

A blurred, high-angle photograph of a diverse crowd of people walking in various directions. The image is composed of several rectangular sections, each containing a different group of people, creating a sense of movement and activity. The background is white, and the people are in various poses and outfits, including business attire, casual wear, and a person with a backpack.

OSC

ONTARIO
SECURITIES
COMMISSION

Delivering on our mandate

2018 ANNUAL REPORT

Vision Mandate Values

OSC Vision

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

OSC Mandate

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

OSC Values

Professional

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

People

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

Ethical

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

OSC

ONTARIO
SECURITIES
COMMISSION

CONTENTS

- 2** OSC at a Glance
- 4** Message from the Chair
- 6** Message from the Executive Director
- 8** Report Card
- 35** Governance
- 42** Advisory Committees
- 48** Management's Discussion and Analysis
- 71** Financial Statements
- 77** Notes to the Financial Statements

Delivering on our mandate

2018 ANNUAL REPORT

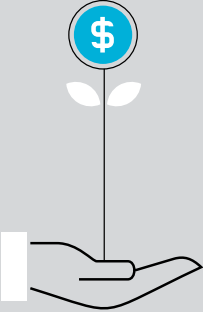
HIGHLIGHTS AT A GLANCE

DELIVERING ON OUR MANDATE

OSC AT A GLANCE IN 2017-18

Ontario-based
listed issuers account for

49%
of Canada's
equity market value

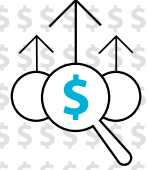



**Inquiries and
Contact Centre**

- Assisted **4,125** investors
- Responded to **11,973** market participant inquiries


1,300
registered firms
in Ontario


67,738
registered individuals
in Ontario

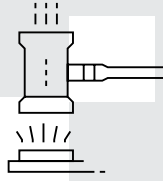

723
public
company,
investment
fund
and structured
product
prospectuses
reviewed

206
registrant
compliance
reviews
completed



Enforcement

- **97** administrative sanctions
- **3** no-contest settlements leading to **\$37 million** returned to investors
- **21.5** months of jail sentences ordered
- **19.9** years: average ban on **38** individuals from trading or serving as a director




115
FINTECH COMPANIES
received support from
OSC LaunchPad

96%
OF ALL CANADIAN
OTC DERIVATIVES
trading includes
an Ontario participant*




**Ontario is principal
regulator to more than**
80%
of all Canadian
INVESTMENT FUNDS

* Proportion of OTC derivative transactions by outstanding notional, reported to the OSC, compared to the aggregate Canadian outstanding notional reported by DTCC, CME, ICE as of March 31, 2018. Commodity trades are excluded from both amounts.



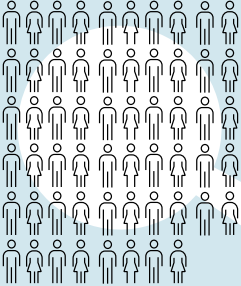
429
CASES ASSESSED
BY ENFORCEMENT



Staff participated
in more than
900
in-person stakeholder
engagements**



70



58
respondents
pursued through
the collections
pilot project



55,000
REGISTRATION
FILINGS PROCESSED

**OSC and CSA
publications:**

- 23 rules
- 43 notices
- 3 concept papers
- 1 policy




**MORE
THAN
185
TIPS**
received
by the
**Office of the
Whistleblower**
since
its launch




PUBLISHED
**OSC SENIORS
STRATEGY**
TO MEET THE
NEEDS OF OLDER
INVESTORS

The CSA
**banned
binary options
in Canada**
to prevent future
harm to investors

443
attendees at
OSC-hosted roundtables



6,048
PARTICIPANTS
attended OSC in the Community
events and teletownhalls

** Stakeholder engagements include external consultations, meetings and outreach on OSC or CSA-related matters.

Message from the Chair

This year has been one of remarkable change. Developments in technology, shifts in investor behaviour and increased globalization are transforming the markets, and securities regulation has had to evolve with them. I am proud that the Ontario Securities Commission has enthusiastically risen to this challenge while delivering on our mandate.

Delivering investor protection

We are passionately committed to providing protection to investors from unfair, improper or fraudulent practices. It is a responsibility we put great effort into again this year.

Much of our focus has been on improving investors' experiences and outcomes. Millions of Canadians place their financial futures in the hands of advisors, and these individuals must act in a manner that is worthy of that trust. Above all else, advisors need to put the interests of their clients first. The Canadian Securities Administrators' (CSA) proposed Client Focused Reforms would set higher standards for all registered firms and individuals, explicitly requiring conflicts of interest to be addressed in the best interests of clients, and to put the client's interest



first when making a suitability determination. Furthermore, we are recommending a ban on certain types of embedded mutual fund commissions while also addressing other fee-related conflicts of interest. These are significant and meaningful proposals that promote the best interests of clients, and I am pleased the CSA has worked together to develop consistent national reforms that would benefit investors across the country.

Profound changes in investor behaviour have also required our attention. Some shareholders now demand better reporting on environmental, social and governance (ESG) issues such as climate change disclosure, gender diversity on boards, governance decisions on executive compensation and proxy access. We support investors wanting their voices heard and their votes counted, and we remain actively engaged in achieving improved shareholder rights.

Our compliance and enforcement teams are also responding to the increasing complexity of our market. We use registration as the first compliance review and engage with registered firms frequently to ensure our expectations are understood and met. Our risk-focused compliance program has resulted in issues being flagged and fixed early, and we continue to provide guidance that is useful for the industry. Where we uncover breaches in securities law, we have tackled these cases in a timely way and with a growing number of enforcement tools. Our work alongside law enforcement partners and in the court system sends a clear message that misconduct and fraud will not be tolerated in Ontario's capital markets.

Delivering fairness, efficiency and confidence

The second part of our mandate is to foster fair and efficient capital markets and confidence in capital markets. To do this successfully, we have had to adapt, evolve and try new and innovative approaches.

The fintech evolution and the rise of investor interest in crypto assets pose unique challenges. OSC LaunchPad is leading our cross-branch efforts to address developments in digital exchanges, online trading platforms and crypto offerings in a fair and flexible way that safeguards

investors and instills market confidence. Our work in new territory continues with the growing cannabis industry in Canada, and the OSC and the CSA are setting global standards through effective securities regulation. We are also preparing to introduce additional investor protection measures and improved disclosure for syndicated mortgages.

Delivering stability

This year, a third item was added to our mandate, and that is to contribute to the stability of the financial system and the reduction of systemic risk. Ontario's markets, its businesses and investors all depend on us to see the big picture and identify potential systemic risks. We are collaboratively collecting, sharing and analysing information and data with other regulators from within the CSA, with our federal partners, and with international organizations. During the past year, the OSC and other members of the CSA continued to advance the regulation of over-the-counter (OTC) derivatives. These proposed rules are aligned with global standards and will make certain we have access to the data and information we need to better identify and respond to trends and risks.

It has been a productive year for the OSC, one that has strengthened investor protection and increased confidence in the markets. I want to thank every member of the Commission, Lead Director AnneMarie Ryan, Vice-Chairs Tim Moseley and Grant Vingoe, and Executive Director Leslie Byberg for their unflinching commitment to doing the right thing. I also extend my appreciation to the entire OSC staff, who are focused on the public good, committed to moving regulation forward and have brilliantly delivered on our mandate in this era of great change. Thank you to all of you.



Maureen Jensen

Chair and Chief Executive Officer
Ontario Securities Commission

MESSAGE FROM THE EXECUTIVE DIRECTOR

DELIVERING ON OUR MANDATE

Staying on top of an evolving marketplace requires tackling issues with increased agility. Under Maureen's leadership and the direction of our Board, the OSC is committed to always challenging ourselves to do better.

This year, our team addressed the emergence of new market sectors, including a burgeoning cannabis industry and explosive growth in offerings involving digital assets. We responded to this changing landscape with innovative approaches and continued investment in training and knowledge-sharing. We enhanced our data collection and analysis to strengthen our regulatory programs to reflect a broader market-wide view, and we leveraged the latest behavioural and economic research to inform our approaches to operational and policy work.

We continued to build on the success of several first-in-Canada enforcement programs tailored for today's market:

- Our Whistleblower Program has now generated more than 185 tips since its launch, allowing us to uncover new instances of potential misconduct.
- This year, our no-contest settlement program provided more than \$37 million back to investors.
- In April, we announced our decision to continue our mediation program on a permanent basis to help resolve appropriate cases in a more efficient way.
- Since its launch, the Joint Serious Offences Team has pursued charges in 41 matters against 57 accused for serious securities law violations, representing thousands of hours of work on complex, inter-jurisdictional files.

As part of our commitment to prioritize a visible and active collections strategy, we recently implemented a two-year pilot project with a specialty law firm, leveraging their expertise and new tools to identify and pursue assets.

Our staff have risen to meet challenges by increasing collaboration among our branches and with our regulatory partners in Canada and abroad.

- In addition to our fintech-focused OSC LaunchPad team, we have created a multi-

branch "SWAT team" for crypto assets, which can mobilize quickly and help us keep in step with innovation.

- Along with other members of the CSA, we have opened up avenues for novel fintechs to operate and scale quickly across Canadian jurisdictions through our work with the CSA Regulatory Sandbox.
- Internationally, we remain very active in the International Organization of Securities Commissions (IOSCO), leading several committees and working groups, and striving to improve responsiveness to issues such as emerging risks, regulation of secondary markets, data protection, cybersecurity, and cross-border enforcement.

As we challenge ourselves to operate more effectively, we remain focused on reducing regulatory burden. With two red tape reduction projects underway, and more coming, we are working to ensure Ontario remains a compelling and competitive place to do business.

Lastly, we are keeping our operations efficient and streamlined, delivering on our mandate without increasing our fees. This is part of our ongoing commitment to be fiscally prudent.

I would like to thank the entire OSC team for their work this year, so much of it taking place behind the scenes, and for continuing to demonstrate strong dedication to our mandate. I am thrilled to be part of this amazing organization as we evolve and rise to emerging challenges.



Leslie Byberg

Executive Director and
Chief Administrative Officer
Ontario Securities Commission



THE TEAM

EXECUTIVE MANAGEMENT



Jean-Paul Bureaud
Director, Office of Domestic and International Affairs



Mary Campione
Director, Financial, Management and Reporting



Kevin Fine
Director, Derivatives



Tyler Fleming
Director, Investor Office



Debra Foubert
Director, Compliance and Registrant Regulation



Susan Greenglass
Director, Market Regulation



Naizam Kanji
Director, Office of Mergers and Acquisitions



Jeff Kehoe
Director, Enforcement



Grace Knakowski
Secretary to the Commission



Elle Koor
Director, Strategy and Research



Huston Loke
Director, Corporate Finance



Cameron McInnis
Chief Accountant



Carolyn Shaw-Rimmington
Director, Communications and Public Affairs



James Sinclair
General Counsel



Russell White
Chief Information Officer



Lisa Wilkins
Chief Human Resources Officer, Director, Corporate Services



John Mountain
Director, Investment Funds and Structured Products

Sadly, on June 18, 2018, our dear friend and colleague, John Mountain, passed away. John was a dedicated member of our Executive Management Team and an incredibly respected and well-liked leader in the industry. During his time at the OSC, John led a team that worked tirelessly to evolve securities regulation for the betterment of both investors and market participants. His contributions will benefit Canadians for years to come.

REPORT CARD

DELIVERING ON OUR MANDATE



2017-2018 REPORT CARD

PERFORMANCE HIGHLIGHTS AND SUCCESS MEASURES
AGAINST THE OSC STATEMENT OF PRIORITIES



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

Our 2017-2018 goals:

1 DELIVER STRONG INVESTOR PROTECTION

2 DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

3 DELIVER RESPONSIVE REGULATION

4 PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

5 BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

This section reports on the OSC's performance against the priorities set out in the 2017-2018 Statement of Priorities. Each of the "Success measures" has been ranked as either:

● Completed | ▲ On track, in progress or near completion | ■ Not completed

1

DELIVER STRONG INVESTOR PROTECTION

The OSC will champion investor protection, especially for retail investors

Priority

Publish regulatory reforms to define a best interest standard and targeted reforms to improve the advisor/client relationship

Why it's important

We work to make Ontario an attractive place for people to invest. When our rules are clear, fair and better align the advisors' interests with their clients, our capital markets can appeal to a wide range of investors.

Success measures

- Focused consultations on a proposed best interest standard and guidance completed
- ▲ Rule proposals setting out regulatory provisions to create a best interest standard published for comment
- ▲ Regulatory reforms required to improve the advisor/client relationship published for comment

Actions

Progress and measures of success

Continue to obtain input to inform regulatory proposals from stakeholders

Summer / Fall 2017: The OSC and the New Brunswick Financial and Consumer Services Commission continued their work to articulate a regulatory best interest standard and carried out extensive consultations with the self-regulatory organizations (SRO) and certain industry associations.

Publish policy direction on regulatory reforms required to improve the advisor/client relationship

May 2017: Published CSA Staff Notice 33-319 *Status Report on CSA Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients*, which confirmed the OSC's intention to work with the CSA on addressing the issues identified with the client-registrant relationship and raise the bar on what is required of registrants through focusing on certain reforms in each of the targeted reform areas. The CSA was unanimous on implementing change and significantly strengthening the standard of conduct to make the client-registrant relationship more centered on the interests of the client.

This year, the OSC completed consultations on important investor topics including a regulatory best interest standard as a guiding principle and examining embedded fees in mutual funds. Additionally, the OSC was fully committed to working with the CSA to address the issues identified in the client-registrant relationship and raising the bar on what is required of registrants. These are significant investor protection initiatives that can improve the client-registrant relationship. We also worked to better understand investor issues and needs across various investor demographics, including seniors, millennials and new Canadians, and we continue to build the OSC's understanding and capacity in the behavioural insights area. The OSC improved its investor education resources. For example, *GetSmarterAboutMoney.ca*, an OSC retail investor website, was revamped by streamlining information, updating the design and making it mobile-friendly.

Actions

Progress and measures of success

Publish rule proposals for comment:

- Regulatory provisions to create a best interest standard
- Targeted regulatory reforms and/or guidance under NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to improve the advisor/client relationship

In progress: Extensive work was completed to develop rule proposals in the identified core regulatory reform areas of conflicts of interest, know your client, know your product, suitability, relationship disclosure, and titles and designations. Proposed amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Client Focused Reforms) will be published for comment in June 2018.

Conduct a regulatory impact analysis of proposed regulatory provisions to create a best interest standard and targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship

In progress: An impact analysis of the proposed amendments in each of the identified reform areas will be published by the OSC at the same time as the Client Focused Reforms.

1

DELIVER STRONG INVESTOR PROTECTION

Priority

Define regulatory action needed to address embedded commissions

Why it's important

Research indicates that embedded fees incent advisors to recommend funds that benefit the advisor over the investor. We want to level the playing field for investors by changing this model, but do so in a way that avoids unintended consequences, such as a reduction of access to services, that may come with regulatory action.

