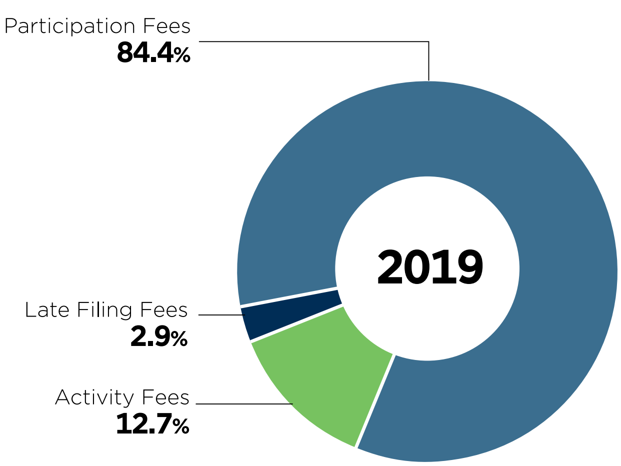
The OSC is funded by fees from market participants. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 Fees and 13-503 (*Commodity Futures Act*) Fees. The commission had planned to implement changes to the fee rule in April 2020, considering the existing surplus, projected 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.

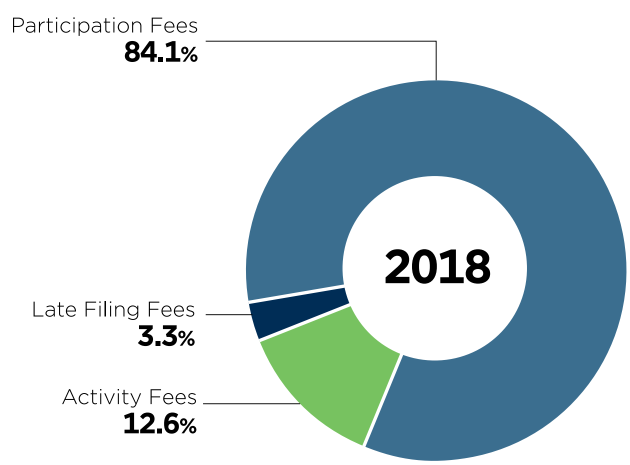
- **Participation fees** are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. Fees are calculated using an increasing tiered structure 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.

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%.

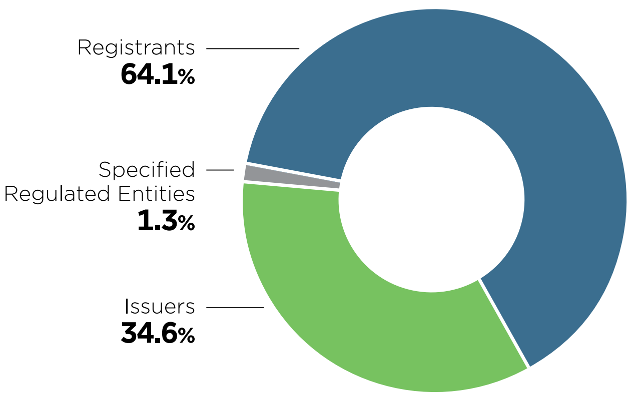
(Thousands)	Budget	2019	2018	Variance Budget $	Variance Budget %	Variance Prior Year $	Variance Prior Year %
REVENUE							
Participation Fees	$ 102,518	$ 108,083	$ 104,502	$ 5,565	5.4%	$ 3,581	3.4%
Activity Fees	14,133	16,312	15,648	2,179	15.4%	664	4.2%
Late Filing Fees	2,903	3,716	4,080	813	28.0%	(364)	-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.

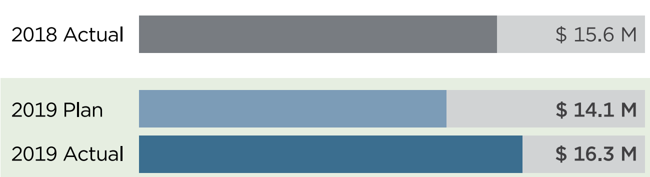
Participation fees

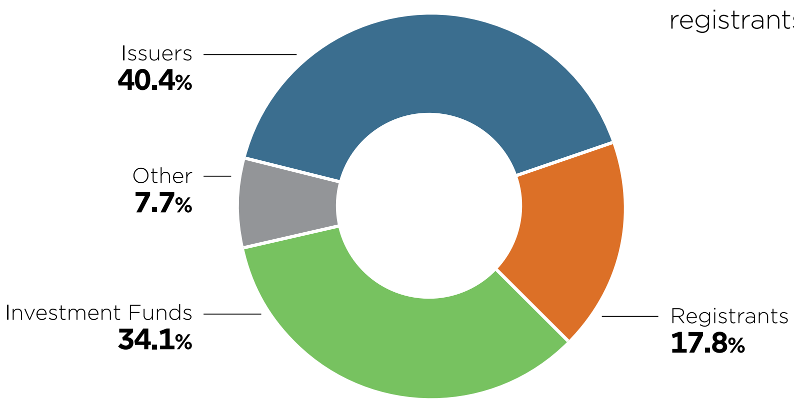


Variance from prior year: Total participation fee revenues were $3.6 million (3.4%) higher in 2019 compared to 2018 primarily as a result of revenue growth from large registrants, moving these firms into higher fee tiers.

