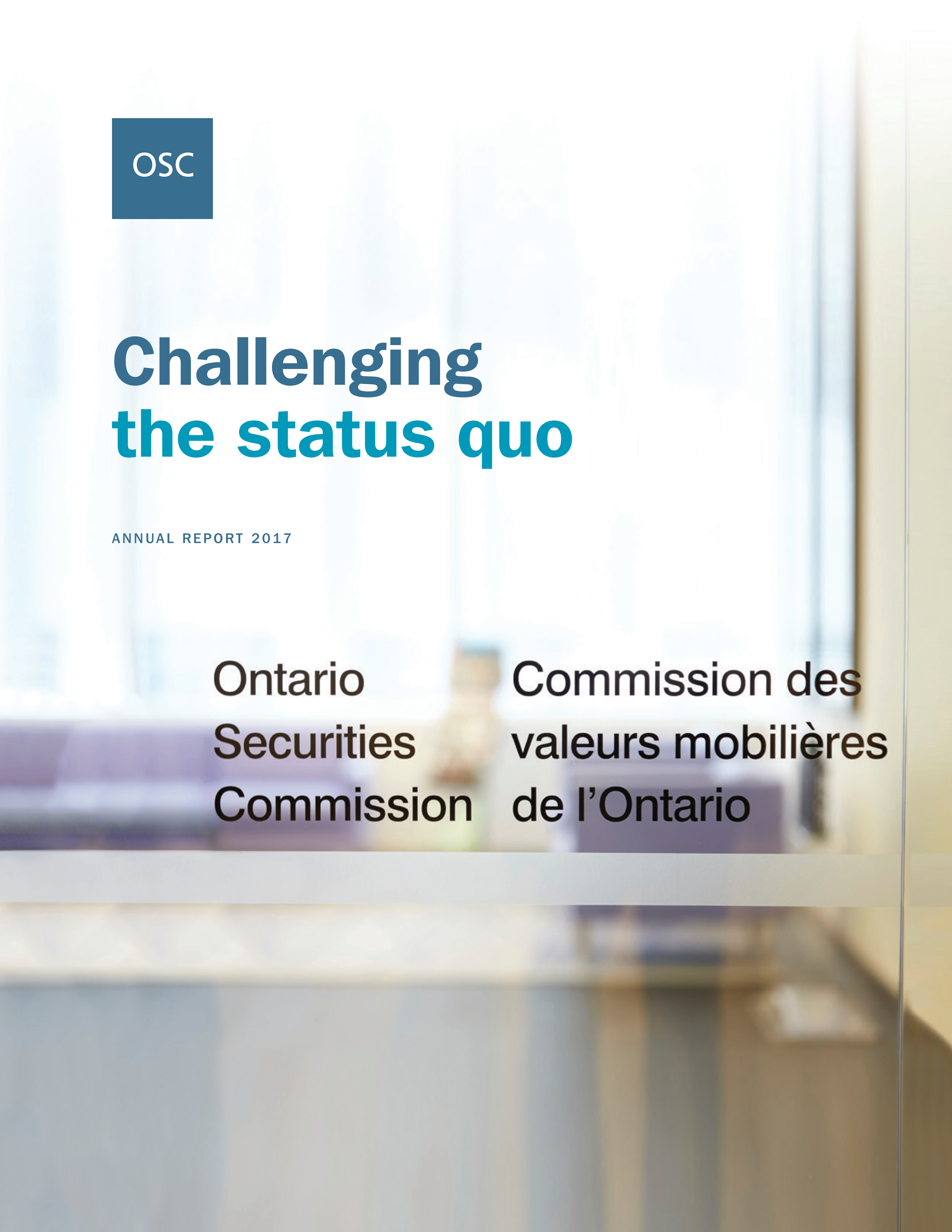
OSC

Challenging the status quo

ANNUAL REPORT 2017



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

OSC Values

Professional

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

People

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

Ethical

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

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OSC at a glance in 2016–17

ONTARIO-BASED listed issuers account for **50%** OF CANADA'S EQUITY MARKET VALUE

1,280 REGISTERED FIRMS in Ontario

INQUIRIES & CONTACT CENTRE

- Assisted **3,728** investors
- Responded to **12,360** market participant inquiries

67,300 REGISTERED INDIVIDUALS in Ontario

38 FINTECH COMPANIES received support from OSC LaunchPad

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

ENFORCEMENT

- **48** administrative sanctions
- **4** wrongdoers sentenced to a total of 8.5 years in jail
- **3** no-contest settlements, **$143 million** returned to investors

96% of all CANADIAN OTC DERIVATIVES trading includes an Ontario participant[1]

2,026 PARTICIPANTS attended OSC in the Community events

712 PUBLIC COMPANY, INVESTMENT FUND and structured product prospectuses reviewed

[1] Proportion of OTC derivative transactions by outstanding notional, reported to the OSC, compared to the aggregate Canadian outstanding notional reported by DTCC, CME and ICE as of March 31, 2017. Commodity trades are excluded from both amounts.

