Management’s discussion and analysis
This Management’s Discussion and Analysis (MD&A) contains management’s interpretation of the OSC’s financial performance for the 2016 fiscal year ended March 31, 2016. 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 2016 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 May 31, 2016.
• 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 2016 Notes to the Financial Statements.
• All financial information related to 2015 and 2016 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. We regulate firms and individuals who sell securities and provide advice in Ontario, as well as public companies, investment funds and marketplaces, such as the Toronto Stock Exchange.

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 and to foster fair and efficient capital markets and confidence in capital markets.

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.

Capital Markets Regulatory Authority (CMRA)
The OSC plays an important advisory role to the Ontario Ministry of Finance on the initiative among the Ontario, British Columbia (BC), Saskatchewan, New Brunswick (NB), Prince Edward Island (PEI), Yukon and Federal governments to establish a Cooperative Capital Markets Regulatory Regime (CCMR). In August 2015, the Ministers responsible for capital markets regulation in Ontario, BC, Saskatchewan, NB, PEI and Yukon published for comment a revised consultation draft of the uniform provincial/territorial Capital Markets Act (CMA), draft initial regulations and related materials. The CMA and the regulations would together constitute the single set of provincial/territorial laws under the CCMR. The comment period ran until December 23, 2015. In addition, implementation legislation is also being developed to ensure a smooth transition to the new regime and to integrate the new regime into the general laws of each participating province and territory. The federal government published a revised consultation draft Capital Markets Stability Act on May 5, 2016 for a 60-day comment period.

During 2016, the OSC expended approximately $1.3 million in staff resources, in addition to the $1.8 million expended in 2015, and $500 thousand expended in 2014, for a total of $3.6 million toward the creation of, and transition to, the CCMR. These totals do not include time spent by members of the OSC’s Executive who participate on the CCMR Transition Committee.
Operating results
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. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2016, a smaller surplus in 2017 and a deficit in 2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The chart below provides a comparison of results over the last three years that are further described later in this document. Total revenues were higher than projected and total expenses were lower than projected for each of 2015 and 2016, resulting in a higher than expected surplus. The general surplus is now expected to be $30 million by the end of 2018, assuming that there is no significant growth or deterioration in the markets. The ending surplus will be taken into account when fee rates are reviewed and new fee rules are implemented beginning in the 2019 fiscal year.

In 2016, our general operating surplus increased by $15 million as a result of higher revenue, the recovery of investor education costs and extensive cost reductions relative to our 2016 plan.

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

Selected three-year annual information

<table>
<thead>
<tr>
<th>(Thousands)</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$116,849</td>
<td>$103,936</td>
<td>$98,677</td>
</tr>
<tr>
<td>Expenses</td>
<td>103,958</td>
<td>98,870</td>
<td>97,663</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses</strong></td>
<td><strong>12,891</strong></td>
<td><strong>5,066</strong></td>
<td><strong>1,014</strong></td>
</tr>
<tr>
<td>Recoveries of enforcement costs</td>
<td>900</td>
<td>2,995</td>
<td>508</td>
</tr>
<tr>
<td>Recoveries of investor education costs</td>
<td>1,198</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses</strong></td>
<td><strong>14,989</strong></td>
<td><strong>8,061</strong></td>
<td><strong>1,522</strong></td>
</tr>
<tr>
<td>General surplus</td>
<td>$29,247</td>
<td>$14,274</td>
<td>$6,540</td>
</tr>
<tr>
<td>Property, plant &amp; equipment (purchases)</td>
<td>$3,058</td>
<td>$1,616</td>
<td>$6,940</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$242,884</strong></td>
<td><strong>$207,414</strong></td>
<td><strong>$182,249</strong></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td><strong>$179,020</strong></td>
<td><strong>$157,057</strong></td>
<td><strong>$137,378</strong></td>
</tr>
</tbody>
</table>

Revenue increased from 2015 to 2016 primarily due to the impact of the new fee rules that came into effect on April 6, 2015. While participation fee rates remained unchanged, the basis for calculating participation fees changed from using a reference fiscal year to using the market participant’s most recent fiscal year. Because issuers’ market capitalization and registrants’ Ontario revenues, which are used to calculate participation fees, were higher overall, as compared to the reference fiscal year, this resulted in higher participation fee revenues for the OSC.

The general surplus increased each year as a result of the excess of revenue over expenses for each related fiscal years’ operations.