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

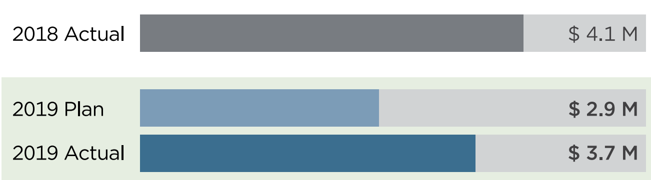


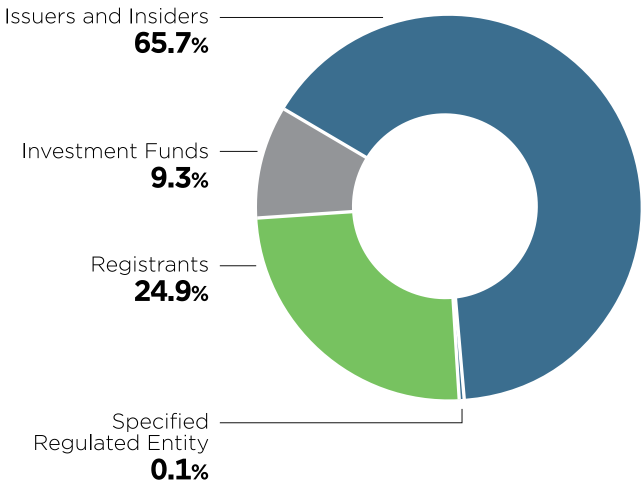


Variance from prior year: Activity fee revenues were $0.7 million (4.2%) higher this year than the prior year, primarily due to higher prospectus filings from investment funds.

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.

Late fees





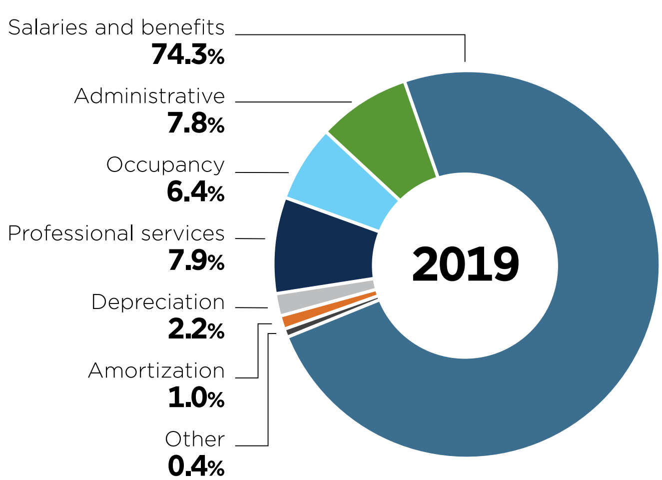
Variance from prior year: Late fee revenues were $0.4 million (8.9%) lower than the prior year primarily as a result of a lower volume of late filings of registrant documents.

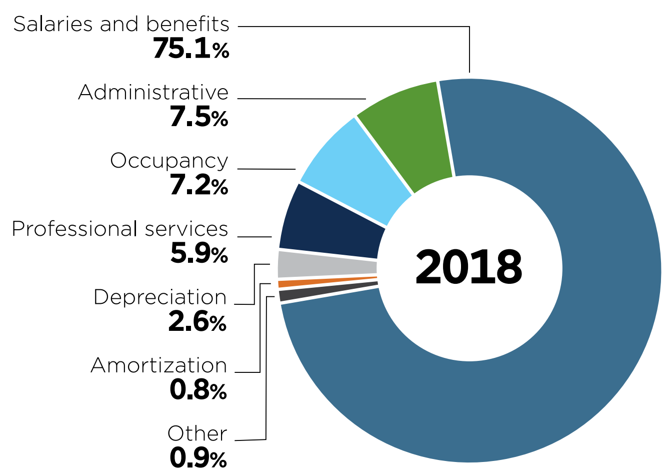
Variance from current year plan: Late fee revenues were $0.8 million (28.0%) higher than plan for the current year. This is primarily due to a higher volume of late filings from issuers.

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.