Chair's message

I am honoured to lead this organization as we focus on our mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

It is my pleasure to welcome you to the Ontario Securities Commission's (OSC) 2017 annual report, which outlines the tremendous progress against our goals that the hard-working men and women of the OSC have achieved in this past year. I am honoured to lead this organization as we focus on our mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

The global markets remain challenging and are in the midst of a dramatic disruption, where demographic, social, cultural and technological forces are changing the way people think about investing and raising capital. These shifts are not only challenging those we regulate, but are also challenging the OSC to keep pace. This year, we took important steps on a range of key initiatives toward our mandate.

Putting investors first

We remain focused on delivering new rules that will transform the standard of financial advice and determining whether advisory fees should remain embedded in products.

The OSC is committed to introducing changes to the standard of advice in the client-advisor relationship by implementing a series of targeted reforms along with our colleagues in the Canadian Securities Administrators (CSA). In addition, the OSC and New Brunswick's Financial and Consumer Services Commission (FCNB) are in the process of outlining an overarching best interest standard as a guiding principle governing this relationship. We believe that the current standard of suitability is too low and that investors deserve a higher standard of conduct from their advisors, one that requires the investor's interests to come first.

While millions of Canadians invest in mutual funds for their retirement, our research shows that investors generally do not understand the true costs of these investments. The majority of mutual funds contain embedded fees paid to advisors that are not generally transparent to investors and create incentives that could encourage advisors to recommend funds that pay the highest trailer fees. We believe investors should know what they're paying for their investments, including the cost of the advice they receive.

Our motivation for both the best interest and embedded fee initiatives is simple: do the right thing for investors and maintain confidence in our markets – even if it means challenging long-standing business models. We recognize the significance of the kinds of changes we are pursuing, which is why we have taken considerable time to seek input from all our stakeholders throughout this process. By working together, we can arrive at solutions that will benefit investors and the marketplace.

Enforcement remains a key focus of the OSC as all market participants must be confident that those who break the rules will be investigated, prosecuted and sanctioned. To uphold that confidence, the OSC is targeting more complex cases and serious violations of securities law, and it is critical that we have the tools to support this effort.

This year, we launched our Office of the Whistleblower, which offers a financial award for providing evidence of serious misconduct. We're offering compensation of up to $5 million to whistleblowers who come forward with information about significant violations of Ontario securities law, such as insider trading, market manipulation, and serious accounting and disclosure violations. Our no-contest settlement program is helping us resolve enforcement cases more efficiently, and this year, we approved three no-contest settlements, resulting in approximately $143 million being returned to investors. To date, the OSC has entered into eight no-contest settlements and has seen $342 million returned to investors as a result.

Modernizing regulation

All of this disruptive change has also made us focus on modernizing how we work to accommodate the emergence of new financial technology or "fintech". Innovations in the use of technology to offer services such as peer-to-peer lending and automated advising services (or "robo-advisors"), as well as emerging technologies such as blockchain, artificial intelligence and machine learning are altering how the capital markets function and are changing how firms serve their clients. Yet these innovative business models and technologies often do not fit neatly under the existing regulatory framework. That's why we introduced our new fintech team, OSC LaunchPad, where we actively support these new businesses to navigate the regulatory framework and identify areas of our regulation that need modernization.

Increasing transparency

The OSC also continues to push for greater transparency in corporate governance disclosure. Later this year we will publish the results of our third review since disclosure requirements for women on boards and in executive officer positions came into effect in 2014. Our previous reviews have shown some progress and encouraging trends; however, most boardrooms and executive suites are still a long way from equal representation. This has to change. Shareholders are becoming more vocal about the need for greater diversity, and we as regulators may have to do more.

Better reporting on environmental issues, particularly on the risks associated with climate change, is another area where investors are demanding more from public companies. Shareholders with a long-term view of their investments are seeking more meaningful disclosure on the business and financial risks associated with climate change. Investors are not only concerned about what companies do, but also about *how* they do it and *how* they disclose it.

The CSA is conducting a review of the state of climate change disclosure to help inform whether enhancements are needed to current disclosure requirements. While we are aware that additional disclosure is a burden for public companies, we support transparency and engagement between boards and investors on key issues. The CSA review will help the discussion on this issue.

Engagement with our stakeholders is a critical component of our work, and I would like to thank the members of our 13 advisory committees for the valuable insights they provide to the OSC. This year, we welcomed two new committees – the Fintech Advisory Committee and the Seniors Expert Advisory Committee – and we look forward to their contributions in these areas.

I would like to thank the members of the Commission, Lead Director AnneMarie Ryan, Vice-Chairs Monica Kowal and Grant Vingoe, and Executive Director Leslie Byberg for their strong leadership, wisdom and commitment to securities regulation in Ontario. I would also like to express my appreciation and thanks to our talented and dedicated staff who work every day to do the right thing for Ontario's investors and capital markets.