Property, plant & equipment expenditures were significantly higher for 2014 than 2015 and 2016 due to a two-year renovation project of the OSC’s leased premises at 20 Queen Street West during 2014. In 2016, these expenditures were higher than in 2015 as a result of investments in information technology, in particular to support the data management project, and to renovate an additional floor of leased space at the OSC offices.
Total assets increased from 2015 to 2016 primarily as a result of the increase in the following:

- **Cash**, as a result of the Excess of revenue over expenses,
- **Net assets held for CSA Systems operations and redevelopment** that have been accumulated and are held in trust on behalf of the other CSA regulators, mainly as a result of the excess of system fee revenues over expenses incurred, and
- **Funds held pursuant to designated settlements and orders**, as a result of the orders assessed and that have either been paid or deemed to be receivable.

Non-current liabilities increased from 2015 to 2016 primarily as a result of an increase in the offsetting liability corresponding to Net assets held for CSA Systems operation and redevelopment and Funds held pursuant to designated settlements and orders, as described above.

### About our fees

The OSC is funded by fees from market participants. We charge two types of regulatory fees: participation fees and activity fees. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 Fees and 13-503 (Commodity Futures Exchange) Fees. The most recent fee rule amendments became effective April 6, 2015 and are expected to be in place until March 31, 2018.

- **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. In fiscal 2016, we changed the basis for calculating participation fees from a reference fiscal year (where participation fees were indexed to a prior fiscal year’s results) to 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. Activity fee rates were adjusted when the new fee rules were implemented at the start of fiscal 2016.

- **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

The implementation of the new fee rules, which came into effect on April 6, 2015, resulted in total revenues of $116.8 million in 2016, up $12.9 million (12.4%) from 2015. Total revenues for the year exceeded plan by $2.6 million (2.2%), mainly due to higher participation fees from registrants and higher late filing fees, which were offset by lower activity fees. Participation fees account for 90% of the variance, while the offsetting variances in activity fees and late filing fees, together with miscellaneous revenue and investment income, account for the remaining 10%.

<table>
<thead>
<tr>
<th>(Thousands)</th>
<th>% of 2016 Revenue</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation fees</td>
<td>85.5%</td>
<td>$99,714</td>
<td>$88,423</td>
<td>$11,291</td>
<td>12.8%</td>
</tr>
<tr>
<td>Activity fees</td>
<td>11.9%</td>
<td>13,841</td>
<td>13,111</td>
<td>730</td>
<td>5.6%</td>
</tr>
<tr>
<td>Late fees</td>
<td>2.6%</td>
<td>3,083</td>
<td>2,122</td>
<td>961</td>
<td>45.3%</td>
</tr>
<tr>
<td><strong>Total fees</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$116,638</strong></td>
<td><strong>$103,656</strong></td>
<td><strong>$12,982</strong></td>
<td><strong>12.5%</strong></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td>43</td>
<td>159</td>
<td>(116)</td>
<td>-73.0%</td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td>168</td>
<td>121</td>
<td>47</td>
<td>38.8%</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>$116,849</strong></td>
<td><strong>$103,936</strong></td>
<td><strong>$12,913</strong></td>
<td><strong>12.4%</strong></td>
<td></td>
</tr>
</tbody>
</table>

2016 2015

- Participation fees 85.5% 85.3%
- Activity fees 11.9% 12.7%
- Late fees 2.6% 2.0%
Management’s Discussion and Analysis

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

**Participation fees**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Plan</td>
<td>$87.4 M</td>
<td>$88.4 M</td>
<td>$97.4 M</td>
<td>$99.7 M</td>
<td>$100.9 M</td>
</tr>
<tr>
<td>2016 Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Variance from prior year:** Total participation fee revenues were $11.3 million (12.8%) higher in 2016 than in 2015, primarily due to a $0.8 million (2%) increase from reporting issuers, a $12.0 million (23.8%) increase from registrants, and a $1.4 million (64%) decrease from marketplaces and other entities. This increase in participation fee revenues from issuers and registrants is attributed to the change in the fee rules as noted above. In particular, there was an increase from registrants whose Ontario revenues have increased significantly since 2012 (the reference fiscal year). The variance for marketplaces and other entities is primarily due to the timing of filings. The new rules maintain participation fee rates at the levels that became effective in April 2014 and keep the participation fee rates flat for the duration of the rules.