Success measures

- Stakeholder roundtable focused on examining the impacts of discontinuing embedded commissions completed
- ▲ Issues identified, assessed and recommendations finalized

Actions

Progress and measures of success

Conduct a stakeholder roundtable to:

- Examine the potential impacts of discontinuing embedded commissions in Canada
- Identify appropriate transition measures

September 2017: CSA members conducted roundtables to facilitate further stakeholder input on Consultation Paper (CP) 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*.

Present policy options and recommendations to the Commission and CSA Chairs

In progress: OSC staff is working to present a recommendation to the Commission regarding a proposed rule on embedded commissions. This is expected to be published in June 2018.

Priority

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

Why it's important

Canadians are being called upon to make complex financial decisions, sometimes later in life with higher stakes than may have been the case for previous generations. As such, we are committed to improving outcomes for retail investors through policy, research, education and outreach initiatives led by the Investor Office.

Success measures

- OSC Seniors Strategy provides roadmap to provide targeted approaches to address seniors' issues
- Investors make better investment choices due to expanded education and outreach efforts
- ▲ Pilot projects for behavioural insights testing developed and key learnings integrated into OSC activities

Actions

Progress and measures of success

Publish an OSC Seniors Strategy

March 2018: Published OSC Staff Notice 11-779 *Seniors Strategy*, outlining new initiatives to respond to the needs of older investors.

Support older investors through education and outreach

Ongoing: The Investor Office delivered 72 OSC in the Community presentations and five teletownhalls on fraud and tips for working with an advisor, many of which engaged seniors and vulnerable investors.

Publish a behavioural insights research report

In progress: Published OSC Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations*. Pilot projects for behavioural insights testing are largely completed and integration of key learnings is underway.

1

DELIVER STRONG INVESTOR PROTECTION

Priority

Address independent evaluator's recommendation that OBSI be better empowered to secure redress for investors

Why it's important

A fair and effective independent dispute resolution service is important for investor protection in Canada and is vital to the integrity and confidence of the capital markets.

Success measures

- Response to OBSI independent evaluator's recommendations published

Actions

Progress and measures of success

With the OBSI Joint Regulators Committee (JRC), develop a regulatory response to the recommendations in the independent evaluator's report, particularly the recommendation for binding decisions

December 2017: Published Staff Notice 31-351 *Complying with requirements regarding the Ombudsman for Banking Services and Investments (OBSI)*. The Notice sets out regulatory expectations for participation in the OBSI's dispute resolution services and potential regulatory responses where firms refuse to compensate clients in accordance with OBSI recommendations.

March 2018: Published CSA Staff Notice 31-353 *OBSI Joint Regulators Committee Annual Report for 2017*, which was a joint response with the OBSI Joint Regulators Committee, noting that work continues in considering options for strengthening OBSI's abilities to secure redress for investors, including considering developing recommendations for implementing binding authority.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement

Priority

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

Why it's important

Strong compliance practices allow us to spot trends, clarify expectations, improve guidance for market participants, correct compliance issues early, and stop misconduct before it causes further harm. All of these activities benefit investors and enhance the integrity of our markets.

Success measures

- Complete reviews of high-risk firms and continue the “Registration as a First Compliance Review” program
- Continue focused reviews targeting issues relevant to seniors and suitability, the expanded exempt market rules, online dealer platforms, derivative trade repositories, fund expenses and funds with large holdings in illiquid securities
- Publish *Annual Summary Report for Dealers, Advisers and Investment Fund Managers* that includes key findings and trends from compliance reviews

Actions

Progress and measures of success

Maintain effective oversight of registrants by focusing on new registrants, higher risk firms and emerging risks

Ongoing: Compliance and Registrant Regulation (CRR) completed reviews of registrants through various compliance initiatives including a CRM2 desk review, a seniors sweep, registration as a first compliance review, high risk reviews, random reviews and for-cause reviews.

May 2017: The CSA expressed serious concerns and issued warnings about the growth in the number of websites promoting offshore binary options trading platforms, none of which are currently registered or authorized to market or sell binary options in Canada, and many of which have led to significant losses for investors. OSC efforts have included CSA discussions and bilateral staff discussions with regulators outside of Canada where concerns were expressed regarding offshore binary options platforms.

July 2017: Published the *Annual Summary Report for Dealers, Advisers and Investment Fund Managers*. Two sets of Registrant Outreach sessions (September 2017 - Portfolio Managers and November 2017 - Exempt Market Dealers) were held to discuss findings from the report.

December 2017: Published Multilateral Instrument 91-102 *Prohibition of Binary Options* to protect investors from fraudulent selling of binary options.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Priority

Actively pursue timely and impactful enforcement cases involving serious securities laws violations

Why it's important

Misconduct doesn't just hurt the investors who lose money – it hurts all of us by threatening the trust people have in our markets. Fraud and misconduct will not be tolerated, and we will continue to take action against firms and individuals who do not comply with Ontario securities law.

Success measures

- Enhanced OSC Whistleblower program profile results in measurable increases in the number of credible tips and cases initiated
- Increased deterrence of misconduct in areas targeted for priority enforcement actions
- ▲ Enhanced market analytics capability will generate more timely, accurate and actionable information and improved enforcement outcomes
- Greater alignment between cases and OSC strategic priorities, including better focus on cases that pose the greatest risks to Ontario capital markets and investors

Actions

Progress and measures of success

Raise awareness of the OSC Whistleblower Program including:

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

Ongoing: The Office of the Whistleblower participated in 20 outreach activities, reaching more than 1,200 stakeholders. More than 185 whistleblower tips have been received since inception.

Winter 2018: The OSC launched an awareness campaign, which included search engine marketing, digital ads in key Canadian financial media websites and elevator ads.

Spring 2018: OSC staff examined 30 registrants to assess compliance with section 121.5 of the *Securities Act* (Ontario) through their use of restrictive agreements to preclude or purport to preclude whistleblowing. Deficiency reports were issued to 22 of the 30 registrants where inappropriate language was identified in employee agreements.

Rules and requirements are only effective when they are followed and when any compliance issues are addressed swiftly. This year, the OSC worked closely with industry to ensure requirements were understood and provided guidance where needed. More than 10,000 market participants have now attended OSC compliance seminars since the OSC established the Registrant Outreach Program in 2013. Additionally, ongoing compliance reviews have helped to identify high-risk firms and issues early on, helping to direct OSC resources in an efficient manner. When serious compliance issues, or instances of misconduct have been found, the OSC enforcement program deploys a range of tools to address matters in ways that protect investors and help keep the markets secure.

Actions

Progress and measures of success

Improve the efficiency and effectiveness of our enforcement efforts through greater use of technology, including working with the CSA to develop a new market analytics platform for investigations

In progress: A contract with a vendor to develop a new market analytics platform (MAP) is being finalized and work is expected to begin shortly.

Reduce enforcement timelines by streamlining investigative and prosecution processes

March 2018: The Enforcement Branch was restructured to enhance efficient decision making and management of the scope and timelines of investigations. Improved processes and templates were developed, along with best practices for conducting investigations.

March 2018: Key Performance Indicators (KPIs) were developed for all investigations, outlining timelines based on the nature of a case, amount of evidence to be collected and resources required to investigate the matter. KPIs are also being developed for litigation.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Priority

Increase deterrent impact of OSC enforcement actions and sanctions through a more visible and active collection strategy

Why it's important

Ontarians need to be assured that misconduct doesn't pay. While collecting against sanctions can be inherently difficult, we are doing everything in our power to protect investors and to recover funds that were improperly obtained, including engaging with experts and applying new strategies.

Success measures

- Improved collection strategy increases the deterrent impact of OSC enforcement actions
- Results of collections pilot published

Actions

Progress and measures of success

Assess collection alternatives and pilot an improved collection approach

June 2017: The OSC implemented a two-year pilot project with a law firm specializing in collections. Since then, 20 files with 58 respondents have been sent to the firm, and more than \$300,000 has been collected through the pilot.

Publish results of new collection process

Delayed: The OSC will publish the results after the pilot collections project has been operating for a full year.

OSC Enforcement activity

OSC Enforcement Branch: Intake

Fiscal year	2016-17	2017-18
Number of cases assessed	384	429
Number transferred for investigation	31	37

OSC Enforcement Branch: Investigations

Fiscal year	2016-17	2017-18
Number of completed investigations	46	49
Number transferred for litigation	15	25

OSC Enforcement Branch: Litigation

Fiscal year	2016-17	2017-18
Proceedings commenced before the Commission	7	21
Number of respondents	18	49
Quasi-criminal proceedings	3	1
Number of accused	3	2
Criminal Code proceedings	5	3
Number of accused	6	3
Search warrants executed	53	99

ENFORCEMENT TIMELINES:

Average number of months from intake to commencement of a proceeding	12.5	18.9
--	------	------

Concluded matters before the Commission

In addition to issuing sanctions following contested hearings or through conventional settlements, this year the Commission approved three no-contest settlements with large market participants, where each had self-reported the charging of excess fees for investment management services. As part of the settlements, the market participants undertook to return more than \$37 million to investors, which represented the return to investors of the excess fees charged and the lost opportunity cost on these fees.

These settlements represented efficient resolutions where systemic problems had been identified; namely, weak compliance systems, and market participants resolved to improve controls and correct their non-compliance conduct in a timely manner.

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

Concluded matters before the Commission

Fiscal year	2016-17	2017-18
Number of proceedings concluded	11	20
Number of respondents	31	50
SANCTIONS INCLUDE:		
Cease trade orders	13	29
Exemptions removed	13	27
Director and Officer bans	9	19
Registration restrictions	13	22
Administrative penalties, disgorgement orders, settlement amounts	\$ 19,187,711	\$ 13,677,706
Costs ordered	\$ 658,993	\$ 2,027,333
Amounts ordered or undertaken to be returned to investors (includes no-contest settlements)	\$ 147,933,167	\$ 49,396,644

Collections

The Commission's collections rate with respect to outstanding orders is 47% for the fiscal year, which is consistent with last year's rate of 50%¹.

Concluded matters before the courts

Fiscal year	2016-17	2017-18
Total number of proceedings	8	7
Total number of accused	15	8
SANCTIONS INCLUDE:		
Jail sentences	102 months	21.5 months
Conditional sentences/House arrest	12 months	6 months
Fines	\$ 49,550	\$ 50,000
Restitution	\$ 6,672,955	\$ 2,059,997

1 The 2016-17 rate was previously reported as 38%. In 2017-18, the 2016 settlements collected balance was increased by approximately \$0.43 million as the OSC collected funds previously deemed uncollectable. This results in a revised collection rate for 2016.

Adjudicative activities of the Commission

Proceeding type ¹	2016-17			2017-18		
	Applications commenced ²	Applications closed ³	Oral hearing days scheduled ⁴	Applications commenced ²	Applications closed ³	Oral hearing days scheduled ⁴
Enforcement proceeding (an application for an order requested in a statement of allegations – s. 127)	26	35	127	34	35	102
Authorization to disclose (an application to authorize disclosure of information – s. 17)	11	9	3	31	33	1
Temporary order (an application for a temporary order – s. 127)	0	3	5	6	2	18
Hearing and review (an application for a review of a Director's or a self-regulatory organization's decision – s. 8 or s. 21.7)	6	10	12	10	7	18
Further decision / revocation or variation of a decision (an application for a further decision or a revocation or variation of a decision – s. 9(6) or s. 144)	0	0	3	4	4	1
Transactional proceeding (an application relating to a take-over bid, issuer bid, amalgamation, statutory arrangement, merger or acquisition, related party transaction or meeting of security holders – s. 104 or s. 127(1))	1	1	2	3	3	9
Other (an application for an order not specified above)	0	0	0	1	1	3
Total	44	58	152	89	85	152

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

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

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

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

3

DELIVER RESPONSIVE REGULATION

The OSC will identify important issues and deal with them in a timely way

Priority

Identify opportunities to reduce regulatory burden while maintaining appropriate investor protections

Why it's important

Home-grown innovation, jobs and healthy businesses are good for Ontarians and our economy. We can help to encourage these by keeping securities regulation to the appropriate level. By finding opportunities to reduce regulatory costs and unnecessary red tape, businesses are more likely to see Ontario as a great place to launch, compete and expand.

Success measures

- Consultation paper on options for regulatory burden reductions published, comments reviewed and an update on next steps published

Actions

Progress and measures of success

Identify opportunities to reduce or eliminate redundant or unnecessary non-investment fund reporting issuer disclosure or other requirements where current requirements are not achieving desired regulatory outcomes:

- With the CSA, publish a consultation paper
- Review comments on the consultation paper
- Publish recommendations

April 2017: Published CP 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*. The CP identified options and sought feedback on reducing potential areas of undue regulatory burden on non-investment fund reporting issuers, without compromising investor protection.

March 2018: Published CSA Staff Notice 51-353 *Update on CSA CP 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* which updated the status of consultations and outlined the CSA policy initiatives underway, including next steps. Six options for regulatory burden reduction were identified:

- removing or modifying the criteria to file a business acquisition report
- facilitating at-the-market offerings
- revisiting the primary business requirements
- considering a potential alternative prospectus model
- reducing or streamlining certain continuous disclosure requirements
- enhancing electronic delivery of documents

As the regulator of an ever-changing market, it is critical that the OSC stays on top of emerging issues, whether they are brought on by technology, investor demands, legislation or other factors. Fintech, crypto assets, as well as other new areas of investor interest, such as the cannabis industry, have required the OSC to act both quickly and cautiously, with greater consultation, collaboration and leadership. In addition, the OSC has responded to increasing investor concerns about environmental, social and governance (ESG) issues ranging from climate change disclosure to greater diversity on boards. The OSC is committed to reviewing its framework to see where regulatory burdens can be lifted, with the aim of keeping market operations streamlined, modern and competitive.

Actions

Progress and measures of success

Together with the CSA review investment fund regulation to:

- Review options for streamlined disclosure and determine potential impacts on affected stakeholders, including investors, dealers and their SROs, and regulators and their informational requirements
- Recommend options for disclosure reductions

March 2018: Phase 1 of the Rationalization of Investment Fund Disclosure project was completed. The CSA developed proposals to reduce regulatory burden for investment funds while maintaining investor protection and market efficiency. CSA staff is investigating the proposals further and, where appropriate, will propose rule amendments to implement the proposals on a priority basis based on time to implement and the cost/saving impact on stakeholders. The CSA anticipates publishing for comment the first set of proposed rule amendments by March 2019.

3

DELIVER RESPONSIVE REGULATION

Priority

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

Why it's important

Innovation is transforming financial services, and regulation needs to keep in step with digital innovation. We are engaging with novel businesses to understand what's emerging and develop ways for firms to bring their ideas to market in a way that investor protections can still be fulfilled. The fundamentals of investor protection are not changing, however, the opportunity with fintech is that we can evolve how those requirements are satisfied. We're improving the regulatory experience for businesses that offer innovative services, products and applications of benefit to investors.