Maureen Jensen
Chair and Chief Executive Officer
Ontario Securities Commission

Executive Director's letter

Every day, the OSC strives to deliver its mandate of investor protection and fostering fair and efficient capital markets and confidence in capital markets. While this can involve significant public policy discussions or introducing new tools and approaches, it also means delivering on our core regulatory work as we oversee markets, carry out enforcement, register firms and individuals, review disclosures and conduct compliance reviews. We also do this through a strong corporate culture that is fiscally responsible, transparent and accountable, and by continually improving how we work and striving to support and develop our talented staff.

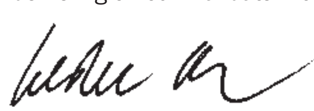
I reflect with pride on the dedication and hard work of our staff this past year. They adapted to leadership changes within the OSC, as well as rapidly evolving and complex market developments. They tackled significant new priorities and embraced changes in the methods and approaches used to deliver our regulatory mandate, including:

- **Enhancing the use of data and technology –** Across the organization, we drove forward with our efforts to harness the power of data to help us make decisions with a view to the best possible regulations and outcomes. Capturing, managing and analyzing data effectively are important components of doing evidence-based work. Data has enhanced our programs at the OSC in many areas, including exempt market oversight, risk-based compliance reviews of registrants and derivatives trade reporting oversight.
- **Assessing the impact of our regulatory approaches –** We aim to make informed decisions that lead to strong regulatory outcomes. Ongoing assessment of the impacts of our regulations is an important part of this process. This year, we launched our first multi-year research project, which will measure the impacts of Client-Relationship Model Phase 2 (CRM2) and mutual fund point of sale (POS) rules from both an investor and industry perspective. We also continued to examine the impacts of changes relating to women on boards by analyzing the data, and we will consider if more needs to be done.
- **Collaboration, consultation and outreach –** To achieve the best results, regulators must work collaboratively and must consult with stakeholders. This year, the OSC collaborated with other securities regulators domestically and internationally on many issues critical to the well-being of our markets in Canada. We also sought the views of a wide range of stakeholders by holding roundtable consultations, hosting RegHackTO, engaging with advisory committees, and conducting numerous investor and market participant outreach initiatives. We listened and talked to stakeholders to understand their points of view, taking these into account as we pursued our key regulatory priorities.

All of this activity is part of a larger effort: to foster a market in Ontario where investors can achieve their investment objectives and businesses of all sizes are better able to compete, innovate and flourish.

At the same time, we are focusing on reducing regulatory burden – as long as investor protections are in place. In the coming year, we will be re-examining our rule framework to identify opportunities to reduce the regulatory costs of raising capital in the public markets and to streamline disclosure and reporting requirements for investment funds.

None of this work would be possible without the unwavering commitment of our staff who strive every day to make a difference for Ontario's investors, businesses and capital markets. I would also like to commend staff for their significant contribution toward establishing a new cooperative regulatory system that would transform securities regulation in Canada. Finally, I must express my appreciation to our Chair Maureen Jensen for her vision and leadership. We look forward to continuing to serve the people of Ontario and delivering on our mandate with passion and pride.



Leslie Byberg
Executive Director and Chief Administrative Officer
Ontario Securities Commission

Executive Management Team

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

Leslie Byberg
Executive Director and Chief Administrative Officer

Kevin Fine
Director, Derivatives

Tyler Fleming
Director, Investor Office

Debra Foubert
Director, Compliance and Registrant Regulation

H.R. Goss
Director, Corporate Services

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

John Mountain
Director, Investment Funds and Structured Products

Carolyn Shaw-Rimmington
Director, Communications and Public Affairs

James Sinclair
General Counsel

Lisa Wilkins
Chief Human Resources Officer

Performance highlights

This section highlights the OSC's key accomplishments toward its goals for the 2016–17 fiscal year. Each year, the OSC publishes a Statement of Priorities, which sets out the OSC's strategic goals, priorities and specific initiatives for the year. You can find the Statement of Priorities on the OSC's website at www.osc.ca.