**Variance from current year plan:** Participation fee revenues were $2.3 million (2.4%) higher than the 2016 plan. Issuer participation fees were $2.5 million (6.4%) under plan and registrant participation fees are $5.6 million (10%) higher than plan. The main reason for these variances was the move to the new fee rules that required us to model what the “prior period” information would be, based on the overall change in the market between 2012 and 2015. The prior period information required to calculate revenues was not readily available for all market participants. Given that the OSC now has current information for market participants, future forecasting is expected to improve.

Participation fees from marketplaces and other entities were $0.8 million (50.8%) under plan as a result of the timing of fees paid. The number of marketplaces and annual revenues from these market participants are expected to be consistent each year going forward.

**2017 plan:** The 2017 plan for participation fees totals $100.9 million: $38.3 million from issuers, $61.0 million from registrants and $1.6 million from marketplaces and other entities. This represents a $1.2 million (1%) increase from 2016 actual results and a $3.5 million (4%) increase from the 2016 plan. Although these fees are anticipated to be slightly higher, they are in line with the 2016 actual results as fee rates do not change and we don’t expect market changes to have a significant impact.
Variance from prior year: Activity fee revenues were $0.7 million (6%) higher this year than the prior year, primarily due to a $0.6 million (12%) increase from registrants and a $0.2 million (143%) increase from marketplaces and other entities. This more than offset the $74 thousand (1%) decrease in activity fees from reporting issuers. The overall increase was largely due to an increase in a number of activity fee rates that were implemented at the beginning of the fiscal year.

Variance from current year plan: Activity fee revenues were $0.9 million (6%) below plan for the current year. Issuer activity fees were lower than plan by $0.6 million (7%), mainly due to lower prospectus volumes relative to the plan amount, lower exemptive relief applications and exempt distribution filings. The above negative variances were partially offset by higher take-over bid activity than planned. Registrant activity fees were below plan by $0.6 million (9%) as a result of a significantly lower volume of prospectuses under National Instrument 41-101 (scholarship plans), which explains the entire shortfall. This was partially offset by higher new registrant activity. Activity fees attributable to marketplaces and other entities were $0.3 million (100%) higher than plan as no marketplace and other entity activities were expected for the year, given the one-time nature of these filings.

2017 plan: The 2017 plan for activity fees totals $12.7 million: $6.4 million from issuers, $6.2 million from registrants and $100 thousand from marketplaces and other entities. This represents a $1.2 million (8%) decrease from the 2016 actual results and a $2.0 million (14%) decrease from the 2016 plan, as filing volumes are expected to remain low in 2017.

Variance from prior year: Late fee revenues were $962 thousand (45%) higher than the prior year as a result of more late exempt distribution filings, issuer interim financial statements, registrant documents and System for Electronic Disclosure by Insiders (SEDI) insider filings submitted later than in the prior year.

Variance from current year plan: Late fee revenues were $1.1 million (54%) higher than plan for the current year. This was also mainly due to more late exempt distribution filings, issuer interim financial statements, registrant documents and SEDI insider filings submitted later than planned.

2017 plan: The 2017 plan for late fees totals $2.8 million, which is slightly lower than the 2016 actual revenue since we expect to get fewer late exempt distribution filings and registrant document filings. The amount projected is slightly higher than the average for the total of the 2015 and 2016 fiscal years.
Management’s Discussion and Analysis

Expenses

In 2016, our total expenses were $104.0 million, up $5.1 million (5%) from $98.9 million in 2015 (excluding Recoveries of enforcement and investor education costs). The year-over-year increase is attributable mainly to higher salaries and benefits costs as a result of additional positions hired in priority areas, as well as higher professional services costs to support Information Services (IS) strategic initiatives. Total expenses for the year were under plan by $6.0 million (5%) before Recoveries of enforcement costs, as a result of cost cutting and deferred initiatives. Targeted underspending in Salaries and benefits accounted for 19% of the variance against the plan, while 37% related to underspending in Professional services. Other areas of underspending included Travel (included in Other expenses), Administrative expenses and Depreciation.