Success measures

- Time-to-market of novel businesses reduced, by taking a flexible, risk-based approach to the regulation of novel fintech businesses, while maintaining appropriate investor safeguards
- Capital formation and innovation supported through OSC LaunchPad
- CSA Regulatory Sandbox provides expedited registration and exemptive relief processes for emerging firms

Actions

Progress and measures of success

Support fintech innovation through OSC LaunchPad by:

- Engaging with the fintech community to identify and understand any regulatory barriers, trends and gaps
- Offering direct support to eligible businesses in navigating the regulatory environment
- Integrating learnings into the regulation of similar business models going forward

Ongoing: OSC LaunchPad hosted or attended more than 50 events, including Information Days for businesses and professionals in the fintech space, industry conferences and law firm seminars. Staff also attended close to 150 meetings with external stakeholders, including Canadian and global regulators, accelerator/incubator programs and service providers. The OSC remained active in an IOSCO information sharing network on initial coin offerings (ICOs), improving its understanding of how these products are evolving across borders and enabling the OSC to better coordinate its response with other regulators.

Ongoing: OSC LaunchPad received 115 requests for support from fintech businesses and provided guidance to businesses ranging from alternative lending/crowdfunding platforms to crypto asset businesses. The OSC worked with the CSA to provide exemptive relief to two initial coin/token offerings, approved four cryptocurrency investment funds and applied conditions of registration on the investment fund manager.

Actions

Progress and measures of success

Based on learnings from the various engagements and direct support processes, the OSC published/issued the following:

- **August 2017:** CSA Staff Notice 46-307 *Cryptocurrency Offerings*, which outlined securities law requirements that may apply to cryptocurrency offerings.
- **December 2017:** The OSC reminded registrants to report changes in their business activities, including with respect to cryptocurrency investment funds.
- **December 2017:** The CSA published a news release alerting investors to the inherent risks associated with cryptocurrency futures contracts. In the same month, the OSC's Investor Office published *Ontarians and Cryptocurrencies: A First Look* to assist Ontarians in making informed investment decisions in the fintech space.

Participate in the recently announced CSA Regulatory Sandbox that is designed to allow firms to test novel products and services without full regulatory approval in a way that also provides investor protection

Ongoing: OSC LaunchPad worked with the CSA Regulatory Sandbox Committee to approve novel fintech businesses seeking to operate across Canada. The Committee reviewed 25 business models, including coin/token offerings, private cryptocurrency investment funds and online advice service providers.

Collaborate with the Fintech Advisory Committee, as well as the CSA and other regulators including, the Australian Securities and Investments Commission and the Financial Conduct Authority in the UK, to obtain insight and input regarding fintech innovation and support these businesses in Canada and globally

Fall / Winter 2017: The OSC completed cooperation arrangements concerning innovative fintech businesses with Abu Dhabi FSRA (October) and France AMF (December). The MOUs support Ontario's emerging fintech start-ups' ability to expand their businesses to other global financial centres through new referral mechanisms under these arrangements.

January 2018: The OSC established a new Fintech Advisory Committee with membership made up of individuals from a broad spectrum of the fintech community, from innovation hubs to start-ups to financial institutions.

3

DELIVER RESPONSIVE REGULATION

Priority

Actively monitor and assess impacts of recently implemented regulatory initiatives

Why it's important

In the past few years, we have implemented a number of regulatory initiatives, and it is important that we assess whether they are achieving their expected outcomes, or if further responses are needed.

Success measures

- Staff notice on women on boards and in executive officer positions published that sets out:
 - Results of the targeted review
 - An update on any potential need for further disclosure requirements
 - The relevant disclosure data of issuers with financial years ending December 31, 2016 to March 31, 2017
- Staff notice published summarizing capital raising activity in the exempt market, including use of recently introduced capital raising prospectus exemptions

Actions

Progress and measures of success

Conduct targeted review of disclosure provided by issuers with financial years ending from December 31, 2016 to March 31, 2017

Assess the effectiveness of the disclosure and consider whether other regulatory action is needed

October 2017: Published CSA Multilateral Staff Notice 58-309 *Staff Review of Women on Boards and in Executive Officer Positions - Compliance with NI 58-101 Disclosure of Corporate Governance Practices*, reporting the findings of the third review of disclosure regarding women on boards and in executive officer positions. In year three, women occupied 14% of total board seats, an increase of 2% over the previous year. In November 2017, the underlying data was published.

Winter / Spring 2018: The OSC completed 44 consultations (147 individuals from 59 organizations) to obtain feedback on the effectiveness of the NI 58-101 disclosure requirements.

In progress: The CSA is considering if any further regulatory action in this area is appropriate, including whether changes to the disclosure requirements and / or strengthening the existing "comply or explain" model with guidelines regarding corporate governance practices are warranted.

Actions

Progress and measures of success

June 2017: Published OSC Staff Notice 45-715 2017 *Ontario Exempt Market Report*, which provides a snapshot of the current state of Ontario's exempt market and a preliminary assessment of recent regulatory reforms. The report summarizes capital raising activity by corporate (non-investment fund) issuers in Ontario's exempt market during 2015 and 2016. Additionally, the report examines capital formation by small Canadian issuers in Ontario's exempt market, and the impact of recently introduced prospectus exemptions.

October 2017: Amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and NI 33-109 *Registration Information Requirements* came into force. The amendments include proposals to enhance custody requirements for certain registrants, clarify activities that may be conducted by exempt market dealers and incorporate relief from certain Client Relationship Model Phase 2 (CRM2) requirements into NI 31-103.

The proposed custody amendments are intended to address potential intermediary risks, enhance the protection of client assets and codify existing custodial best practices.

In progress: In April 2018, the CSA will publish CSA Staff Notice 51-354 *Report on Climate-Change Related Disclosure Project*. The Notice will summarize the findings of the project completed in 2017, which was focused on climate change-related risks and opportunities that impact an issuer, and will set out the CSA's plans for further work in this area.

3

DELIVER RESPONSIVE REGULATION

Priority

Implement the orderly transfer of syndicated mortgage investments to OSC oversight

Why it's important

By amending the syndicated mortgage framework, we aim to address, improve and harmonize investor protections.

Success measures

- Transition plan for the transfer of syndicated mortgages to OSC oversight developed. Proposed rule amendments published for comment

Actions

Progress and measures of success

Work with the Ontario government and FSCO to plan and implement an orderly transfer of the oversight of syndicated mortgage products to the OSC

March 2018: The CSA published for comment proposed changes to substantially harmonize the regulatory framework for syndicated mortgages in Canada. The changes reflected in the proposed amendments to NI 45-106 *Prospectus Exemptions* and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* would remove syndicated mortgages from specific prospectus and registration exemptions. New disclosure and appraisal requirements to better protect retail investors were also proposed for the offering memorandum exemption.

March 2018: Working with the Financial Services Commission of Ontario, staff assisted the Ministry of Finance in its review of syndicated mortgages and the development of investor protection-focused amendments (including investment limits, and enhanced disclosure and suitability requirements) to the current mortgage broker regulations for syndicated mortgages. The Ministry considered these proposals and the government subsequently introduced amendments with an effective date of July 1, 2018.

4

PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

The OSC will identify, address and mitigate systemic risk and promote stability

Priority

Enhance OSC systemic risk oversight

Why it's important

Because technology, business models and investment flows are increasingly interconnected, what happens in a market across the globe has the potential to impact financial stability at home. Businesses, investors and the market depend on us to see the big picture and address potential areas of systemic risk.

Success measures

- Enhanced systemic risk data collection and analysis supports effective oversight and supervision of OTC derivatives markets
- More accurate trade reports support better analysis of systemic risk
- Registration and conduct rules reduce risk and promote responsible market conduct in the OTC derivatives markets
- Key risk areas identified and communicated to market participants including registrants

Actions

Progress and measures of success

Providing strong leadership within IOSCO and supporting activities to promote sound international regulatory standards and guidelines that are aligned with key areas of risk

Ongoing: The OSC plays a central role within IOSCO, across its task forces, policy committees and the Board. The OSC Chair leads a sub-group of the IOSCO Board responsible for negotiating with European data protection authorities to ensure unimpeded transfer of personal data for enforcement and supervisory purposes under new EU laws. The OSC Chair also led the MMoU Monitoring Group (until May 2018), which oversees compliance on cross-border enforcement cooperation. In addition, OSC staff chair IOSCO committees on emerging risks and on secondary markets regulation. Through these actions, the OSC influences IOSCO priorities and the resulting international standards.

Enhance OTC derivatives oversight and systemic risk monitoring and operationalize the regulatory framework that has been implemented by:

- Continuing collection and analysis of trade data
- Publishing a Staff Notice on key trade reporting compliance review findings and areas for improvement
- Developing a framework for monitoring systemic risk in the OTC derivatives markets

In progress: Two trade reporting compliance reviews of large OTC derivatives dealers were completed. OSC Derivatives and CRR staff will complete two additional reviews by July 2018 and will publish a Staff Notice containing a summary of those findings shortly thereafter. Through the reviews, OSC Derivatives staff plan to address any inaccurate OTC derivative trade reporting with the goal of improving the quality of the submitted data.

In progress: The plan for developing a new derivatives database is complete and Phase 3 database construction started in January 2018.

4 PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

Actions

Progress and measures of success

Enhance OTC derivatives regulatory regime by:

- Implementing data analysis for systemic risk monitoring and market conduct purposes, including the development of trade reporting analytical tools
- Conducting audits on a sample of derivatives dealers and publishing Staff Notices on the findings and areas for improvement
- Implementing rules for clearing, segregation and portability of cleared OTC derivatives
- Publishing proposed rules for market conduct and registration of derivatives dealers, completing consultations, reviewing comments, revising proposed rules and conducting a roundtable
- Publishing a margin for uncleared derivatives rule and reviewing comments

April 2017: NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives and Related Companion Policy* came into force.

July 2017: NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* and Related Companion Policy came into force.

March 2018: Systemic risk analytical tools were developed, including dashboard prototypes that describe OTC derivatives markets in Ontario and a network analysis prototype and framework for monitoring interconnectedness in Ontario credit markets.

In progress: OTC derivative trade reporting compliance reviews of two large OTC derivatives dealers were completed and two are nearing completion.

A Staff Notice summarizing the findings from the OTC derivative trade reporting compliance reviews is expected to be published in Summer 2018.

In progress: Three rule proposals related to OTC derivatives are in development. A proposed rule for registration of derivatives dealers (NI 93-102) will be published in April 2018. A proposed rule for business conduct (NI 93-101) is on schedule to be published in June 2018, and a proposed rule for margin for uncleared derivatives (NI 95-101) is expected to be published in September 2018. All proposals will be seeking comments.

Continued development of internal capabilities to identify and monitor market trends and risks, including increased access to data and analytical resources as well as gathering views of stakeholders

March 2018: The plan for developing a new derivatives database is complete and resources have been assembled to commence work. Systemic risk analytical tools have been developed.

The addition of promoting financial stability and addressing systemic risk to the OSC's official mandate emphasizes its importance in today's marketplace. The OSC recognizes the need to enhance domestic and international frameworks and work to improve these through increased collaboration, information sharing and risk monitoring. The OSC's ongoing efforts have included a proposal to enhance oversight of the OTC derivatives market, align it with new global standards, and continue engagement with worldwide leaders through organizations like IOSCO.

Priority

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

Why it's important

Increased reliance on technology poses risks such as data breaches and exposure to disruptions. The number and sophistication of cyber-attacks poses a growing risk for market participants and regulators and can ultimately undermine investor confidence. We have a responsibility to address cybersecurity and prepare robust response plans in the event breaches occur.

Success measures

- Improved cybersecurity awareness through ongoing oversight of risk preparedness and resilience

Actions

Progress and measures of success

Continue to assess the level of market participant cybersecurity resilience and monitor cyber readiness

Ongoing: CRR includes questions relating to cybersecurity preparedness as part of all normal course compliance reviews.

Follow up on recommendations from cybersecurity roundtable

In progress: A new CSA cybersecurity working group, co-led by the OSC and AMF, was established. Work commenced towards a more formal coordination process and protocol to manage a market disruption, including those caused by a large scale cybersecurity incident.

Review results of the registrant cybersecurity survey and determine next steps

October 2017: Published CSA Staff Notice 33-321 *Cyber Security and Social Media*, which reported the results of a CSA-led survey that gathered information from a large sample of registrants about their cybersecurity preparedness. The Notice also set out the CSA's cyber security expectations for registered firms.

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

The OSC will be an innovative, efficient and accountable organization through excellence in the execution of its operations

Priority

Enhance OSC business capabilities

Why it's important

Our organizational tools, systems and workforce need to continually adapt so that we can rise to the challenge of delivering on our mandate. Improved data and research, along with updated technology and new skill sets, are critically important.

Success measures

- ▲ New CSA national systems will improve ease of use, security and adaptability to new business requirements and technology
- Use of research and risk analysis reflected consistently in OSC policy initiatives and OSC publications
- New skill gaps identified and addressed, and staff turnover and retention within target ranges

Actions

Progress and measures of success

Work with the CSA to renew CSA national systems to improve usability and address new regulatory requirements

In progress: The National Systems Renewal Program (NSRP) is a project to replace and integrate the stand-alone CSA national systems (SEDAR, SEDI, NRD, Cease Trade Order (CTO), plus others) into a single secure filing system. Project scope and timing were revisited and it was decided to extend the timelines and conduct the rollout in phases. Phase 1, which focuses on the release of SEDAR, the CTO Database and the Disciplined List, is expected to be operationalized by April 2020.

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

In progress: The OSC has established a multi-year Data Management Program (DMP) with the goal of improved data management, data governance and analytics, and reporting. The DMP includes the implementation of a new data management IT platform, data governance framework and a new workflow system for regulatory business operations. Significant work has been undertaken and completed in each program area, including:

- Core implementation of the OSC data management IT platform.
- Establishment of an OSC data governance framework. A number of data elements relating to the organizations and individuals the OSC interacts with, and the associated regulatory activities, have been brought under governance.

To deliver on the OSC’s mandate, the OSC worked to encourage and expand its internal skills and talents, and ensure its systems are modernized and strategies are sound. This year, the OSC explored behavioural insights research, developed our data management and analytic capabilities, invested in technology, and supported workforce training and recruitment. The OSC has also taken steps toward integration with a cooperative regulatory body by working closely with the Capital Markets Authority Implementation Organization (CMAIO).

Actions

Progress and measures of success

- Migration of several OSC regulatory business applications to the new workflow system with improved reporting and analytics.

May 2017: The 2014 and 2016 Risk Assessment Questionnaire (RAQ) data were merged and loaded into a new RAQ data mart that is being used by branch staff for reporting and analytics.

Ongoing: The current derivatives system is operating and the business is running regular data loads. Work on the new system continues with a focus on automation, data quality and an improved data platform.