OUR 2016–17 GOALS

1 Deliver strong investor protection

2 Deliver responsive regulation

3 Deliver effective compliance, supervision and enforcement

4 Promote financial stability through effective oversight

5 Be an innovative, accountable and efficient organization

1 Deliver strong investor protection

Priority	What we did	Why it's important
Putting the interests of investors first	**Best interest standard** In April 2016, the Canadian Securities Administrators (CSA) published *Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients*, a consultation paper that included support by the OSC for a guiding principle of best interest. In May 2017, the OSC confirmed it would continue consulting on a regulatory best interest standard while the majority of CSA members announced they will not pursue further discussion on the topic. OSC staff intend to make their recommendations to the Commission in 2017, potentially pushing forward with a rule proposal. **Targeted reforms to the client-registrant relationship** The April 2016 consultation paper also included proposals for targeted amendments to National Instrument (NI) 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations.* The amendments relate to registration requirements, including know-your-client and know-your-product requirements, suitability, conflicts of interest, the use of business titles by advisors, and proficiency. As of May 2017, all CSA members are supporting some of the targeted reforms. The CSA is reviewing feedback on the consultation paper with a goal of publishing proposed amendments to NI 31-103 by March 31, 2018.	We are of the view that the current Canadian regulatory framework needs to better align the interests of registrants with the interests of their clients. We believe that a regulatory best interest standard is needed as a guiding principle governing the client-registrant relationship. In addition, clients will be better served if the nature of the client-registrant relationship is further clarified through targeted reforms. These are core elements that exist in the advisory relationship. Clarifying and strengthening these elements, in conjunction with a guiding principle of best interest, are key to improving investor protections.
	Assessing advisor compensation practices In December 2016, the CSA published its *Review of Practices Firms Use to Compensate and Provide Incentives to their Representatives*, a survey of 27 compensation methods used by registrants in various categories.	By using an evidence-based method to explore how advisors are paid, we can identify practices that reduce conflicts of interest and respond to practices that do not meet regulatory requirements.
Addressing compensation arrangements in mutual funds	**Alternatives to embedded fees** In January 2017, CSA members published *Consultation on the Option of Discontinuing Embedded Commissions.* This paper raised the option of transitioning advisor compensation to an arrangement where investors pay their advisors directly. The paper provides in-depth research that outlines the potential impacts of banning embedded fees. The CSA provided a 150-day comment period on the paper and will be holding roundtables in fall 2017 as part of its consultation.	This consultation paper follows two CSA-commissioned research reports that provide compelling evidence that embedded fees incent advisors to recommend funds that benefit the advisor over the investor. We encourage feedback from all stakeholders. If the decision to discontinue embedded fees is made, we want to craft a rule that addresses the inherent conflict, best aligns the interests of investors, advisors and fund managers, and reduces the risk of unintended consequences.

1 Deliver strong investor protection

Priority	What we did	Why it's important
Empowering investors through better disclosure	**ETF Facts** In December 2016, the CSA published final amendments that require exchange-traded funds (ETFs) to produce and file a summary disclosure document called ETF Facts, beginning September 1, 2017. ETF Facts provides investors with a plain-language summary of the fund and includes a description of the potential benefits, risks and costs of investing in an ETF, as well as information about how these products are traded and priced.	ETFs are a fast-growing segment of the retail investment fund market, and we believe investors in ETFs should receive a similar level of disclosure, and ability to comparison shop, as mutual fund investors. A summary document called Fund Facts has been provided to mutual fund investors since 2014.
	Standardized CSA mutual fund risk classification methodology In December 2016, CSA members published final amendments to NI 81-102 *Investment Funds* and related consequential amendments, ushering in a new standardized risk classification methodology for use in both Fund Facts and ETF Facts. The amendments will take effect on September 1, 2017.	Standardizing the methodology used to rate the level of investment risk will improve transparency and consistency of information investors receive. It will also allow Canadians to more readily compare the investment risk levels of different mutual funds and ETFs.
Increased oversight of the exempt market	**Supporting investors in the exempt market** In May 2016, the OSC sent the Risk Assessment Questionnaire to Ontario registrants, which asked them to provide comprehensive information about their business operations. We used this information to identify and rank firms with higher-risk practices. These firms were prioritized for a compliance review by OSC staff. The findings and analysis of the OSC's ongoing compliance reviews will be included in the *Annual Summary Report for Dealers, Advisers and Investment Fund Managers.*	By closely monitoring the market and using a risk-based approach, we can focus our resources to potentially stop or prevent harm to investors. This data will also help inform future decisions about the exempt market. Over the past few years, several new prospectus exemptions have come into effect in Ontario, with the aim of increasing access to capital for small issuers. While this has paved the way for more investment opportunities, aspects of the exempt market also pose specific risks for investors.
Improving education, engagement and alignment with investors' interests	**Using research to better understand retail investors** In March 2017, we released OSC Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations.* This research report examines key behavioural concepts that have been applied in other jurisdictions and identifies methods that could be incorporated into our work to achieve better outcomes for investors and market participants. Over the coming year, the OSC will conduct pilot projects that will apply and test this research on work related to OSC policies and operational processes.	Behavioural insights provide a deeper understanding into why and how people make decisions, and can identify ways to communicate that could influence investors to take positive steps and make better decisions. Whether the activities are related to market or registrant regulation, or investor education and outreach, applying a behavioural lens to the OSC's work increases the likelihood of achieving better outcomes.

Making CRM2 work for investors

Starting in January 2017, investors began receiving two new reports from their investment firms: investment performance, and charges and other compensation. These reports are a result of an initiative called Client Relationship Model – Phase 2 (CRM2), which is a set of amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations.* Under CRM2, investment firms now provide investors with greater clarity and disclosure on the costs and performance of their investments, and the content of their accounts.

To assist investors in navigating the new reports, our Investor Office launched InvestmentReporting.ca. This site includes an explanation of market value, the difference between time-weighted and money-weighted rates of return, and the impact of fees.

InvestmentReporting.ca is just one of many online resources from the OSC that have been developed to help people make informed decisions about their money. The Investor Office's educational resources, including its flagship site, GetSmarterAboutMoney.ca, received over five million visits this year.