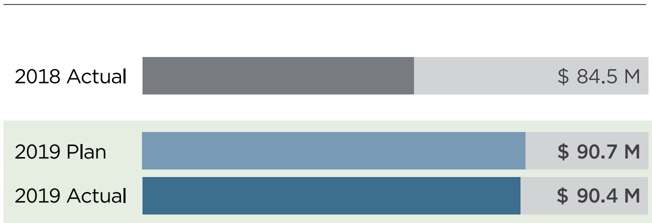
(Thousands)	Budget	2019	2018	Variance Budget $	Variance Budget %	Variance Prior Year $	Variance Prior Year %
Salaries and benefits	$ 90,705	$ 90,394	$ 84,476	$ 311	0.3%	$ (5,918)	-7.0%
Administrative	12,088	9,537	8,448	2,551	21.1%	(1,089)	-12.9%
Occupancy	8,148	7,735	8,083	413	5.1%	348	4.3%
Professional 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%**





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

Salaries and benefits

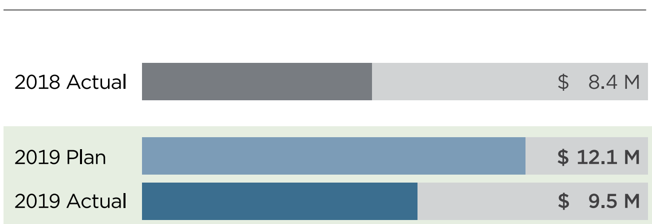


Variance from prior year: Salaries and benefits were $5.9 million (7.0%) higher this year than the prior year. This was primarily as result of an increase in the average number of positions and salary increases implemented at the beginning of the year. Eight permanent positions were added to support 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

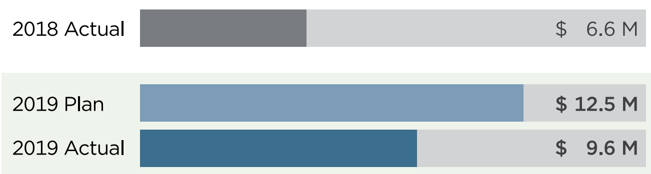


Variance from prior year: Administrative expenses were $1.1 million (12.9%) higher this year than the prior year. This was a result of an increase in spending on information technology maintenance and support for new cloud based Enforcement analytics software.

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



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.

Depreciation

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.

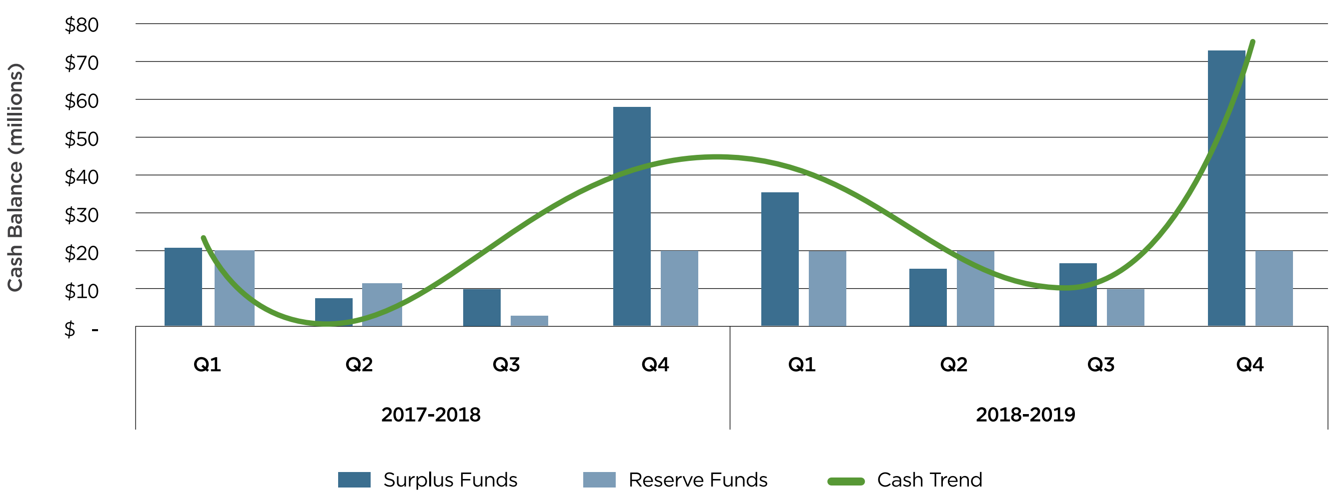
Cash flows

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



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

			Variance	
	2019	**2018**	**$**	**%**
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

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.

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

	2018–2019	2018–2019	2019–2020	2019–20 Budget to 2018–19 Budget		2019–20 Budget to 2018–19 Actual	
(Thousands)	**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)**	

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.

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.