Foster a dynamic, supportive and attractive workplace

May 2017: An employee engagement survey was conducted. Participation rate was 90% and the employee engagement score was 71 out of 100. Detailed results were communicated to all employees. Opportunities for addressing important aspects of the workplace, as identified by employees, were considered for implementation. A process for engaging employees to develop and implement solutions in 2018-2019 was established.

Actively recruit new skills required to improve our regulatory capacity to meet current and future challenges

Ongoing: Staff turnover remained within the acceptable threshold (10% or less) throughout the year, with a vacancy rate of 8.2% at year end. 139 positions were filled through a recruitment process in fiscal 2017-2018; 112 external hires into permanent, contract, or student positions; there were 100 employee moves (including secondments, acting, lateral and promotional moves).

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

Priority

Work with the Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the CMRA

Why it's important

The CMRA is intended to give Canadians a straightforward and uniform approach to capital markets regulation. The participating jurisdictions are putting in the time and effort to get it right.

Success measures

- The OSC is ready and able to transition into the new CMRA organization

Actions

Progress and measures of success

Continue to work with participating jurisdictions and Capital Markets Authority Implementation Organization

In progress: The OSC continues to support the CMRA project and staff is working on various workstreams to prepare for CMRA implementation.

GOVERNANCE

DELIVERING ON OUR MANDATE



MESSAGE FROM THE LEAD DIRECTOR

DELIVERING ON OUR MANDATE

As Commissioners, we have two key roles: to serve as the Board of Directors of the OSC and to perform a regulatory function. As the Board, we oversee management of the business affairs of the Commission, including the Commission's strategic planning, resource allocation, financial reporting and risk management. As the Commission, we develop rules and policies that govern the securities industry in Ontario, and we adjudicate administrative proceedings. Through these dual functions, we ensure that the Commission's core priorities for the year fulfill its mandate and lead to strong investor protection, fairness and efficiency in the capital markets and the stability of our financial system.

In order to succeed in these roles and serve the public to the best of our ability, the Commission must maintain an openness to new ideas and innovation. As Commissioners, we bring a broad range of previous experience and insights to the table. We draw on this expertise as we assess the complex issues facing regulators today. But we also know that it is crucial that we evolve as a regulator, and challenge ourselves to adapt.

In recent years, the pace of change has continued to accelerate in financial services. The rise of new and innovative business models based on new technologies, unique product offerings and financial instruments, as well as threats to cybersecurity, have required us to take new approaches to securities regulation and adjust the regulatory framework accordingly. Investors, themselves, are also changing. Gone are the days of shareholders solely focusing on financial performance reports. From millennials to seniors, investors have different priorities and needs, and we have a responsibility to ensure those are being met.

This year, the OSC has successfully pushed forward on many priorities, from work on the Client Focused Reforms to making strides in enforcement to putting governance issues squarely in the spotlight. As Commissioners, we are very proud of the vision demonstrated by our Chair, Maureen Jensen. Under her leadership, the OSC has kept in step with today's changing markets and with advances in regulation on

an international level. The OSC is addressing the practical realities of today's markets with nuanced, considered and balanced regulation.

We also recognize and thank the talented and hard-working staff, the Executive Management Team and Executive Director Leslie Byberg for their achievements in the past year in carrying out the OSC's important priorities and initiatives.

Finally, on behalf of my fellow Commissioners, I would like to express our sincere thanks and appreciation to both Judith Robertson, former Commissioner and Chair of the Human Resources and Compensation Committee, and Monica Kowal, former Commissioner and Vice-Chair, for their years of accomplished service to the Commission. Over the past year, we welcomed several new Commissioners: Lawrence (Lorie) Haber, Poonam Puri and Cecilia Williams. They have brought a wealth of knowledge and experience in financial markets and securities regulation and we are delighted to have them join us in fulfilling our important roles.



AnneMarie Ryan

AnneMarie Ryan

Lead Director

Ontario Securities Commission

THE COMMISSION

DELIVERING ON OUR MANDATE



Philip Anisman



Peter W. Currie



Garnet W. Fenn



William J. Furlong



Lawrence P. Haber



Robert P. Hutchison



Maureen Jensen
Chair



Frances Kordyback



Deborah Leckman



Janet Leiper



Timothy Moseley
Vice-Chair



Poonam Puri



Mark J. Sandler



D. Grant Vingoe
Vice-Chair



M. Cecilia Williams

GOVERNANCE

DELIVERING ON OUR MANDATE

Composition of the Board and Senior Management

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

Our Board of Directors – the Commission – consists of nine to 16 members, called Commissioners. The Chair and Vice-Chairs are full-time members, and the other members are part-time. Each member is appointed for a fixed term by the Ontario Lieutenant Governor in Council, and appointments are made according to the procedures of the Public Appointments Secretariat of the Government of Ontario. The Commission may recommend candidates for appointment.

We are committed to diversity and inclusion on the Commission. In our searches for new Commissioners, we seek appointees who reflect the diversity of the people of Ontario and deliver services and decisions in a non-partisan, professional, ethical and competent manner with a commitment to the principles and values of public service.

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

Representation of women on the Board and in Senior Management

The Board actively seeks out women in the recruitment and nomination process. Our objective is to have approximately equal representation of male and female members on the Board.

As an organization, we are committed to the representation of women in senior management and ensuring that women are actively sought out in the recruitment process for senior management positions. The OSC objective is to maintain an approximately equal representation of women and men in our senior management positions. However, achieving this objective at any point in time is balanced with the need to hire highly qualified and experienced individuals who can carry out the requirements of the specific role and ensure the effective delivery of the OSC mandate.

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

	2016-17				2017-18			
	Female		Male		Female		Male	
	#	(%)	#	(%)	#	(%)	#	(%)
Board of Directors (Commission)	7	47	8	53	7	44	9	56
Executive Committee (Chair, Vice-Chairs, Executive Director)	3	75	1	25	2	50	2	50
Senior Management (including Executive Committee)	9	45	11	55	9	43	12	57

Terms of Members of the Commission

(April 1, 2018)

	Appointed	Current term ends
Philip Anisman	November 2016	November 2018
Peter W. Currie	May 2016	December 2018
Garnet W. Fenn	July 2015	July 2019
William J. Furlong	January 2015	January 2019
Lawrence P. Haber	January 2018	January 2020
Robert P. Hutchison	February 2017	February 2019
Maureen Jensen (Chair)	February 2016	February 2021
Frances Kordyback	November 2016	November 2018
Deborah Leckman	February 2013	January 2019
Janet Leiper	January 2015	January 2019
Timothy Moseley (Vice-Chair)	November 2017	November 2019
Poonam Puri	January 2018	January 2020
AnneMarie Ryan (Lead Director)	February 2013	January 2019
Mark J. Sandler	February 2017	February 2019
D. Grant Vingoe (Vice-Chair)	August 2015	August 2019
M. Cecilia Williams	November 2017	November 2019

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

GOVERNANCE

DELIVERING ON OUR MANDATE

Board and Commission Committees

(April 1, 2018)

Audit and Finance Committee

William J. Furlong (Chair)

Peter W. Currie

Garnet W. Fenn

Robert P. Hutchison

Frances Kordyback

Deborah Leckman

Governance and Nominating Committee

Janet Leiper (Chair)

Philip Anisman

Lawrence P. Haber

Robert P. Hutchison

Frances Kordyback

Maureen Jensen (*Ex officio* member)

Human Resources and Compensation Committee

Deborah Leckman (Chair)

Peter W. Currie

Garnet W. Fenn

Poonam Puri

Mark J. Sandler

M. Cecilia Williams

Adjudicative Committee¹

Mark J. Sandler (Chair)

Philip Anisman

William J. Furlong

Janet Leiper

Timothy Moseley

AnneMarie Ryan

D. Grant Vingoe

Grace Knakowski (*Ex officio* member)

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

¹ The Adjudicative Committee is a standing policy committee of the Commission.

Meeting attendance

(April 1, 2017 to March 31, 2018)

During the year, a total of 50 meetings of the Commission, Board and Board Committees were held. The attendance of each Member at these meetings is shown in the table below.

Member	Type of meeting ¹					
	Commission ²	Board	Audit and Finance Committee	Governance and Nominating Committee	Human Resources and Compensation Committee	Adjudicative Committee ³
Philip Anisman	16/17	8/8		4/6		4/5
Peter W. Currie	17/17	8/8	7/8		6/6	
Garnet W. Fenn	16/17	6/8	8/8		6/6	
William J. Furlong	16/17	8/8	8/8	2/2	4/4	4/4
Lawrence P. Haber ⁴	3/3	2/2		1/1		
Robert P. Hutchison	17/17	8/8	5/5	6/6		
Maureen Jensen	16/17	8/8		5/6		
Frances Kordyback	17/17	8/8	8/8	6/6		
Monica Kowal ⁵	7/7	2/2				3/3
Deborah Leckman	17/17	8/8	8/8		6/6	
Janet Leiper	16/17	8/8		6/6		5/5
Timothy Moseley	16/17	6/8		5/6	2/2	4/5
Poonam Puri ⁴	4/4	3/3			1/1	
Judith N. Robertson ⁵	2/4	1/1			1/1	1/1
AnneMarie Ryan ⁶	17/17	8/8	7/8	6/6	6/6	5/5
Mark J. Sandler	16/17	6/8			3/4	5/5
D. Grant Vingoe	15/17	7/8				5/5
M. Cecilia Williams ⁴	5/5	3/3			1/1	
Average by type of meeting:	95%	95%	96%	91%	97%	95%

1 Includes both regular and special meetings

2 Policy and rule-making matters

3 The Adjudicative Committee is a policy committee of the Commission

4 Member appointed to the Commission during the year

5 Member's term of appointment ended during the year

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

ADVISORY COMMITTEES

DELIVERING ON OUR MANDATE



Advisory Committees

(March 31, 2018)

Investor Advisory Panel

Letty Dewar (Chair)
 Jacqueline Allen
 Larry Bates
 Paul Bates
 Patti Best
 Neil Gross
 Malcolm Heins
 Harvey Naglie
 Louise Tardif

Continuous Disclosure Advisory Committee

Sean Cable	PwC LLP
Ivan Chittenden	Ernst & Young LLP
Andrew Grossman	Norton Rose Fulbright LLP
Gale Kelly	KPMG LLP
Catherine McCall	Canadian Coalition for Good Governance
Matthew Merkley	Blake, Cassels & Graydon LLP
Robert Murphy	Davies Ward Phillips & Vineberg LLP
Parham Nasser	Ombudsman for Banking Services and Investments
Sanjeev Patel	Wildeboer Dellelce LLP
Anthony Scilipoti	Veritas Investment Research
Bassem Shakeel	Magna International Inc.
Bob Tait	IAMGOLD Corporation

Financial Reporting Advisory Committee

Carolyn Anthony	PwC LLP
Susan Bennett	Deloitte
Craig Cross	RSM Canada
Lara Gaede	Alberta Securities Commission
Carla-Marie Hait	British Columbia Securities Commission
Guy Jones	Ernst & Young LLP
Hélène Marcil	Autorite des marchés financiers
Brad Owen	KPMG LLP
Rinna Sak	Grant Thornton LLP
Janet Stockton	BDO LLP
Eric Turner	Auditing and Assurance Standards Board
Rebecca Villmann	Accounting Standards Board

ADVISORY COMMITTEES

DELIVERING ON OUR MANDATE

Fintech Advisory Committee

George Bordianu	Paradiso Ventures
Stephanie Choo	Portag3 Ventures
Christine Day	Questrade Financial Group
Carol Derk	Borden Ladner Gervais LLP
Paritosh Gambhir	KPMG LLP
Roy Kao	MaRS Discovery District
Robert Kirwin	VigilantCS
Christian Lassonde	Impression Ventures
Barrie Laver	Royal Bank of Canada
John Lee	TMX Group
Raymond Luk	Hockeystick Co.
Alan Lysne	Ryerson Futures Inc.
Asif Qayyum	PwC Canada
Hitesh Rathod	NexusCrowd Inc.
Dan Rosen	d1g1t Inc. University of Toronto
Gillian Stacey	Davies Ward Phillips & Vineberg LLP
Silvio Stroescu	BMO InvestorLine

Investment Funds Product Advisory Committee

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

Market Structure Advisory Committee

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

Mining Technical Advisory and Monitoring Committee

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

ADVISORY COMMITTEES

DELIVERING ON OUR MANDATE

Registrant Advisory Committee

Eric Adelson	Invesco Canada Ltd.
Christine Arruda	Brandes Investment Partners & Co.
Denys Calvin	Portfolio Management Association of Canada and Nexus Investment Management Inc.
Geoff Clarke	Miller Thomson LLP
Julie Clarke	Private Capital Markets Association of Canada
Patrick Farmer	Edgepoint Wealth Management
Craig Kikuchi	Brompton Funds Ltd
Peter Moulson	CIBC Asset Management Inc.
Charles Pennock	Origin Merchant Securities Inc.
Paul Spagnolo	Sionna Investment Managers Inc.
Prema K. R. Thiele	Borden Ladner Gervais LLP

Securities Advisory Committee

Anita Anand	University of Toronto
Thomas Fenton	Aird & Berlis LLP
Rhonda Goldberg	IGM Financial Inc
Ramandeep Grewal	Stikeman Elliott LLP
Margaret Gunawan	BlackRock Asset Management
Barbara Hendrickson	Bax Securities Law
Jeffrey Meade	TD Bank Group
Eric Moncik	Blake, Cassels & Graydon LLP
Ron Schwass	Wildeboer Dellelce LLP
Julie Shin	Toronto Stock Exchange
Blair Wiley	Osler, Hoskin and Harcourt LLP
Thomas Yeo	Torys LLP

Securities Proceedings Advisory Committee

Daniel Bach	Siskinds LLP
Andrea Burke	Davies Ward Phillips & Vineberg LLP
Andrew Gray	Torys LLP
Jessica Kimmel	Goodmans LLP
Susan Kushneryk	Hansell LLP
Ryan Morris	Blake, Cassels & Graydon LLP
Bruce O' Toole	Crawley MacKewn Brush LLP
Laura Paglia	Borden Ladner Gervais LLP
Shara Roy	Lenczner Slaght LLP
Usman Sheikh	Gowling WLG

Seniors Expert Advisory Committee

Ellen Bessner
 Jan Dymond
 Arthur Fish
 Alan Goldhar
 Dr. Amanda Grenier
 Marta C. Hajek
 Patricia Kloepfer
 Wanda Morris
 Lindsay Rogan
 Bonnie Rose
 Greg Shaw
 Dr. Samir Sinha
 Laura Tamblyn Watts

Small and Medium Enterprises Committee

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

MD&A CONTENTS

- 50** About the OSC
- 52** Operating results
- 61** Liquidity and financial position
- 66** 2019 Strategy
- 68** Critical accounting estimates
- 68** Risks and risk management
- 70** Internal control over financial reporting (ICFR)

MD&A

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the OSC's financial performance for the 2018 fiscal year ended March 31, 2018. 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 2018 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 5, 2018.
 - 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 2018 Notes to the Financial Statements.
 - All financial information related to 2017 and 2018 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 20 *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.
-

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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

Capital Markets Regulatory Authority (CMRA)

The OSC plays an important advisory role to the Ontario Ministry of Finance on the project to create the CMRA. The CMRA is an important initiative among the Ontario, British Columbia (BC), Saskatchewan, New Brunswick (NB), Prince Edward Island (PEI), Yukon and Federal governments. The Ministers responsible for capital markets regulation in Ontario, BC, Saskatchewan, NB, 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 CMRA, once established, would administer the uniform provincial/territorial CMA and a single set of regulations.