Priority	What we did	Why it's important
	Seniors strategy The Investor Office is currently developing a seniors strategy that will guide OSC activities to address the issues affecting older investors in a more comprehensive way, including policy, outreach, training and education. This year, the Investor Office began work that will help inform the development of the strategy: • The Seniors Expert Advisory Committee (SEAC) was created to advise on securities-related issues. Its members represent a variety of disciplines including law, academia, industry, medicine, enforcement and seniors' advocates. • In September 2016, we released *Retirement Readiness: Canadians 50+*. Among the findings, the report revealed that nearly half of pre-retirees do not have a retirement plan. • We delivered 46 OSC in the Community presentations on fraud prevention and working with an advisor, directly to investors across Ontario, many of them seniors.	We believe it's in the interests of the public we serve to better understand and address the unique needs of older investors. We are cognizant that seniors need to manage their finances during retirement and that they are frequently the targets of financial abuse or fraud.
	Enhancing outreach to vulnerable investors In September 2016, the Investor Office launched a multilingual investor education site, InvestingIntroduction.ca. The site provides investment basics in the 22 languages most frequently spoken in Canadian homes. Along with anti-fraud tips, the site includes information about Registered Retirement Savings Plans (RRSPs), Tax Free Savings Accounts (TFSAs) and Registered Education Savings Plans (RESPs). The Investor Office also expanded its anti-fraud themed teletownhalls during the year. These events follow a call-in radio show format, with OSC staff providing information, answering questions and conducting live polls over the course of one hour. Approximately 2,500 people participated for a meaningful amount of time in five teletownhalls this year.	New Canadians, some of whom do not speak Canada's official languages, can be targeted by fraudsters through their communities. By providing people with trustworthy and unbiased information in their native tongue, we hope to raise awareness of fraud and improve financial literacy. Teletownhalls allow us to reach a large number of investors and share important anti-fraud information. The interactive format provides valuable insights into investor knowledge and current concerns.
	Improving risk profiling Together with the OSC's Investor Advisory Panel (IAP), the Investor Office organized a risk profiling roundtable on the issues raised in *Current Practices for Risk Profiling in Canada and Review of Global Best Practices*, a research report commissioned by the IAP. The roundtable participants discussed the need for improved regulatory guidance and consistency in risk profiling methodologies and definitions, and possible next steps to enhance the risk profiling used in the retail investment advice process.	Risk profiling and suitability are issues that go hand-in-hand. When an advisor can properly assess an investor's tolerance for risk, the advisor's ability to recommend products that best suit their clients' needs is improved. Enhanced risk profiling is in the interests of all market participants.

2 Deliver responsive regulation

Priority	What we did	Why it's important
Monitor and assess the impact of recent regulatory reforms in Ontario	**Reporting on gender diversity disclosure** In September 2016, CSA members published their second review of the disclosure requirements for women on boards and in executive officer positions. Of the 677 Toronto Stock Exchange (TSX)-listed companies reviewed: • 55% had at least one woman on their board, up from 49% the previous year, • 59% had at least one woman in an executive officer position, which is consistent with the previous year, and • 21% had adopted a formal written policy for improving the representation of women, an increase from 19% the previous year. The disclosure requirements came into effect in December 2014 and apply to TSX-listed companies. We have committed to reviewing the findings after three years and will determine if additional regulatory action is appropriate.	Best practices in corporate governance include proactive policies for ensuring gender diversity for the board. The “comply-or-explain” disclosure requirements challenge companies to have thoughtful discussions about gender diversity. These discussions are intended to improve transparency and assist investors when making investment and voting decisions.
	Measuring the impact of CRM2 and POS In August 2016, the CSA announced a multi-year research project to measure the impact of CRM2 and the POS amendments. CRM2 requires investment firms to provide clients with clear and concise account statements that tell them what they earned and what the advisor was paid. The POS amendments require mutual fund dealers to deliver a plain language Fund Facts document to investors before they buy a mutual fund. Between 2016 and 2020, the CSA will measure outcomes related to investor knowledge, attitude and behaviour, as well as registrant practices, fees and product offerings. A final report is expected to be published in 2021.	CRM2 and POS are expected to deliver improved and timely investment information to investors so they can make better informed decisions. For some investors, this is the first time they are receiving account information communicated in this manner. These initiatives represent significant changes for investors and the industry. Monitoring and analyzing investor, registrant and industry outcomes are crucial to understanding the impact and effectiveness of the amendments.
Monitor and support market structure evolution	**Order Protection Rule** In July 2016, final amendments to the Order Protection Rule and its Companion Policy came into force. The amendments include: • guidance related to intentional order processing delays or “speed bumps”, and • a methodology for setting market data fees. The amendments also included a 2.5% market share threshold for protected markets, which came into effect in October 2016.	The Order Protection Rule was created to prevent inferior-priced orders from “trading through” or executing before visible and better-priced limit orders. The amendments respond to market developments and new marketplace business models, and ultimately aim to improve fairness, efficiency and confidence in the market.
	Lower trading cap on fees In April 2017, amendments to NI 23-101 *Trading Rules* and Companion Policy 23-101CP *Trading Rules* came into effect. These amendments lower the cap on active trading fees for equity securities that are listed only in Canada. The cap was reduced to $0.0017 a share from $0.0030 a share for securities trading at or above $1.00 a share.	These amendments address concerns regarding inefficiencies and costs in the market.