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

<table>
<thead>
<tr>
<th>(Thousands)</th>
<th>% of 2016 Expenses</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits</td>
<td>76.2%</td>
<td>$79,174</td>
<td>$76,231</td>
<td>$2,943</td>
<td>3.9%</td>
</tr>
<tr>
<td>Administrative</td>
<td>7.4%</td>
<td>7,737</td>
<td>8,017</td>
<td>(280)</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>7.7%</td>
<td>8,009</td>
<td>7,741</td>
<td>268</td>
<td>3.5%</td>
</tr>
<tr>
<td>Professional services</td>
<td>5.3%</td>
<td>5,479</td>
<td>3,551</td>
<td>1,928</td>
<td>54.3%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2.7%</td>
<td>2,761</td>
<td>2,702</td>
<td>59</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other</td>
<td>0.7%</td>
<td>798</td>
<td>628</td>
<td>170</td>
<td>27.1%</td>
</tr>
<tr>
<td>Revenues of enforcement costs</td>
<td></td>
<td>(900)</td>
<td>(2,995)</td>
<td>2,095</td>
<td>-69.9%</td>
</tr>
<tr>
<td>Recoveries of investor education costs</td>
<td></td>
<td>(1,198)</td>
<td>—</td>
<td>(1,198)</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total expenses (net of recoveries)</td>
<td></td>
<td>$101,860</td>
<td>$95,875</td>
<td>$5,985</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Salaries and benefits 76.2%
Administrative 7.4%
Occupancy 7.7%
Professional services 5.3%
Depreciation 2.7%
Other 0.7%

Salaries and benefits 77.1%
Administrative 8.1%
Occupancy 7.8%
Professional services 3.6%
Depreciation 2.7%
Other 0.7%
## Salaries and benefits

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For details on the composition of the Salaries and benefits expenses incurred, see Note 15 of the financial statements.

**Variance from prior year:** Salaries and benefits were $2.9 million (4%) higher this year than the prior year. This was a result of an increase in the average number of active positions coupled with salary increases implemented at the beginning of the year. For the 2016 fiscal year, the OSC Board approved the addition of 35 new positions for priority areas within the OSC, including data management and research, derivatives oversight and the Investor Office.

**Variance from current year plan:** Salaries and benefits were $1.1 million (1.4%) lower than plan for the current year. This was a result of targeted cost-cutting measures, including maintaining vacancies for a longer than expected period.

**2017 plan:** The 2017 plan for Salaries and benefits totals $83.5 million. This represents a $4.3 million (5%) increase from the current year actual results and a $3.2 million (4%) increase from the 2016 plan. The increase reflects an increased investment in the oversight of the derivatives market, the implementation of the Whistleblower program and investment in information services.

## Administrative

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For details on the composition of Administrative expenses incurred, see Note 16 of the financial statements.

**Variance from prior year:** Administrative expenses were $280 thousand (3.5%) lower this year than the prior year. This was a result of a lower provision for bad debts that was recorded this year as compared to the prior year.

**Variance from current year plan:** Administrative expenses were $1.8 million (23%) lower than plan for the current year. This was primarily the result of reduced spending on IS maintenance costs, as costs related to the IS Strategic Plan were deferred due to a change in timing and scope for the data management projects. Reduced spending in other areas included communications, mainly due to a reduced need for electronic resources by the Library.

**2017 plan:** The 2017 plan for Administrative expenses totals $10.4 million. This represents a $2.7 million (35%) increase from 2016 actual results and a $935 thousand (10%) increase from the 2016 plan. The increase results from additional maintenance costs for items identified in the IS Strategic Plan for our information systems, including costs deferred from 2016.
Management’s Discussion and Analysis

**Occupancy**

<table>
<thead>
<tr>
<th>Plan/Actual</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Plan</td>
<td>$7.9 M</td>
</tr>
<tr>
<td>2015 Actual</td>
<td>$7.7 M</td>
</tr>
<tr>
<td>2016 Plan</td>
<td>$8.2 M</td>
</tr>
<tr>
<td>2016 Actual</td>
<td>$8.0 M</td>
</tr>
<tr>
<td>2017 Plan</td>
<td>$8.3 M</td>
</tr>
</tbody>
</table>

**Variance from prior year:** Occupancy expenses were $268 thousand (3%) higher this year than the prior year as a result of the general increase in additional rent charges relating to energy, property taxes and common area maintenance.

**Variance from current year plan:** Occupancy expenses were $207 thousand (3%) lower than plan for the current year plan due to energy cost savings included in our rent overhead charges. That is, we had lower electricity charges for the fiscal year than expected.

**2017 plan:** The 2017 plan for Occupancy expenses totals $8.3 million. This represents a $294 thousand (4%) increase from the current year actual results and an $87 thousand (3%) increase from the 2016 plan. The increase results from expected additional costs for utilities.