The CMRA's initial board of directors was announced on July 22, 2016. The board selected the initial Chief Regulator of the CMRA 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. The Court's decision is expected sometime in 2018.

During 2018, the OSC expended approximately \$0.4 million in staff resources, in addition to the \$4.4 million expended from 2014 to 2017, for a total of \$4.8 million toward the creation of, and transition to, the CMRA. These totals do not include time spent by OSC's Executive who participate on the CMRA Transition Committee and are otherwise involved in the CMRA project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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. The chart below provides a comparison of results over the last two years. At the end of fiscal 2018, the general surplus was \$55.8 million, which increased by \$15.2 million from the prior year. Total revenues were 4.1% higher than the prior year and total expenses were 2.1% higher than the prior year. Revenues increased mainly from higher participation fees due to market growth. Expenses increased primarily in salaries and benefits due to additional positions hired during the year and depreciation as a result of increased capital expenditures to support information technology initiatives.

The general surplus is projected to decrease as revenues are projected to remain relatively flat 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. As a result of these expenditures and the need to maintain an adequate cash safety margin, OSC fees will remain unchanged for a period of two years beginning April 1, 2018.

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

(Thousands)	2018	2017
Revenue	\$ 124,819	\$ 119,927
Expenses	112,381	110,082
Excess of revenue over expenses (before recoveries)	12,438	9,845
Recoveries of enforcement costs	854	160
Recoveries of investor education costs	1,475	1,471
Recoveries from insurance proceeds over loss on asset disposal	521	—
Excess of revenue over expenses	\$ 15,288	\$ 11,476
General surplus	\$ 55,787	\$ 40,613
Property, plant and equipment (purchases)	\$ 3,384	\$ 2,743
Total assets	\$ 276,319	\$ 254,052
Non-current liabilities	\$ 184,025	\$ 176,722

Total assets increased from 2017 to 2018 primarily as a result of an increase in the following:

- Cash, as a result of Excess of revenue over expenses, (\$16.6 million)
- Funds held pursuant to designated settlements and orders, as a result of orders assessed and that have either been paid or deemed to be receivable (\$4.1 million), and
- Funds restricted for CSA Systems operations and redevelopment, as a result of Excess of revenues over expenses relating to CSA national system activities (\$2.9 million). During the year, the OSC changed the application of its accounting policy for CSA Systems from the recognition of *"Net assets held for CSA Systems operations and redevelopment"* to

"Funds restricted for CSA Systems operations and redevelopment". Accordingly, the total balance reflected in the Statement of Financial Position as Non-current asset and an equal offsetting Non-current liability in 2017 has been restated to reduce the balance by \$16.8 million to reflect cash and investments rather than net assets. For more information on Funds restricted for CSA Systems operations and redevelopment, see Note 2(d) and Note 17.

Non-current liabilities increased from 2017 to 2018 primarily as a result of an increase in the offsetting liability corresponding to designated settlements and orders and CSA Systems operations and redevelopment, 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 current fee rule will remain in place for a further two years until March 31, 2020.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

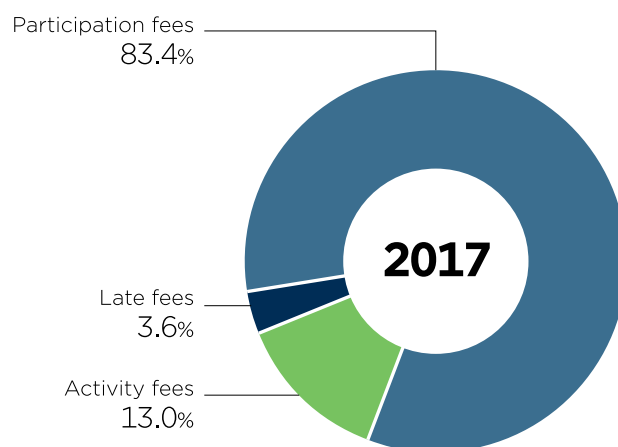
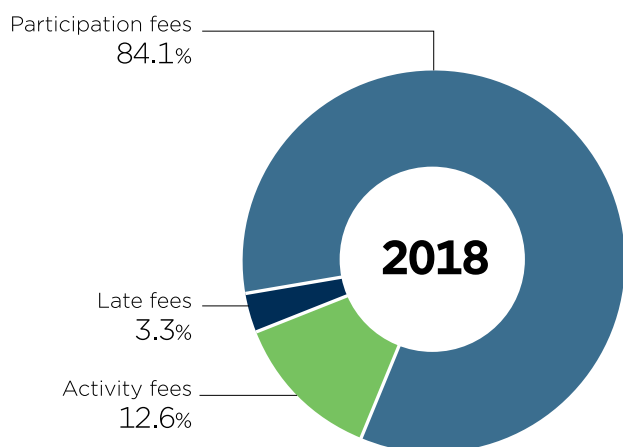
DELIVERING ON OUR MANDATE

Revenue

Total revenues of \$124.8 million were up \$4.9 million (4.1%) from 2017. Total revenues for the year exceeded plan by \$9.0 million (7.8%), mainly due to higher participation and activity

fees. Participation fees account for 55.4% of the variance against plan, activity fees account for 26.7%, and miscellaneous revenue and interest income together account for the remaining 17.9%.

(Thousands)	% of 2018 Revenue	2018	2017	Change	
				Favourable / (Unfavourable)	
Participation fees	84.1%	\$ 104,502	\$ 99,726	\$ 4,776	4.8%
Activity fees	12.6%	15,648	15,471	177	1.1%
Late fees	3.3%	4,080	4,319	(239)	-5.5%
Total fees	100.0%	\$ 124,230	\$ 119,516	\$ 4,714	3.9%
Miscellaneous		77	168	(91)	-54.2%
Interest income		512	243	269	110.7%
Total revenues		\$ 124,819	\$ 119,927	\$ 4,892	4.1%



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

Participation fees



Variance from prior year: Total participation fee revenues were \$4.8 million (4.8%) higher in 2018 compared to 2017 as a result of market growth, mainly from registrants.

Variance from current year plan: Participation fee revenues were \$5.0 million (5.0%) higher than the 2018 plan. Registrant participation fees were \$5.8 million (9.3%) higher than plan due to increased registrant income which drives higher fees. Issuer participation fees were \$0.8 million (2.0%) under plan, as the expected growth across fee tiers assumed in the budget did not materialize in the actual results.

2019 plan: The 2019 plan for participation fees totals \$102.5 million: \$36.3 million from issuers, \$64.7 million from registrants and \$1.5 million from marketplaces and other entities. This represents a \$2.0 million (1.9%) decrease from 2018 actual results and a \$3.0 million (3.0%) increase from the 2018 plan. The plan is lower than 2018 actual results as capital market growth assumptions are lower in 2019.

Activity fees



Variance from prior year: Activity fee revenues were \$0.1 million (1.1%) higher this year than the prior year, primarily due to higher prospectus filings from investment funds.

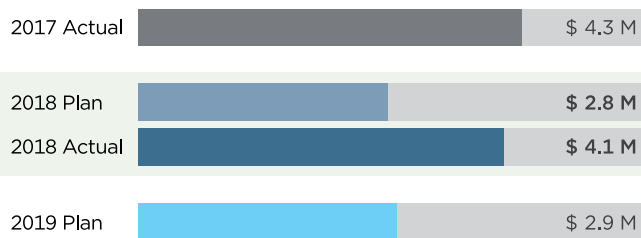
Variance from current year plan: Activity fee revenues were \$2.4 million (18.2%) above plan for the current year. The main reason for the increase is due to a higher volume of prospectus filings from investment funds and exemptive relief applications.

2019 plan: The 2019 plan for activity fees totals \$14.1 million, representing a \$1.5 million (9.6%) decrease from the 2018 actual results and a \$0.9 million (6.8%) increase from the 2018 plan. The lower budget expresses uncertainty on the level of issuer and registrant activity fees and is considered prudent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

Late fees



Variance from prior year: Late fee revenues were \$0.2 million (5.5%) 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 \$1.3 million (46.4%) higher than plan for the current year. This is primarily due to higher late exempt distribution filings.

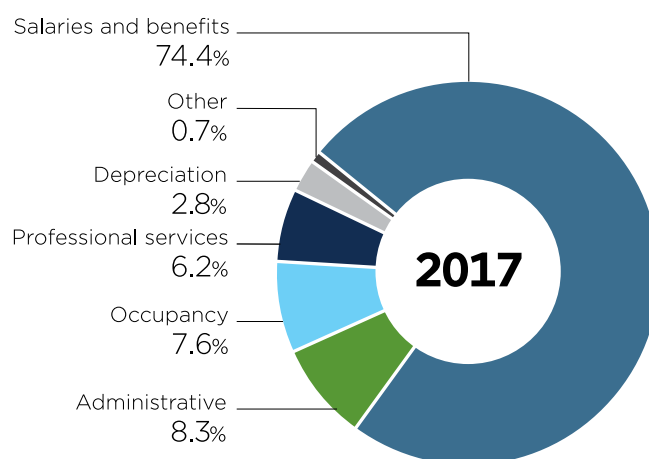
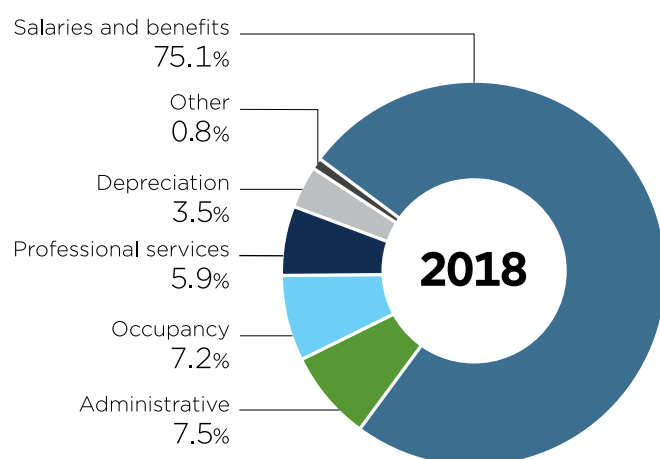
2019 plan: The 2019 plan for late fees totals \$2.9 million. This represents a \$1.2 million (29.3%) decrease from the 2018 actual results and a \$0.1 million (3.6%) increase from the 2018 plan. This is lower than the 2018 actual revenue due to the uncertainty of late filing volumes.

Expenses

In 2018, our total expenses were \$112.4 million, up \$2.3 million (2.1%) from \$110.1 million in 2017 (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 Depreciation from capitalized technology

purchases during the year. These increases are partially offset by underspending in Administrative costs due to lower data subscriptions and information technology maintenance requirements. Other areas of underspending include Occupancy and Professional services.

(Thousands)	% of 2018 Expenses	2018	2017	Change	
				Favourable / (Unfavourable)	% Change
Salaries and benefits	75.1%	\$ 84,476	\$ 81,864	\$ (2,612)	-3.2%
Administrative	7.5%	8,448	9,085	637	7.0%
Occupancy	7.2%	8,083	8,353	270	3.2%
Professional services	5.9%	6,584	6,863	279	4.1%
Depreciation	3.5%	3,907	3,112	(795)	-25.5%
Other	0.8%	883	805	(78)	-9.7%
	100%	\$ 112,381	\$ 110,082	\$ (2,299)	-2.1%
Recoveries of enforcement costs		(854)	(160)	694	433.8%
Recoveries of investor education costs		(1,475)	(1,471)	4	0.3%
Recoveries from insurance proceeds over loss on asset disposal		(521)	—	521	100.0%
Total expenses (net of recoveries)		\$ 109,531	\$ 108,451	\$ (1,080)	-1.0%

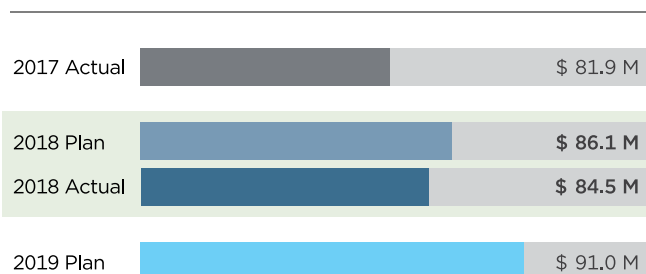


MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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

Salaries and benefits



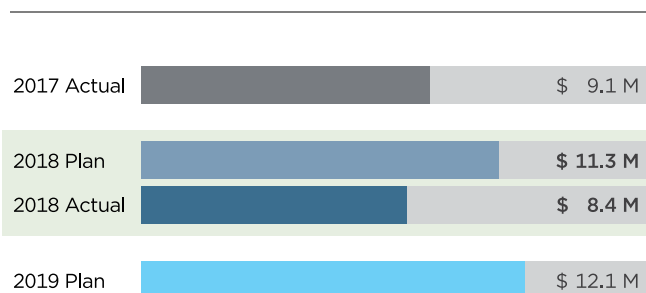
For details on the composition of the Salaries and benefits expenses incurred, see Note 15 of the financial statements.

Variance from prior year: Salaries and benefits were \$2.6 million (3.2%) higher this year than the prior year. This was a result of an increase in the average number of positions and salary increases implemented at the beginning of the year. For the 2018 fiscal year, the OSC added seven permanent new positions for priority areas within the OSC.

Variance from current year plan: Salaries and benefits were \$1.6 million (1.9%) lower than plan for the current year. This was mainly due to delays in filling vacant positions.

2019 plan: The 2019 plan for Salaries and benefits totals \$91.0 million. This represents a \$6.5 million (7.7%) increase from the current year actual results and a \$4.9 million (5.7%) increase from the 2018 plan. The increase reflects the full year cost of 2018 staff additions and new additions in 2019 to support key initiatives including the data management program and emerging regulatory issues such as Fintech and cryptocurrencies.

Administrative



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

Variance from prior year: Administrative expenses were \$0.7 million (7.0%) lower this year than the prior year. This was a result of a decrease in spending on data subscriptions, lower information technology maintenance as a result of deferred projects and lower commission expenses due to a lower number of hearings.