Modernizing regulation to support fintech innovation

Fintech (or financial technology) is a rapidly growing field that includes online advisors, peer-to-peer lending platforms and digital crowdfunding. While fintech presents many opportunities, some challenges have also emerged, including investor protection issues and new business models not fitting in the traditional regulatory framework.

OSC LaunchPad directly tackles these issues. Since its introduction in October 2016, OSC LaunchPad has helped dozens of fintech businesses navigate securities requirements by engaging with the fintech community and offering support through a guidance program.

We've learned from the fintech community as well. In November 2016, we hosted RegHackTO, the first hackathon by a Canadian securities regulator. By posing real-world problem statements to fintech teams, we were able to see how innovators approach investment services and products with regulation in mind. The OSC intends to apply these learnings to similar businesses going forward.

We also recognize that governments and regulators must work together to support new business models. The OSC is part of a CSA regulatory sandbox, a national initiative that provides regulatory relief for certain businesses to test their services. Internationally, we signed MoUs that enable businesses licensed in Canada to seek regulatory approvals in Australia and the United Kingdom.

Priority	What we did	Why it's important
Improve alignment with international standard setting	**Cyber resilience recommendations** In June 2016, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published guidance on cyber resilience for financial market infrastructures. In September 2016, the CSA referred to these guidelines in a Staff Notice encouraging Canadian market participants to strengthen measures to counter cyber threats.	Markets around the world face the threat of cyber attacks. By aligning practices in our markets with global standards in cyber security, we can better mitigate the risks and better protect our markets.
	Climate change-related disclosure In December 2016, the Financial Stability Board (FSB) published disclosure recommendations set out by its Task Force on climate-related financial disclosures. In March 2017, this was followed by the CSA announcement of a climate change disclosure review project that would gather information on the current state of climate change disclosure in Canada and internationally.	Investors are increasingly concerned about business risks and financial impacts associated with climate change. This has resulted in a demand for greater disclosure on this matter so that investors can make informed investment decisions.
	Participating internationally The OSC continues to actively participate in and lead activities on an international level. In 2016, the OSC entered into five Memorandums of Understanding (MoUs) with other international regulatory bodies. The OSC is a member of IOSCO, an organization that is recognized as the global standard-setter in securities regulation. In addition to having members on approximately 30 international committees, task forces and working groups, last year OSC staff chaired the following IOSCO committees and board-level groups: • Committee on Emerging Risks • Committee on Regulation of Secondary Markets • IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) Monitoring Group Steering Committee • Board group on Data Protection	More than ever, our markets are interconnected and global. Regulators share many issues, and cooperation enhances our responsiveness. The OSC gains timely insights and understanding of emerging regulatory issues by engaging with other regulators. This allows us to develop informed, proactive regulatory solutions and shape international standards that are aligned with the needs of our capital markets. It also enables us to ensure that Canadian regulations align with best standards internationally.
	IOSCO Task Force on Market Conduct In June 2017, the Task Force published a report examining regulatory approaches and tools used to address market conduct related to trading in the wholesale markets. The report identifies tools such as enhanced surveillance and analysis methods, whistleblower programs, tailored enforcement and remedial sanctions, and improved self-assessment and accountability measures.	Regulators and markets across the globe benefit when proven procedures and mechanisms that address market conduct risk are shared and adopted. This report aligns with a number of international work streams and complements the efforts of the FSB.

3 Deliver effective compliance, supervision and enforcement

Priority	What we did	Why it's important
Enhance compliance through effective inspections, supervision and oversight	**Improving compliance reviews and reporting** We continue to enhance our information gathering, analysis and compliance reporting through the following: • In May 2016, we sent an updated Risk Assessment Questionnaire to all portfolio managers, exempt market dealers, restricted portfolio managers and restricted dealers registered in Ontario. We do this every two years to identify firms with higher-risk practices and prioritize them for compliance reviews. • As of June 2016, issuers and underwriters who rely on certain exemptions to distribute securities are required to complete, file and make public a new, harmonized *Report of Exempt Distribution*. • We are currently coordinating our compliance efforts with self-regulatory organizations (SROs) to look at areas including sales incentives and conflicts of interest. The CSA, Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) all published notices regarding compensation practices on December 15, 2016. The findings and analysis of the OSC's ongoing compliance reviews are published in our *Annual Summary Report for Dealers, Advisers and Investment Fund Managers* and our *Annual Corporate Finance Branch Report*.	We gather information about business operations, practices and procedures in a number of ways to better understand activities in the market and spot trends that could warrant regulatory attention. For example, risk ranking allows us to more quickly identify and prioritize the review of activities and firms that could either harm investors or, if a compliance breach in their systems occurred, could have a significant impact on the market. Conducting compliance reviews in partnership with industry SROs improves the consistency and effectiveness of our supervisory activity. We use a series of tools to address compliance issues, which range from outreach and guidance to corrective action.
Actively pursue enforcement action against fraud and other serious securities law violations	**Whistleblower Program** The OSC launched the Office of the Whistleblower in July 2016 to target serious securities misconduct. The Whistleblower Program is the first of its kind in Canada. The program provides a financial award of up to $5 million to individuals who voluntarily come forward with information that leads to enforcement action resulting in monetary sanctions of over $1 million. Since its launch, the Office of the Whistleblower has received several credible tips and high-quality information.	The Whistleblower Program is designed to strengthen the OSC's investor protection mandate and provide an avenue for credible tips and information to come forth that may otherwise have been difficult to detect. It also serves as a credible deterrent against securities law violations in Ontario. This new initiative provides organizations the opportunity to review their internal compliance systems and to determine whether a culture of compliance – one where potential whistleblowers are encouraged to report misconduct internally – is being fostered. If these internal compliance systems fail, the program provides an effective mechanism for reporting securities misconduct.