During 2016, the OSC leased and renovated additional space that is being utilized by the CSA IT Systems Office and the Government of Canada on a cost recovery basis through a sublease agreement, including all renovation and lease costs. The amount of lease costs spent and subsequently recovered from these organizations in 2016 is $715 thousand.

**Professional services**

<table>
<thead>
<tr>
<th>Plan/Actual</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Plan</td>
<td>$5.2 M</td>
</tr>
<tr>
<td>2015 Actual</td>
<td>$3.6 M</td>
</tr>
<tr>
<td>2016 Plan</td>
<td>$7.7 M</td>
</tr>
<tr>
<td>2016 Actual</td>
<td>$5.5 M</td>
</tr>
<tr>
<td>2017 Plan</td>
<td>$9.4 M</td>
</tr>
</tbody>
</table>

**Variance from prior year:** Professional services expenses were $1.9 million (54.3%) higher this year than the prior year. This was mainly due to higher spending on consulting and other support for our IS Strategic Plan. As well, there was additional spending on initiatives for the Investor Office, most of which were costs that were previously borne by the now dissolved Investor Education Fund. Costs for consulting and support for Enforcement matters were also higher as compared to the prior year.

**Variance from current year plan:** Professional services expenses were $2.2 million (29%) lower than plan for the current year. A portion of this amount is attributed to underspending on IS consulting services related to a number of IS strategic initiatives that were deferred. The Investor Office also underspent on consulting costs due to the time required for the Investor Office’s expanded team to ramp up spending on investor initiatives. Spending for support on Enforcement matters was also less than plan as a number of matters were settled earlier than expected or did not require the external support that was originally expected.

**2017 plan:** The 2017 plan for Professional services expenses totals $9.4 million. This represents a $3.9 million (71%) increase from 2016 actual results and is to support the planned investments in derivatives oversight, investor outreach and IS enhancements.
Depreciation

Variance from prior year: Depreciation expense was $59 thousand (2%) higher than the prior year due to an increase in the capital asset base.

Variance from current year plan: Depreciation expense was $239 thousand (8%) lower than plan for the current year. This was because equipment and information systems purchases which are capitalized, were incurred later than planned in the fiscal year.

2017 plan: The 2017 plan for Depreciation expense totals $2.8 million and is in line with the 2016 results.

Recovery of investor education costs

On June 20, 2012 subparagraph 3.4(2)(b)(ii) was added to the Securities Act (Ontario) and took effect. Prior to this date, the Commission was required to pay enforcement monies to the Province’s Consolidated Revenue Fund unless these monies were designated under subparagraph 3.4(2)(b)(i) “for allocation to or for the benefit of third parties”. Subparagraph 3.4(2)(b)(ii) expands 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.”

Accordingly, following the dissolution of the Investor Education Fund on March 31, 2015, the OSC began recovering costs that met the criteria as described above from the funds held pursuant to designated settlements and orders. These recoveries are reviewed by the Audit and Finance Committee and are approved quarterly.

During the year, the OSC recorded $1.2 million in recoveries of investor education costs. This amount is lower than the $1.5 million expected to be recovered because the Investor Office did not expand as quickly as expected and therefore did not spend the full amount projected. Of the amount recorded, $584 thousand was received and $630 thousand remains payable to the OSC at year end.

CSA shared costs

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 2016, total CSA spending on shared projects was $1.9 million ($1.8 million in 2015). The OSC contributed $739 thousand ($685 thousand in 2015). 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. All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2016, the OSC contributed $396 thousand ($393 thousand in 2015) to support the CSA Secretariat.
Management’s Discussion and Analysis

Liquidity and financial position

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

Liquidity

Cash

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$17.0 M</td>
</tr>
<tr>
<td>2016</td>
<td>$29.2 M</td>
</tr>
</tbody>
</table>

At March 31, 2016, the OSC held $29.2 million in Cash ($17.0 million in 2015) and $20.0 million in Reserve fund assets ($20.0 million in 2015), for a combined total of cash and cash equivalent resources available of $49.2 million ($37.0 million in 2015).

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

At March 31, 2016, the OSC had current assets of $34.6 million ($21.3 million in 2015) and current liabilities of $14.6 million ($16.1 million in 2015) for a current ratio of 2.4:1 (1.3:1 in 2015). The higher current ratio is mainly due to the increase in our Cash balance as described below.

The OSC uses multi-year forward-looking operational forecasts to anticipate potential future cash requirements. In 2016, a lower amount was drawn on the line of credit than forecast and for a slightly shorter period than in 2015. This resulted in a reduction in interest charges paid on the line of credit.