Variance from current year plan: Administrative expenses were \$2.9 million (25.7%) lower than plan for the current year. This was primarily the result of lower spending on data subscriptions and information technology maintenance services.

2019 plan: The 2019 plan for Administrative expenses totals \$12.1 million. This represents a \$3.7 million (44.0%) increase from 2018 actual results and a \$0.8 million (7.1%) increase from the 2018 plan. This is mainly due to additional maintenance costs for new information technology initiatives, including some costs deferred from 2018. The initiatives being deferred to 2019 are mainly due to flooding incidences during the year that resulted in a reprioritization of initiatives.

Occupancy



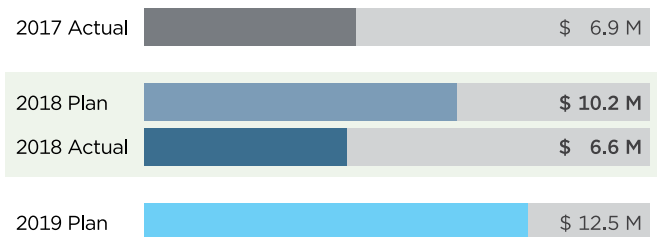
Variance from prior year: Occupancy expenses were \$0.3 million (3.2%) lower this year than the prior year as a result of a general decrease in base rent and rent charges relating to property taxes.

Variance from current year plan: Occupancy expenses were consistent with the plan of \$8.1 million.

2019 plan: The 2019 plan for Occupancy expenses totals \$8.1 million. Occupancy expenses are expected to remain relatively flat due to the new lease effective September 1, 2017. The term is for 10 years ending August 31, 2027 and contains two consecutive options to extend the term for a period of 5 years each. The lease was approved by the Minister of Finance under the *Financial Administration Act* section 28. The OSC's lease commitments are outlined in Note 11 of the financial statements.

During 2018, the OSC continued leasing space to 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 2018 is \$0.8 million (\$0.8 million in 2017).

Professional services



Variance from prior year: Professional services expenses were \$0.3 million (4.1%) lower this year than the prior year. This was mainly due to underspending on information technology projects which have been deferred to the following year as a result of the flooding incidences.





Variance from current year plan: Professional services expenses were \$3.6 million (35.3%) lower than plan for the current year. This is due to underspending on information technology projects which have been deferred to the following year and lower enforcement related professional services.

2019 plan: The 2019 plan for Professional services expenses totals \$12.5 million. This represents a \$5.9 million (89.4%) increase from the current year actual results and a \$2.3 million (22.5%) increase from the 2018 plan. This is mainly due to higher planned spending on information technology projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

Depreciation

2017 Actual		\$ 3.1 M
2018 Plan		\$ 3.5 M
2018 Actual		\$ 3.9 M
2019 Plan		\$ 4.5 M

Variance from prior year: Depreciation expense was \$0.8 million (25.5%) higher than the prior year due to capital asset additions as a result of flooding during the year that damaged technological equipment.

Variance from current year plan: Depreciation expense was \$0.4 million (11.4%) higher than plan for the current year due to higher capital purchases as a result of flooding.

2019 plan: The 2019 plan for Depreciation expense totals \$4.5 million. This represents a \$0.6 million (15.4%) increase from the current year actual results and a \$1.0 million (28.6%) increase from the 2018 plan. This is mainly due to an increase in capital expenditures towards information technology projects and facility rehabilitation.

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 2018, total CSA spending on shared projects was \$1.9 million (\$1.9 million in 2017). The OSC contributed \$0.7 million (\$0.8 million in 2017). 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 38.6% (38.5% in 2017). All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2018, the OSC contributed \$0.5 million (\$0.4 million in 2017) to support the CSA Secretariat.

Recovery of investor education costs

During the year, the OSC recorded \$1.5 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."

Liquidity and financial position

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

Liquidity

Cash

2017		\$ 42.3 M
2018		\$ 58.9 M

At March 31, 2018, the OSC held \$58.9 million in Cash (\$42.3 million in 2017) and \$20.0 million in Reserve fund assets (\$20.0 million in 2017), for a combined total of cash and cash equivalent resources available of \$78.9 million (\$62.3 million in 2017).

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

At March 31, 2018, the OSC had current assets of \$65.0 million (\$48.7 million in 2017) and current liabilities of \$16.5 million (\$16.7 million in 2017) for a current ratio of 3.9:1 (2.9:1 in 2017). 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 2018, the OSC did not draw on the line of credit, however \$17.0 million of the reserve fund was used and replenished.

The OSC's Cash position increased \$16.6 million (39.2%) from 2017 as a result of an operational surplus in 2018 adjusted by investments in property plant and equipment. In 2018, Excess of revenue over expenses was \$15.3 million (\$11.5 million in 2017), and the year-end surplus was \$55.8 million (\$40.6 million in 2017).

Cash flows

In 2018, Cash flows from operating activities produced an inflow of \$18.8 million (\$14.4 million in 2017). In 2018, the OSC paid \$2.2 million (\$1.3 million in 2017) towards Property, plant & equipment investments.

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 negative 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 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 2018, we used \$17.0 million in Reserve fund assets and \$0 (\$75 thousand in 2017) of our revolving line of credit to fund operations. We restored the \$20.0 million in Reserve fund assets in early January 2018 when most registrant participation fees were received.

The agreement for the current line of credit expires on June 30, 2018. The OSC received approval from the Minister of Finance 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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 \$115.3 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 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

2017		\$ 4.8 M
2018		\$ 3.7 M

Trade and other receivables were \$3.7 million (\$4.8 million in 2017). The decrease of 22.9% was primarily due to a reduction in revenue accruals, HST recoverable and amounts owing from the CSA.

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

Prepayments

2017		\$ 1.5 M
2018		\$ 2.4 M

Prepayments totaled \$2.4 million (\$1.5 million in 2017). The increase is primarily due to Occupancy costs which were paid in advance for one month.

Funds held pursuant to designated settlements and orders

2017		\$ 38.0 M
2018		\$ 42.1 M

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 determines. 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 2018, \$60.4 million in orders was assessed (\$164.0 million in 2017). Included in the \$60.4 million in orders assessed by the OSC are five orders for which the respondents were required to make payment directly to harmed investors, totaling \$48.4 million (\$148.1 million in 2017). 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 recorded \$6.1 million of orders in Funds held pursuant to designated settlements and orders (\$7.9 million in 2017).

As authorized by its Board, the OSC distributed \$1.1 million (\$3.1 million in 2017) to harmed investors and \$1.8 million (\$1.4 million in 2017) to the OSC for 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). In 2017, 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.

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.

At March 31, 2018, the accumulated balance of designated funds was \$42.1 million (\$38.0 million in 2017). Of this amount, \$40.9 million was held in cash (\$36.5 million in 2017) and \$1.2 million was deemed as being receivable (\$1.5 million in 2017). After considering funds set aside for possible allocation to harmed investors, \$31.6 million (\$14.3 million in 2017) of the funds on hand is available for distribution. The increase in funds on hand for distribution in 2018 is mainly due to funds pending approval for distribution in 2017 which were approved in 2018.

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. Collections of monetary sanctions remain fairly consistent with the prior year.

Total settlements and orders assessed during the year amounted to \$60.4 million (\$164.0 million in 2017) of which \$48.4 million (\$148.1 million in 2017) were paid or payable directly to investors.

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. In fiscal 2018, an external collections firm was 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.ca.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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

Fund held pursuant to designated settlements and orders

(Thousands)

2017	Assessed*	Collected	% Collected
Settlements	\$ 7,890	\$ 7,856	99.6%
Contested hearings**	8,009	50	0.6%
Total	\$ 15,899	\$ 7,906	49.7%
2018	Assessed*	Collected	% Collected
Settlements	\$ 6,086	\$ 5,681	93.3%
Contested hearings	5,967	—	0.0%
Total	\$ 12,053	\$ 5,681	47.1%

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

** During 2018, the 2017 assessed contested hearings balance was reduced by \$4.8 million as the respondent fulfilled their obligation by paying investors directly. This has resulted in a revised collection rate for 2017.

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

2017		\$ 12.5 M
2018		\$ 11.4 M

Property, plant & equipment decreased 8.8% to \$11.4 million (\$12.5 million in 2017). 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.

Trade and other payables

2017		\$ 16.7 M
2018		\$ 16.5 M

Trade and other payables decreased 1.2% to \$16.5 million (\$16.7 million in 2017). The decrease is due to the timing of vendor payments.

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

Pension liabilities

2017		\$ 3.8 M
2018		\$ 4.1 M

Pension liabilities of \$4.1 million (\$3.8 million in 2017) represents future defined benefit obligations for supplemental pension plans for present and past Chairs and Vice-Chairs. The OSC's related expenses for the year were \$0.4 million (\$0.4 million in 2017).

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

Funds restricted for CSA Systems operations and redevelopment

2017	\$ 134.9 M
2018	\$ 137.8 M

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), System for Electronic Disclosure by Insiders (SEDI) and the National Registration Database (NRD). The CSA is redeveloping the CSA Systems and is planning to develop and implement a new marketplace surveillance and analytical system to improve market analytics capacity. 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.

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 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 2017. 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 17(a) of the financial statements.

During the year, the OSC changed the application of its accounting policy for CSA Systems from the recognition of “*Net assets held for CSA Systems operations and redevelopment*” to “*Funds restricted for CSA Systems operations and redevelopment*”. This change was made to provide users of OSC’s financial statements with more relevant information as it recognizes only the elements for which the OSC holds and manages for CSA Systems (cash and investment and a corresponding liability for those elements). Although the use of the CSA Systems surplus funds is governed by the four PAs, each having one vote on CSA Systems matters, the OSC’s role is essentially that of custodian over these funds. Accordingly, the total balance reflected in the Statement of financial position as Non-current asset and an equal offsetting Non-current liability is cash and investments of the CSA Systems of \$137.8 million (\$134.9 million in 2017) rather than total net assets. Comparative balances have been adjusted from \$151.7 million in 2017 to \$134.9 million to reflect this change.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

2019 Strategy

Our plans and budget for fiscal year 2019

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 29, 2018, 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 28, 2018 and is available on the OSC website at www.osc.ca. The final Statement of Priorities will be published on the OSC website in July 2018.

2019 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 2019 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 2019 OSC Budget over 2018 as this will require focused investments in the following areas:

Deliver strong investor protection

- Publish regulatory reforms that address the best interests of the client – (Client Focused Reforms)
- Publish regulatory actions needed to address embedded commissions
- Advance retail investor protection, engagement and education through the OSC's Investor Office

Deliver effective compliance, supervision and enforcement

- Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework
- Increase deterrent impact of OSC enforcement actions and sanctions by actively pursuing timely and consequential enforcement cases involving serious securities laws violations

Deliver responsive regulation

- Work with fintech businesses to support innovation and capital formation through regulatory compliance
- Implement the orderly transfer of syndicated mortgage investments to OSC oversight
- Address opportunities to reduce regulatory burden while maintaining appropriate investor protections
- Review the effectiveness of the disclosure requirements regarding women on boards and in executive officer positions (WOB) to determine if there is a need for further action
- Actively monitor and assess impacts of recently implemented regulatory initiatives

Promote financial stability through effective oversight

- Enhance OSC systemic risk oversight
- Promote cybersecurity resilience through greater collaboration with market participants and other regulators on risk preparedness and responsiveness

Be an innovative, accountable and efficient organization

- Develop a strategic OSC workforce approach focused on skills recruitment and development
- Enhance OSC business capabilities
- Work with Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the proposed CMRA

As a result, the budget reflects an increase in expenses of 7.9% from the 2018 budget and 15.9% from 2018 spending. The key reasons for this increase are:

- Approval of new positions to support the investments noted above,
- Professional services to support key technology initiatives to modernize enforcement, case management and other technological tools, and
- Enhance OSC collection efforts of uncollected monetary sanctions owing from respondents.

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

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.

2019 Plan

(Thousands)	2017-2018	2017-2018	2018-2019	2018-19 Budget to		2018-19 Budget to	
	Budget	Actual		Budget	2017-18 Budget	2017-18 Actual	2017-18 Actual
				\$ Change	% Change	\$ Change	% Change
				Favourable/(Unfavourable)		Favourable/(Unfavourable)	
Revenues	\$ 115,781	\$ 124,819	\$ 119,990	\$ 4,209	3.6%	\$ (4,829)	-3.9%
Expenses	117,657	109,531	126,916	(9,259)	-7.9%	(17,385)	-15.9%
Excess (deficiency)							
revenue over expenses	\$ (1,876)	\$ 15,288	\$ (6,926)	\$ (5,050)		\$ (22,214)	
Capital Expenditures	\$ 2,735	\$ 3,384	\$ 9,948	\$ (7,213)		\$ (6,564)	

For more information on the 2019 planned budget amounts for significant revenue and expense line items, see the Revenue and Expenses sections of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with IFRS requires that management makes 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.

Judgment 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 judgments and sources of estimation uncertainty that impact the OSC, see Note 2(d) of the financial statements.

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, 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.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 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 March 2018.

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.