Priority	What we did	Why it's important
	JSOT prosecutions and guilty pleas The Joint Serious Offences Team (JSOT) is a partnership between the OSC, the Royal Canadian Mounted Police (RCMP) and the Ontario Provincial Police (OPP) that was established in 2013 to investigate and prosecute financial crimes. In 2016, an investigation by JSOT led to fraud, illegal distribution and unregistered trading convictions in the Londoni Gold Corp. case. The company's two principals were ordered to pay $6.6 million in restitution and were each sentenced to four years in jail, the longest jail sentences in history for a breach of the *Securities Act* (Ontario). JSOT and the Ministry of the Attorney General of Ontario were also able to secure guilty pleas from individuals who were involved in privacy breaches at the Rouge Valley Hospital System and Scarborough Hospital, where they used confidential information of new parents to generate RESP sales leads.	When regulators and law enforcement agencies work together and share their information, expertise and abilities, we improve investor protection and our chances of catching and shutting down white-collar criminals. This helps to instill confidence in our markets. The penalties imposed through criminal and quasi-criminal prosecution, which can include fines and jail sentences, send a strong deterrence message to those who might harm the public.
	Enhancing cross-border enforcement In March 2017, IOSCO approved an Enhanced MMoU, which will expand IOSCO members' powers to investigate wrongdoing across international borders. Work is underway to screen signatories to the new MMoU, a process where applicants' capacity for cooperation is examined by a group of experts. The MMoU allows members to work with their counterpart regulators in other countries to share information related to audits, boost their ability to freeze assets, and gather phone records and Internet search records needed in a securities investigation. Members can also compel people in other countries to attend hearings and provide testimony. This work is supported by the IOSCO MMoU Monitoring Group Steering Committee, which is chaired by the OSC's Chair and CEO, Maureen Jensen.	As technology continues to evolve, securities and financial crime have grown more complex and borderless. Strong, collaborative relationships with global regulators provide greater ability to prevent, detect and prosecute crime that can harm markets and investors at home and abroad.
	Fraud Prevention Month In March 2017, the OSC launched an anti-fraud campaign that focused on educating investors on the three Rs of fraud: recognize, reject and report. The campaign reached thousands of retail investors across Ontario through three Twitter live chats, two teletownhalls and four OSC in the Community presentations.	Investors are more likely to avoid becoming victims of fraud if they can recognize the warning signs of a scam. By engaging in various outreach methods, we can share fraud prevention information with a wide range of Canadians.

3 Deliver effective compliance, supervision and enforcement

OSC Enforcement activity

OSC Enforcement Branch: Intake

This year, we took a new approach to case assessment. A formal "case" is now opened for every new report of activity that may engage the Enforcement Branch. This more accurately records the Enforcement Branch's intake, assessment and referral activity.

Fiscal year	2015–16	2016–17
Number of cases assessed	164	384[1]
Number transferred for investigation	32	31

[1] Starting in 2016–17, Case Assessment opened files on all matters received by the team, including files referred to other jurisdictions and files resolved at the intake stage.

OSC Enforcement Branch: Investigations

We are also taking a more deliberate approach in choosing to move forward with those cases that send a strong regulatory message. During the year, the Enforcement Branch reviewed existing matters, and as a result, completed 46 investigations, of which 31 were closed and 15 were transferred to litigation.

Fiscal year	2015–16	2016–17
Number of completed investigations	35	46
Number transferred for litigation	24	15

OSC Enforcement Branch: Litigation

This year, fewer proceedings were commenced before the Commission due to a number of complex cases that had not yet reached the litigation phase. In addition, a number of serious allegations were being prosecuted in the courts as a result of JSOT-initiated charges laid during the previous two fiscal years.

Fiscal year	2015–16	2016–17
Proceedings commenced before the Commission	**12**	**7**
Number of respondents	40	18
Quasi-criminal proceedings	**8**	**3**
Number of accused	12	3
Criminal Code proceedings	**4**	**5**
Number of accused	8	6
Search warrants executed	**52**	**53**
ENFORCEMENT TIMELINES:		
Average number of months from intake to commencement of a proceeding	13.1	12.5

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 $143 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.