The OSC’s Cash position increased $12.2 million (72%) from 2015 as a result of an operational surplus in 2016 adjusted by investments in fixed assets. In 2016, we had an excess of revenue over expenses of $15.0 million ($8.1 million in 2015), and our year-end surplus was $29.2 million ($14.3 million in 2015).

Cash flows

In 2016, Cash flows from operating activities produced an inflow of $15.4 million ($9.2 million in 2015). Property, plant & equipment investments in 2016 consumed $3.1 million ($1.6 million in 2015). Financing activities, which consisted of interest on the line of credit, utilized $55 thousand.

Approximately 74% 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 negative cash balances from the second quarter to the beginning of the fourth quarter of each fiscal year. The OSC currently uses two key tools to manage temporary negative cash positions: a $20.0 million general operating reserve and a $52.0 million revolving line of credit, both as approved by the Minister of Finance.

In 2016, we used all of our $20.0 million in Reserve fund assets and $14.4 million ($19.5 million in 2015) of our revolving line of credit to fund operations. We repaid the full outstanding balance of the line of credit and restored the $20.0 million in Reserve fund assets in early January 2016 when most registrant participation fees were received.

The agreement for the current line of credit expires on June 30, 2016. During the year, the Commission worked with the Ontario Financing Authority to secure the Minister of Finance’s approval to renew the line of credit for an additional two years, up to the same maximum of $52.0 million as the current line of credit.

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 held for CSA Systems redevelopment (included in Net assets held for CSA Systems operations and redevelopment). Both are recorded at fair value.

The OSC is not exposed to significant interest rate, currency or liquidity risks from these investments because they are short-term in nature 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 10 of the financial statements.

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

The following is a discussion of the significant changes in our Statement of financial position.

Trade and other receivables

Trade and other receivables were $3.8 million ($3.0 million in 2015). The increase was primarily due to the amount receivable for investor education costs that is eligible for reimbursement, coupled with the amount recoverable from the Government of Canada for office space that is being sub-leased to it, both of which were new this year. There was also an increase in the amount recoverable from the Government of Canada for HST.

For more information on Trade and other receivables, see Note 4 and Note 5 of the financial statements.

Prepayments

Prepayments totaled $1.5 million ($1.4 million in 2015), reflecting a 10.9% increase as a result of an increase in maintenance costs on our application systems and for subscriptions for information services that were prepaid near the end of the fiscal year.

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 as the Board of the OSC may determine. This includes allocating money to harmed investors, where an allocation can be reasonably made, and for investor education. Funds not designated when settlements are approved or when orders are made must be paid to the Consolidated Revenue Fund of the Government of Ontario.

In 2016, $223.3 million in orders was assessed ($53.0 million in 2015). The OSC recorded $13.5 million of that money in Funds held pursuant to designated settlements and orders ($9.5 million in 2015). Of this amount, the OSC collected $11.0 million in 2016 ($7.5 million in 2015) and deemed $2.5 million ($2.1 million in 2015) as being collectible.

Included in the $223.3 million in orders assessed by the OSC are three orders where the respondents were required to make payment directly to harmed investors, totaling $164.3 million. While this amount is considered for our enforcement sanctions statistics, it is not captured in the OSC’s accounting records and does not form part of the Funds held for designated settlements and orders balance.

As authorized by its Board, the OSC distributed $627 thousand ($22 thousand in 2015) to harmed investors, $0 ($2.1 million in 2015) to the Investor Education Fund and $584 thousand ($0 in 2015) to the OSC for the recovery of investor education costs. In addition, $102 thousand related to an amount that was previously distributed to a harmed investor was returned to the Funds held for designated settlements and orders account because the payment had become stale dated. A replacement payment was made subsequent to year end.

At March 31, 2016, the accumulated balance of designated funds was $35.6 million ($24.7 million in 2015). Of this amount, $31.2 million was held in cash ($19.9 million in 2015) and $4.4 million was deemed as being receivable ($4.9 million in 2015). After considering funds set aside for possible allocation to harmed investors, $14.6 million of the funds on hand is available for distribution ($5.6 million in 2015).

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 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. Collections of monetary sanctions improved in 2016 primarily because two of the respondents are well-established firms that paid the sanctions assessed to them.