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, 2017, 2018 and 2019, 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 these actions cannot currently be determined. However, management does not expect the outcome of any legal actions, individually or in aggregate, to have a material impact on the OSC's financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DELIVERING ON OUR MANDATE

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, 2018. 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, 2018, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director, Financial Management & Reporting, certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

FINANCIAL STATEMENTS CONTENTS

- 72** Management's Responsibility and Certification
- 73** Independent Auditor's Report
- 74** Statement of Financial Position
- 75** Statement of Comprehensive Income
- 75** Statement of Changes in Surplus
- 76** Statement of Cash Flows
- 77** Notes to the Financial Statements

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

Management's Responsibility and Certification

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

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

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

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or

caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

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

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

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



Maureen Jensen
Chair and Chief Executive Officer



Mary Campione
Director, Financial Management & Reporting

June 5, 2018



Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the statement of financial position as at March 31, 2018, and the statements of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2018 and its financial performance, and its cash flows for the year ended in accordance with the International Financial Reporting Standards

20 Dundas Street West
Suite 1530
Toronto, Ontario
MSG 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

20, rue Dundas ouest
bureau 1530
Toronto (Ontario)
MSG 2C2
416 327-2381
télécopieur 416 327-9862
ats 416 327-6123

www.auditor.on.ca

Toronto, Ontario
June 5, 2018

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

Statement of Financial Position

(in Canadian dollars)

As at March 31	Note(s)	2018	Restated* 2017
ASSETS			
Current			
Cash		\$ 58,917,413	\$ 42,345,003
Trade and other receivables	4, 5	3,652,751	4,795,056
Prepayments		2,380,100	1,527,576
Total current		\$ 64,950,264	\$ 48,667,635
Non-current			
Funds held pursuant to designated settlements and orders	3(d), 6	\$ 42,095,231	\$ 37,995,716
Funds restricted for CSA Systems operations and redevelopment	2, 7, 17	137,825,393	134,886,194
Reserve funds	8	20,000,000	20,000,000
Property, plant & equipment	9	11,448,550	12,502,675
Total non-current		\$ 211,369,174	\$ 205,384,585
Total assets		\$ 276,319,438	\$ 254,052,220
LIABILITIES			
Current			
Trade and other payables	10	\$ 16,507,584	\$ 16,717,810
Total current		\$ 16,507,584	\$ 16,717,810
Non-current			
Pension liabilities	12(b)	\$ 4,104,618	\$ 3,839,928
Funds held pursuant to designated settlements and orders	3(d), 6	42,095,231	37,995,716
Funds restricted for CSA Systems operations and redevelopment	2, 7, 17	137,825,393	134,886,194
Total non-current		\$ 184,025,242	\$ 176,721,838
Total liabilities		\$ 200,532,826	\$ 193,439,648
SURPLUS			
General		\$ 55,786,612	\$ 40,612,572
Reserve	8, 13	20,000,000	20,000,000
Operating surplus		\$ 75,786,612	\$ 60,612,572
Total liabilities and surplus		\$ 276,319,438	\$ 254,052,220

* 2017 Funds restricted for CSA Systems operations and redevelopment have been restated, refer to Note 2(d)(i)

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

On behalf of the Board of the Commission



Maureen Jensen
Chair



William Furlong
Chair, Audit and Finance Committee

Statement of Comprehensive Income

(in Canadian dollars)

For the year ended March 31	Note(s)	2018	2017
REVENUE			
Fees	3(c), 14	\$ 124,230,016	\$ 119,516,341
Miscellaneous		77,066	167,627
Interest income		511,625	243,132
		\$ 124,818,707	\$ 119,927,100
EXPENSES			
Salaries and benefits	15	\$ 84,477,723	\$ 81,864,332
Administrative	16	8,447,603	9,084,988
Occupancy		8,082,581	8,352,813
Professional services		6,584,053	6,862,591
Depreciation	9	3,906,597	3,112,148
Other		882,803	805,454
		\$ 112,381,360	\$ 110,082,326
Recoveries of insurance proceeds over loss on asset disposal	9	(521,938)	—
Recoveries of enforcement costs	3(g)	(853,902)	(160,250)
Recoveries of investor education costs	3(g), 19	(1,475,045)	(1,470,894)
		\$ 109,530,475	\$ 108,451,182
Excess of revenue over expenses		\$ 15,288,232	\$ 11,475,918
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit and loss:			
Remeasurements of defined benefit pension plans	12 (b)	\$ (114,192)	\$ (110,166)
Other comprehensive loss		\$ (114,192)	\$ (110,166)
Total comprehensive income		\$ 15,174,040	\$ 11,365,752

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

Statement of Changes in Surplus

(in Canadian dollars)

For the year ended March 31	Note(s)	2018	2017
Operating surplus, beginning of year		\$ 60,612,572	\$ 49,246,820
Total comprehensive income		15,174,040	11,365,752
Operating surplus, end of year		\$ 75,786,612	\$ 60,612,572
Represented by:			
General		\$ 55,786,612	\$ 40,612,572
Reserve	8, 13	20,000,000	20,000,000
		\$ 75,786,612	\$ 60,612,572

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

Statement of Cash Flows

(in Canadian dollars)

For the year ended March 31	Note(s)	2018	Restated* 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenue over expenses		\$ 15,288,232	\$ 11,475,918
Adjusted for:			
Interest received		\$ 450,107	\$ 232,868
Interest income		(511,625)	(243,132)
Pension liabilities		150,498	121,720
Loss on disposal of property, plant & equipment	9	531,763	865
Depreciation	9	3,906,597	3,112,148
		\$ 19,815,572	\$ 14,700,387
Changes in non-cash working capital:			
Trade and other receivables		\$ 1,203,823	\$ (952,951)
Prepayments		(852,524)	(4,870)
Trade and other payables		(1,371,436)	616,974
		\$ (1,020,137)	\$ (340,847)
Net cash flows from operating activities		\$ 18,795,435	\$ 14,359,540
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant & equipment	9	\$ (2,223,025)	\$ (1,259,252)
Net cash used in investing activities		\$ (2,223,025)	\$ (1,259,252)
Net increase in cash position		\$ 16,572,410	\$ 13,100,288
Cash, beginning of year		42,345,003	29,244,715
Cash, end of year		\$ 58,917,413	\$ 42,345,003
SUPPLEMENTAL CASH FLOW INFORMATION			
Property, plant & equipment funded by trade and other payables		\$ 1,161,210	\$ 1,483,496

* 2017 Purchase of Property, plant & equipment and trade and other payables has been restated to reduce Property, plant & equipment funded by trade and other payables. See supplemental cash flow information above.

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

Notes to the Financial Statements

1. Reporting entity

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

2. Basis of presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are as at March 31, 2018 and for the year then ended and includes comparatives. These financial statements were authorized for issue by the Board of Directors on June 5, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments and sources of estimation uncertainty

(i) Judgments

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

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

Recoveries of investor education costs

Beginning April 1, 2015, the OSC began recovering costs that are in accordance with subparagraph 3.4(2)(b)(ii) of the *Securities Act* (Ontario) which was amended on June 20, 2012 to expand the purposes for which enforcement monies may be designated to include "for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets" ("investor education costs").

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

The OSC developed guidelines to assist in determining which costs would be in accordance with subparagraph 3.4(2)(b)(ii). The OSC exercised judgement in evaluating the types of costs incurred which would be in accordance with these guidelines. See Note 19 for a summary of costs recovered.

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

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

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

The OSC exercised judgment to determine that the Funds restricted for CSA Systems administered by the OSC on behalf of CSA Systems are best represented by the presentation of an asset and a corresponding liability. The change in the application of the accounting policy resulted in a reduction in the asset and corresponding liability of \$25.1 million (2017 - \$16.8 million).

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

(ii) Sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make assumptions about the future and other sources of estimation uncertainty that have a significant risk of affecting the carrying amounts of assets and liabilities within the next fiscal year. Determining the carrying amounts of some assets and liabilities requires management to estimate the effects of uncertain future events on those assets and liabilities at the end of the reporting period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management’s estimations. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Supplemental pension plan

Supplemental pension plan liabilities represent the estimated present value of the OSC's obligation for future payments on March 31, 2018. The OSC utilizes an independent actuarial expert to determine the present value of the defined benefit obligation of the Supplemental pension plan and related impact to the Statement of comprehensive income and Other comprehensive income (OCI).

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

The significant actuarial assumptions used to determine the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used are outlined in Note 12(b).

Designated settlements and orders and Recoveries of enforcement costs

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

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. See Note 20 for discussion related to accounting standards, interpretations and amendments that became effective in the year.

(a) Financial instruments

Financial assets and financial liabilities are recognized when the OSC becomes a party to the contractual provisions of the instrument.

Financial instruments are classified into one of the following categories: financial assets at fair value through excess of revenues over expenses (held-for-trading), loans and receivables, and other liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets carried at fair value through excess of revenues over expenses, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when all substantial risks and rewards of the financial assets are transferred.

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

A financial liability is derecognized when it is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

The OSC has adopted the following classifications for financial assets and financial liabilities:

Financial assets at fair value through excess of revenues over expenses (held-for-trading)

Cash, cash held pursuant to designated settlements and orders, Funds restricted for CSA Systems operations and redevelopment, and Reserve funds are classified as held-for-trading. The recorded balances approximate their fair value.

Loans and receivables

Trade and other receivables and receivables from designated settlements and orders are classified as loans and receivables and are measured at amortized cost, less any impairment loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of a market participant, or default or significant delay in payment) that the OSC will be unable to collect all, or a portion, of the amounts due under the terms of the amount receivable.

Other liabilities

Trade and other payables are classified as other liabilities and measured at amortized cost. The recorded balances approximate their fair value.

(b) Property, plant & equipment

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

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

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

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

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

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

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

(c) Revenue recognition

Participation fees

Participation fees are recognized when received. Prior to receipt of the fee, the probability that the economic benefits associated with the transaction will flow to the OSC is unknown. Reliable measurement of participation fees for new market participants is not possible because the market capitalization of issuers or the specified Ontario revenue of registrants, on which their participation fees are based, cannot be determined prior to receipt.

These fees represent the payment for the right to participate in the Ontario capital markets. The OSC has no specific obligations throughout the year to any individual market participant. As such, the OSC's performance consists of a single act, which is receipt of the fee payment. Once the fee is paid, there is no obligation to refund the fees and there are no other unfulfilled conditions on behalf of the OSC. Therefore, participation fees are deemed to be earned upon receipt. In the case of specified regulated entities that file their participation fees through the OSC's electronic filing portal, revenue is recognized when the fee amount can be reliably measured, which is the date the required document has been filed, or the corresponding outstanding fee is paid.

Activity fees

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

Late filing fees

Late filing fees relating to insider trading reports are recognized weekly and include fees related to all insider trading reports filed late in the preceding seven-day period. Other late fee amounts are recognized when the fee amount can be reliably measured, which is the date the required document has been filed, or the corresponding outstanding fee is paid.

(d) Funds held pursuant to designated settlements and orders

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

(e) Employee benefits

Ontario Public Service Pension Plan (OPSPP)

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

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

In addition, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the OSC from the plan. Payments made to the plan are recognized as an expense when employees have rendered the service entitling them to the contributions. For more information on the OPSPP, see Note 12(a).

Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for its current and former Chairs and Vice-Chairs as described in Note 12(b). These plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of the target benefits provided depends on the member's length of service and their salary in the final years prior to retirement. In some plans, the target benefits are indexed with inflation. The target benefits are then offset by the benefits payable from the OPSPP (registered and supplemental plans), which are linked to inflation.

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

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

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income, as described in Note 18(b).

Termination benefits

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

Short-term benefits

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

(f) Leases

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

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

(g) Recoveries

Recoveries of enforcement costs

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

Recoveries of investor education costs

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

(h) Provisions

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

4. Financial instruments risks

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

Currency risk

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

Interest rate risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Funds restricted for CSA Systems operations and redevelopment and Reserve funds are held by Schedule 1 financial institutions (and credit unions in British Columbia with respect to Funds restricted for CSA Systems operations and redevelopment). The bank balances earn interest at a rate of 1.85% below the prime rate. The average rate of interest earned on bank balances for the year was 1.22% (2017 - 0.85%).

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

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

Impact on operating surplus

	25 basis points increase in rates	25 basis points decrease in rates
Reserve funds	\$ 44,096	\$ (44,096)
Cash balance	58,624	(58,624)
	\$ 102,720	\$ (102,720)

Credit risk

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

Schedule 1 financial institutions hold approximately 87% of the OSC's financial assets including those held for Funds restricted for CSA Systems operations and redevelopment and another 11% are held in two credit unions in British Columbia (for cash components of Funds restricted for CSA Systems operations and redevelopment exclusively). The remaining balance of financial assets are accounts receivable. The Credit Union Deposit Insurance Corporation (CUDIC), a statutory corporation, guarantees all deposits of British Columbia credit unions, as set out in the Financial Institutions Act. Given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

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

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

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

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

The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of Trade and other receivables generally represents the maximum credit exposure. Based on historical information about debtors' default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good. Collection efforts continue for Trade and other receivables balances, including those that are captured in the allowance for doubtful accounts.

The aging of Trade and other receivables is as follows:

	Note	March 31, 2018	March 31, 2017
Current		\$ 3,114,653	\$ 2,526,475
Past due 31 to 60 days		202,548	922,861
Past due 61 to 90 days		16,208	484,114
Past due greater than 90 days (net)		319,342	861,606
Total Trade and other receivables	5	\$ 3,652,751	\$ 4,795,056

Past due greater than 90 days detail	Note	March 31, 2018	March 31, 2017
Past due greater than 90 days (gross)		\$ 563,344	\$ 1,034,609
Allowance for doubtful accounts	5	(244,002)	(173,003)
		\$ 319,342	\$ 861,606

Reconciliation of allowance for doubtful accounts is as follows:

	Note	March 31, 2018	March 31, 2017
Opening balance		\$ 173,003	\$ 161,835
Current year provision		422,723	316,268
Written-off during the year		(351,724)	(305,100)
Closing balance	5	\$ 244,002	\$ 173,003

In 2018, \$351,724 of Trade and other receivables that related to balances owing prior to April 1, 2017 were written off, resulting in a reduction to the allowance for doubtful accounts and a corresponding reduction of Trade and other receivables for the same amount. The amount written off was charged to bad debt expense in prior years. The current year provision of \$422,723 was charged to bad debt expense in fiscal 2018.

Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has sufficient cash, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2018, the OSC had a cash balance of \$58.9 million and reserve fund assets of \$20.0 million to settle current liabilities of \$16.5 million.

The OSC has a \$52.0 million credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC did not utilize the credit facility (2017 - \$75 thousand).

The overall exposure to liquidity risk remains unchanged from 2017.

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

Supplemental pension plan risks

The OSC's overall exposure to supplemental pension plan risks is low due to the plan being a supplemental plan and the limited number of plan members entitled to plan benefits. For more information, see Note 12(b).

5. Trade and other receivables

	Notes	March 31, 2018	March 31, 2017
Trade receivables		\$ 726,748	\$ 717,605
Other receivables		2,440,437	3,003,059
Allowance for doubtful accounts	4	(244,002)	(173,003)
		\$ 2,923,183	\$ 3,547,661
Interest receivable		105,748	44,230
Amount recoverable from investor education costs	19	363,644	687,769
HST recoverable		260,176	515,396
Total Trade and other receivables	4	\$ 3,652,751	\$ 4,795,056

6. Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the Board of the OSC may determine. These funds are eligible to be allocated to the OSC for the purpose of educating investors, or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets, including such designated internal costs as approved by the Board.

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to an administrative proceeding where these amounts total \$1 million or more. The maximum amount of the award has been set at \$1.5 million where monetary sanctions and/or voluntary payments are not collected and \$5 million where these amounts have been collected. Whistleblowers will be paid out of funds held pursuant to designated settlements and orders. To date, no payments have been made under the Program.

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

As at March 31, 2018 the accumulated balance is determined as follows:

	Note	March 31, 2018	March 31, 2017
Opening balance		\$ 37,995,716	\$ 35,555,504
Assessed during the year		\$ 60,449,350	\$ 163,955,995
Less:			
Amounts paid or payable directly to investors		(48,396,642)	(148,057,864)
Orders deemed uncollectible		(5,955,936)	(7,988,558)
Amount recorded from assessments in year		6,096,772	7,909,573
Adjustments to amounts assessed in prior years		437,377	(1,194,980)
Total settlements and orders recorded		6,534,149	6,714,593
Add: Interest		505,032	255,131
Less: Payments to			
OSC for recovery of Investor education costs	19	(1,799,170)	(1,412,949)
External collections firm		(71,968)	—
Harmed investors		(1,068,528)	(3,116,563)
Closing balance		\$ 42,095,231	\$ 37,995,716
Represented by:			
Cash		\$ 40,850,699	\$ 36,464,623
Receivable		1,244,532	1,531,093
		\$ 42,095,231	\$ 37,995,716

The \$6,534,149 (2017 - \$6,714,593) identified as total settlements and orders recorded reflects the portion of \$60,449,350 (2017 - \$163,955,995) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes an increase of \$437,377 (2017- a reversal of \$1,194,980) in adjustments from orders assessed in prior years. These amounts include payments received in the current year for orders that were deemed uncollectible in prior years less orders that had been previously deemed as collectible that are now deemed as uncollectible in fiscal 2018. Included in the total assessed was \$48,396,642 (2017 - \$148,057,864) where the respondents were required to distribute monies directly to harmed investors, which are not captured in the OSC's accounting records.

The OSC collected a total of \$5,681,000 (2017 - \$7,905,652) of the designated settlements and orders assessed during the year, resulting in an average collection rate of 47.1% (2017 - 49.7%). The 2017 collection rate was restated from 38.2% as a result of a respondent fulfilling their obligation by paying investors directly. As authorized by the Board, the OSC made payments from the designated funds totalling \$2,939,666 (2017 - \$4,529,512). Details on the recipients of these payments are included in the table above.

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

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

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

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

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

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

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

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

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

The 2018 financial results of the CSA Systems operations and redevelopment are presented below. Assets include cash and investments of \$137.8 million (2017 - \$134.9 million) presented on the OSC's Statement of Financial Position. Assets also include intangible assets of \$18.4 million (2017 - \$14.6 million) primarily consisting of costs towards the redevelopment of the CSA National Systems.

Summarized Statement of Financial Position

As at March 31	2018	2017
Assets	\$ 164,523,346	\$ 155,970,261
Liabilities	\$ 1,587,219	\$ 4,237,653
Surplus	162,936,127	151,732,608
Liabilities and surplus	\$ 164,523,346	\$ 155,970,261

Summarized Statement of Comprehensive Income

For the year ended March 31	2018	2017
Revenue	\$ 27,317,404	\$ 27,405,208
Expenses	16,113,885	15,528,568
Excess of revenues over expenses	\$ 11,203,519	\$ 11,876,640

Summarized Statement of Cash Flows

For the year ended March 31	2018	2017
Net cash flows from operating activities	6,838,523	8,891,125
Net cash flows used in investing activities	(4,160,854)	(85,494,987)
Net (decrease)/increase in cash position	2,677,669	(76,603,862)
Cash, beginning of year	19,886,194	96,490,056
Cash, end of year	\$ 22,563,863	\$ 19,886,194

For more information on the Net assets held for CSA Systems operations and redevelopment, see Note 2(d) and Note 17.

8. Reserve funds

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

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

9. Property, plant & equipment

2018	Office furniture	Office equipment	Computer hardware and related applications	Networks and servers	Leasehold improvements	Total
COST						
Balance as at April 1, 2017	\$ 4,836,379	\$ 710,515	\$ 23,935,095	\$ 3,326,954	\$ 10,391,206	\$ 43,200,149
Additions	51,630	39,864	1,677,802	1,536,224	78,715	3,384,235
Disposals	—	—	(9,085)	(1,747,703)	—	(1,756,788)
Balance at March 31, 2018	\$ 4,888,009	\$ 750,379	\$ 25,603,812	\$ 3,115,475	\$ 10,469,921	\$ 44,827,596
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2017	\$ (4,588,610)	\$ (528,962)	\$ (19,229,409)	\$ (1,866,187)	\$ (4,484,306)	\$ (30,697,474)
Depreciation for the year	(115,806)	(29,106)	(1,736,804)	(778,958)	(1,245,923)	(3,906,597)
Disposals	—	—	9,085	1,215,940	—	1,225,025
Balance at March 31, 2018	\$ (4,704,416)	\$ (558,068)	\$ (20,957,128)	\$ (1,429,205)	\$ (5,730,229)	\$ (33,379,046)
Carrying amount at March 31, 2018	\$ 183,593	\$ 192,311	\$ 4,646,684	\$ 1,686,270	\$ 4,739,692	\$ 11,448,550
2017						
COST						
Balance as at April 1, 2016	\$ 4,791,873	\$ 684,970	\$ 21,417,379	\$ 3,223,289	\$ 10,353,145	\$ 40,470,656
Additions	44,506	25,545	2,530,971	103,665	38,061	2,742,748
Disposals	—	—	(13,255)	—	—	(13,255)
Balance at March 31, 2017	\$ 4,836,379	\$ 710,515	\$ 23,935,095	\$ 3,326,954	\$ 10,391,206	\$ 43,200,149
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2016	\$ (4,469,991)	\$ (503,839)	\$ (18,217,067)	\$ (1,186,184)	\$ (3,220,635)	\$ (27,597,716)
Depreciation for the year	(118,619)	(25,123)	(1,024,732)	(680,003)	(1,263,671)	(3,112,148)
Disposals	—	—	12,390	—	—	12,390
Balance at March 31, 2017	\$ (4,588,610)	\$ (528,962)	\$ (19,229,409)	\$ (1,866,187)	\$ (4,484,306)	\$ (30,697,474)
Carrying amount at March 31, 2017	\$ 247,769	\$ 181,553	\$ 4,705,686	\$ 1,460,767	\$ 5,906,900	\$ 12,502,675

In the first quarter of fiscal 2018, flooding occurred at the OSC resulting in damages to certain Property, plant and equipment. Costs incurred to replace damaged equipment amounted to \$1.8 million in 2018 and have been capitalized.

An insurance claim was initiated and proceeds of \$1.1 million were received. A loss on disposal of damaged capital assets of \$0.5 million has been recorded against insurance proceeds on the Statement of Comprehensive Income. The OSC expects the claim to be finalized in fiscal 2019 and further proceeds will be recognized when the OSC receives formal confirmation of an approved amount.

10. Trade and other payables

	March 31, 2018	March 31, 2017
Trade payables	\$ 424,461	\$ 1,148,122
Payroll accruals	12,417,094	12,017,104
Other accrued expenses	3,666,029	3,552,584
	\$ 16,507,584	\$ 16,717,810

11. Lease commitments

Operating leases

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

	March 31, 2018	March 31, 2017
Less than one year	\$ 8,025,122	\$ 8,205,840
Between one and five years	35,131,322	34,513,391
More than five years	40,675,751	49,859,515
	\$ 83,832,195	\$ 92,578,746

Lease expense recognized during 2018 was \$7,634,287 (2017 - \$7,826,890). This amount consists of minimum lease payments. A portion of the OSC's office space is subleased to the CSA IT Systems Project Office and the Government of Canada on a full cost recovery basis. During the year, the OSC recorded sublease payments totaling \$785,089 (2017 - \$794,465) from these two organizations.

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

12. Pension plans

(a) Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the OPSP. The OSC's contribution to the OPSP for the year ended March 31, 2018 was \$4,986,418 (2017 - \$5,078,084), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for fiscal 2019 are \$5,618,241.

(b) Supplemental pension plans

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

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

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

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

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

There were no plan amendments, curtailments or settlements during the period. The duration of all plans combined is approximately 12 years (2017 – 12 years).

	March 31, 2018	March 31, 2017
Defined benefit obligation, beginning of year	\$ 3,839,928	\$ 3,608,042
Current service cost	254,812	230,996
Interest cost	132,311	129,189
Benefit payments	(236,625)	(238,465)
Actuarial loss on obligation	114,192	110,166
Defined benefit obligation, end of year	\$ 4,104,618	\$ 3,839,928

Actuarial assumptions

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

	March 31, 2018	March 31, 2017
Discount rate(s)	3.45%	3.55%
Inflation	2.25%	2.25%
Expected rate(s) of salary increase	0%	0%
CPP YMPE increase	2.75%	2.75%
Increase in Canada Revenue Agency limit	\$ 2,944.4	\$ 2,914.4

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

Sensitivity analysis

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

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

	March 31, 2018	March 31, 2017
Discount rate increased by 0.5% (obligation will decrease by)	5.4%	5.5%
Discount rate decreased by 0.5% (obligation will increase by)	5.9%	6.1%
Life expectancy increased by 1 year (obligation will increase by)	2.6%	2.9%
Life expectancy decreased by 1 year (obligation will decrease by)	2.6%	3.0%
Inflation rate increased by 0.5% (obligation will decrease by)	1.2%	2.0%
Inflation rate decreased by 0.5% (obligation will increase by)	1.8%	2.5%

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2018 was \$381,703 (2017 – \$360,185). The OSC expects to incur \$230,500 in benefit payments relating to the supplemental pension plan during the next fiscal year.

13. Capital management

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

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

The OSC has a \$52.0 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. The credit facility was renewed on July 1, 2016 and will expire on June 30, 2018. The Ministry of Finance has approved the renewal of the credit facility for a further two years, expiring on June 30, 2020.

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

14. Fees

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

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

On March 15, 2018 the commission announced that the fee rule will remain unchanged for a two year period until March 31, 2020. Factors considered while reviewing the fee structure were the existing surplus, the projected levels of revenue and expenses, projected capital expenses and the level of cash resources required to fund operations through market downturns.

Fees received are as follows:

	March 31, 2018	March 31, 2017
Participation fees	\$ 104,501,605	\$ 99,726,141
Activity fees	15,648,189	15,470,992
Late filing fees	4,080,222	4,319,208
	\$ 124,230,016	\$ 119,516,341

15. Salaries and benefits

	March 31, 2018	March 31, 2017
Salaries	\$ 69,924,102	\$ 67,727,969
Benefits	8,411,061	8,113,532
Pension expense	5,368,994	5,438,269
Severance/termination payments	773,566	584,562
	\$ 84,477,723	\$ 81,864,332

16. Administrative

	March 31, 2018	March 31, 2017
Commission expense	\$ 1,620,405	\$ 1,887,267
Communications & publications	1,799,864	1,865,559
Maintenance & support	2,768,072	3,069,562
Supplies	517,131	799,956
Other expenses	1,080,760	786,178
Training	661,371	676,466
	\$ 8,447,603	\$ 9,084,988

17. Contingent liabilities and contractual commitments

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

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

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

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

18. Related party transactions

(a) Funds restricted for CSA Systems operations and redevelopment

In the course of normal operations, the OSC fulfills transactions for CSA Systems with the Funds restricted for CSA Systems operations and redevelopment. During the year, total related party charges incurred and to be reimbursed were \$4.2 million (\$3.7 million in 2017). At March 31, 2018, \$0.6 million was still owed to the OSC (\$1.1 million in 2017). For more information, see Note 7.

(b) The Province of Ontario

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

- (i) The *Securities Act* (Ontario) states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 14 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.
- (ii) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income.
- (iii) Certain payments to harmed investors from the Funds held pursuant to designated settlements and orders are made through the Civil Remedies for Illicit Activities Office (CRIA). Payments are made to CRIA from the OSC pursuant to forfeiture orders obtained by CRIA under the *Civil Remedies Act*. CRIA is an office of the Ministry of the Attorney General of Ontario.

(c) Compensation to key management personnel

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

FINANCIAL STATEMENTS

DELIVERING ON OUR MANDATE

The remuneration of key management personnel includes the following expenses:

	March 31, 2018	March 31, 2017
Short-term employee benefits	\$ 3,610,842	\$ 3,984,123
Post-employment benefits	451,687	364,594
Total compensation	\$ 4,062,529	\$ 4,348,717

19. Recoveries of investor education costs

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

	March 31, 2018	March 31, 2017
Payroll costs	\$ 679,997	\$ 672,628
OSC in the Community costs	14,602	16,134
Media Campaign costs (Fraud Prevention Month)	243,112	217,131
Website and other IT costs	185,080	154,063
Consulting costs	352,254	410,938
Total	\$ 1,475,045	\$ 1,470,894

The amount recorded in the year is \$1,475,045 (2017 - \$1,470,894), of which \$363,644 (2017 - \$687,769) is owing to the OSC at March 31, 2018. The amount reimbursed to the OSC in the year from the Designated settlements fund was \$1,799,170 relating to costs incurred in the 2017 and 2018 fiscal years.

20. Accounting pronouncements

New and revised in issue, but not yet effective

The following new IFRS standards, interpretations and amendments, which have been issued but are not yet effective for the year ended March 31, 2018, have not been applied in preparing these financial statements. These pronouncements are currently under consideration or have been determined not to have a material impact on the financial statements of the OSC.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued a finalized version of IFRS 9, *Financial Instruments*. The completed version of IFRS 9 includes revised guidance on the classification and measurement of financial assets and carries forward the guidance on recognition and derecognition of financial instruments from IAS 39, *Financial Instruments: Recognition and Measurement*. This standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 is not expected to have a material impact on the financial statements of the OSC.

IFRS 15, *Revenue from Contracts with Customers*

In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* that sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. This standard replaces all existing IFRS revenue requirements and applies to revenue arising from contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively, subject to certain practical expedients, using either a full retrospective approach or a modified retrospective approach. The new standard is applicable to the OSC's financial statements for the year ending March 31, 2019, with an initial application date of April 1, 2018.

During the year, the OSC significantly progressed with the implementation of IFRS 15, including an analysis of the standards applicability to our two most material sources of revenue: participation fees and activity fees. Although neither participation fees nor activity fees are judged to arise from contracts with customers and are therefore outside the scope of IFRS 15, the OSC has determined, considering guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, that accounting for such fees in accordance with IFRS 15 would result in relevant and reliable information to our stakeholders.

The OSC intends to adopt IFRS 15 using the modified retrospective approach, adjusting general surplus as at April 1, 2018 for the cumulative effect of applying IFRS 15, if any, with comparative figures unchanged.

Based on our assessment to date, the OSC does not expect the application of IFRS 15 to result in a material impact on the OSC's financial statements.

IFRS 16, *Leases*

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

The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively, subject to certain practical expedients, using either a retrospective approach or a modified retrospective approach. The standard is applicable to the OSC's financial statements for the year ending March 31, 2020, with an initial application date of April 1, 2019. While early adoption is permitted, the OSC will not adopt the standard early.

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

Over the next year, the OSC intends to progress in quantifying the impact of the standard, which is currently not known or reasonably estimable. During this time, the OSC intends to select a transition approach and prepare qualitative and quantitative information regarding the impact that initial application of the standard is expected to have on the OSC's financial statements. The OSC intends to disclose further information regarding the impact of the standard in the next annual financial statements.

Ontario Securities Commission

20 Queen Street West

20th Floor

Toronto ON M5H 3S8

1 877.785.1555 (Toll-free)

416.593.8314 (Local)

1 866.827.1295 (TTY)

416.593.8122 (Fax)



OSC

ONTARIO
SECURITIES
COMMISSION

20 Queen Street West
20th Floor
Toronto ON M5H 3S8

1 877.785.1555 (Toll-free)
416.593.8314 (Local)
1 866.827.1295 (TTY)
416.593.8122 (Fax)



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