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.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Settlements</th>
<th>Contested hearings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$16,010,927</td>
<td>$45,649,682</td>
<td>$61,660,609</td>
</tr>
<tr>
<td></td>
<td>$1,251,003</td>
<td>1,757,004</td>
<td>3,008,007</td>
</tr>
<tr>
<td></td>
<td>7.81%</td>
<td>3.85%</td>
<td>4.88%</td>
</tr>
<tr>
<td>2015</td>
<td>$17,890,404</td>
<td>$35,080,537</td>
<td>$52,970,941</td>
</tr>
<tr>
<td></td>
<td>$7,718,255</td>
<td>445,779</td>
<td>8,164,034</td>
</tr>
<tr>
<td></td>
<td>43.14%</td>
<td>1.27%</td>
<td>15.41%</td>
</tr>
<tr>
<td>2016</td>
<td>$23,283,821</td>
<td>$35,742,634</td>
<td>$59,026,455</td>
</tr>
<tr>
<td></td>
<td>$9,968,882</td>
<td>990,138</td>
<td>10,959,020</td>
</tr>
<tr>
<td></td>
<td>42.81%</td>
<td>2.77%</td>
<td>18.57%</td>
</tr>
</tbody>
</table>

* Does not reflect amounts paid directly by respondents to investors of $164.3 million.

**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 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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$12.6 M</td>
</tr>
<tr>
<td>2016</td>
<td>$12.9 M</td>
</tr>
</tbody>
</table>

Property, plant & equipment increased 2.3% to $12.9 million ($12.6 million in 2015). The increase is the result of fixed asset acquisitions for information technology partially offset by the impact of depreciation of acquisitions.

For more information on Property, plant & equipment, see Note 9 of the financial statements.

**Trade and other payables**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$16.1 M</td>
</tr>
<tr>
<td>2016</td>
<td>$14.6 M</td>
</tr>
</tbody>
</table>

Trade and other payables decreased 9.1% to $14.6 million ($16.1 million in 2015). This decrease is a result of a decrease in accrued salaries and related benefits accrued at the end of 2016.

For more information on Trade and other payables, see Note 10 of the financial statements.

The OSC’s lease commitments are outlined in Note 11 of the financial statements.
Pension liabilities

The accrued supplemental pension plans’ defined benefit obligation of $3.6 million ($3.6 million in 2015) represents future obligations for supplemental pension plans for present and past Chairs and Vice-Chairs. The OSC’s related expenses for the year were $233 thousand ($262 thousand in 2015).

For more information on the supplementary pension plan and related defined benefit obligation, see Note 12(b) of the financial statements.

Net assets held for CSA Systems redevelopment

The core CSA National Systems (CSA Systems) are hosted and operated by CGI Information Systems and Management Consultants Inc. (CGI). The CSA Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), SEDI and the National Registration Database (NRD). Market participants are required to use the CSA Systems to file regulatory documents, such as prospectuses and other disclosure documents, report trades by insiders, file registration information and submit fee payments.

The OSC, Alberta Securities Commission, British Columbia Securities Commission and l’Autorité des marchés financiers are principal administrators (PAs) of the CSA Systems. The OSC has been appointed the Designated Principal Administrator – Operations (DPA). As DPA, the OSC oversees the custody and financial management of the system fees collected relating to CSA Systems used by market participants. The CSA IT Systems Project Office, which is housed at the OSC, manages the CSA Systems business relationships with third-party technology providers.

Net assets held for CSA Systems operation and redevelopment include all surplus funds accumulated from CSA Systems operations that are collected, held and administered by the DPA on behalf of the PAs. The use of these surplus funds is governed by various agreements between the PAs, and the total is reflected in the Statement of financial position as both a Non-current asset and an equal offsetting Non-current liability of $139.9 million ($128.8 million in 2015).

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

The funds included in Net assets held for CSA Systems redevelopment may be used to fund the operations of the CSA Systems, enhance the systems, reduce systems fees, offset shortfalls in system fee revenue related to operation of SEDAR, SEDI and NRD, and fund the operations of the DPA and the CSA IT Systems Project Office.

In May 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 scope of the agreement include software acquisition, application development, systems integration and application support. Redevelopment will occur in a multi-year phased approach beginning in fiscal 2017. The contract is valued at approximately $81 million and will be funded through the accumulated surplus. The PAs have certain rights to terminate the agreement, with and without cause, as set out in the agreement.

For more information on Net assets held for CSA Systems redevelopment, including current and prior year operating results, see Note 7 and Note 17(a) of the financial statements.
Management’s Discussion and Analysis

2017 Strategy
Our plans and budget for fiscal year 2017

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 fulfill 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 10, 2016, the OSC published its 2017 OSC Draft Statement of Priorities – Request for Comments. The draft Statement of Priorities was open for public comment until May 9, 2016 and is available on the OSC website at www.osc.gov.on.ca.

2017 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 2017 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 2017 OSC Budget over 2016 as this will require focused investments in the following areas:

- improving education, outreach and advocacy through the continued work of the Investor Office and operationalizing the Whistleblower program,
- implementation of a new regulatory framework (including supervision and oversight) for the derivatives market and the exempt market,
- improving the OSC’s information technology, in particular to support a greater reliance on data and research, and
- improving information security awareness for the OSC.

As a result, the budget reflects an increase of 4.1% from the 2016 budget and 10.1% from 2016 spending. Salaries and benefits, which comprise $83.5 million or 74.5% of the budget, represent an increase of $4.3 million or 5.5% over 2016 spending. The key reasons for this increase are:

- approval of new positions to support the investments noted above, and
- the impact of the full year costs of the positions hired in the prior year, many of which were hired later in the year.

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the underspending noted in the prior years and the fact that budget amounts will decrease, or remain flat in approximately 50% of its operating branches. The budget also includes resources for work toward the implementation of the CMRA.

The capital budget, although relatively flat compared to 2016 spending, reflects the cost to support the OSC’s information technology needs, in particular a significant data management program initiative. The budget also includes a refresh of the OSC’s personal computers and laptops.

2017 plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$114,282</td>
<td>$116,849</td>
<td>$116,522</td>
<td>$2,240</td>
<td>2.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$(327)</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Expenses</td>
<td>107,682</td>
<td>101,860</td>
<td>112,141</td>
<td>4,459</td>
<td>4.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10,281</td>
<td>10.1%</td>
</tr>
<tr>
<td>Excess of revenue</td>
<td>$6,600</td>
<td>$14,989</td>
<td>$4,381</td>
<td>$(2,219)</td>
<td>$(10,608)</td>
</tr>
<tr>
<td>over expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant &amp;</td>
<td>$3,101</td>
<td>$3,058</td>
<td>$2,989</td>
<td>$(112)</td>
<td>$(69)</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For more information on 2017 planned budget amounts for significant revenue and expense line items, see the Revenue and Expenses sections of this MD&A.
Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with IFRS requires that management make judgments, 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 judgments, estimates and assumptions are considered “critical” if:

• they require assumptions about highly uncertain matters when made, or
• we could reasonably have used different judgments, 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.

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.

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, and 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.

Strategic Risk Inventory

Information gathered through the risk management process is captured in the OSC’s Strategic 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 Strategic 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 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.
Management's Discussion and Analysis

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 internal annual audit plan that is approved by the Board. The Chief Internal Auditor reports, and provides quarterly updates, to the Audit and Finance Committee. In addition, the Chief Internal Auditor provides an annual report on the results of internal audit engagements to the Board of Directors.

The following are key business risks that the OSC has identified and actively manages.

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 bi-annually to highlight potential areas of risk. All findings and key 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 2016.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See Note 17 of the financial statements for more information. No material change is expected in the volume of fees collected through these systems.

Following a competitive tender for redeveloping these systems, the CSA IT Systems Project Office signed an agreement with CGI to redevelop the systems as described under Net assets for CSA Systems development in this MD&A.

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.

The fee rules for fiscal years ending March 31, 2014 and 2015 introduced the concept of a reference fiscal year to calculate participation fees. This was expected to significantly reduce the impact of market fluctuations on participation fee revenue. However, market fluctuations continued to affect our ability to precisely forecast revenue. For fiscal years ending March 31, 2016, 2017 and 2018, we returned to requiring 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. This year, no new legal actions were commenced against the OSC and one existing action against the OSC was dismissed by the court. It is not possible to determine the outcome and ultimate disposition of all other outstanding actions involving the OSC. However, management does not expect the outcome of any such proceedings, individually or in aggregate, to have a material impact on the OSC’s financial position. Any settlements in these actions would be accounted for when they occur.
**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, 2016. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no significant changes in controls that occurred during the most recent year ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the OSC’s ICFR. The Chair and the Director, Corporate Services certify the design and effectiveness of ICFR in the Statement of Management’s Responsibility and Certification.