Concluded matters before the Commission, continued

Fiscal year	2015–16	2016–17
Number of proceedings concluded	26	11
Number of respondents	71	31
SANCTIONS INCLUDE:		
Cease trade orders	53	13
Exemptions removed	54	13
Director and Officer bans	36	9
Registration restrictions	35	13
Administrative penalties, disgorgement orders, settlement amounts	$ 59,026,455	$ 19,187,711
Costs ordered	$ 3,722,066	$ 658,993
Amounts ordered or undertaken to be returned to investors (includes no-contest settlements)	$ 164,260,580	$ 147,933,167

Collections

The Commission's collections rate with respect to outstanding orders increased from 19% to 38% this past fiscal year. Over $3 million was returned to harmed investors in 2016–17.

Concluded matters before the courts

Fiscal year	2015–16	2016–17
Total number of proceedings	9	8
Total number of accused	11	15
SANCTIONS INCLUDE:		
Jail sentences	24.5 months	102 months[1]
Conditional sentences/House arrest	42 months	12 months[2]
Fines	$ 296,000	$ 49,550
Restitution	$ 335,634	$ 6,672,955[1]

1 Includes Londoni Gold Corp. sentences of 96 months in jail and $6.6 million in restitution.

2 Includes sentences for privacy breaches at the Rouge Valley Hospital System and Scarborough Hospital.

Adjudicative activities of the Commission

	2015–16		2016–17	
Type of adjudicative proceeding	Number of attendances	Sitting days[1]	Number of attendances	Sitting days[1]
Contested hearings on the merits (includes sanctions hearings and hearings in writing)	170	160	64	58.5
Settlement hearings (includes settlement conferences)	32	16	19	10.5
Hearings on temporary cease trade orders	25	16.5	6	3.5
Motions and other interlocutory matters	66	40	26	16
Applications (includes applications for review, applications relating to take-over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), and section 127(10) (inter-jurisdictional enforcement) of the *Securities Act* (Ontario))	26	18.5	43	29.5
All other matters (includes pre-hearing conferences, appearances, etc.)	34	18.5	14	8.5
Total	**353**	**269.5**	**172**	**126.5**

1 More than one sitting day can occur in one calendar day as a result of multiple proceedings.

4 Promote financial stability through effective oversight

Priority	What we did	Why it's important
Enhance oversight of the fixed income market	**Increasing transparency of corporate debt securities** In July 2016, data on corporate debt securities trades moved from an industry-based information processor to one controlled by a regulator. NI 21-101 *Marketplace Operation* authorizes IIROC, a non-profit, national self-regulatory organization, to collect and make transaction information for corporate debt securities available to the public. This information is published on IIROC's website two days after a trade occurs. In the first nine months as the information processor, IIROC published more than 500,000 trades covering over 1,200 bonds. This includes almost 750 bonds that would not have had transparent pricing under the previous transparency regime.	This is a significant step forward in improving and enhancing transparency in these markets. Transparency of trade information facilitates price discovery, informed decision-making by market participants and the ability to assess execution quality.
	Review of dealers' allocation practices for new debt issues In 2016, the CSA and IIROC began conducting a review of dealer debt allocation practices. The review concluded that retail and small institutional participation in the primary market for corporate debt securities practices were reasonable.	This review allowed regulators to test practices currently taking place and to ensure market participants of different sizes were compliant and able to reasonably participate in debt issues.
Advance OSC systemic risk oversight and OTC derivatives regulatory regime	**New OTC derivatives clearing rules** In January 2017, the CSA introduced two new national instruments relating to over-the-counter (OTC) derivatives trading: • NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives* requires Canadian local counterparties to clear certain OTC derivatives through a regulated central counterparty clearing agency. These include a variety of single-currency interest rate swaps and forward rate agreements. The rule came into force in April 2017. • NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* improves clearing agencies' resilience to default by a clearing intermediary. It does this by protecting a local customer's positions and collateral. The rule is expected to come into force in July 2017. **Requirements for non-centrally cleared derivatives** In July 2016, the CSA issued Consultation Paper 95-401 *Margin and Collateral Requirements for Non-Centrally Cleared Derivatives*. The paper, which is modelled on the Basel Committee on Banking Supervision (BCBS) and IOSCO framework, examines mandatory margin rules for non-centrally cleared derivatives. The paper's recommendations are harmonized with the Office of the Superintendent of Financial Institutions (OSFI) margin requirements for federally regulated financial institutions. The CSA's framework would apply to qualifying trades not otherwise covered by OSFI's guidelines.	The new rules and proposals by the CSA are designed to enhance the transparency, efficiency and safety of the OTC derivatives market. The rules are aligned with international standards while considering the unique needs of the Canadian markets. The rules will allow the CSA to work with international organizations, including the FSB and IOSCO, to identify potential systemic risk. Domestically, we have collaborative relationships with the CSA and agencies like the Bank of Canada, Federal Finance and OSFI.

Priority	What we did	Why it's important
	Establishing conduct requirements for OTC derivatives market In April 2017, the CSA published proposed NI 93-101 *Derivatives: Business Conduct*. The Instrument sets out fundamental obligations for OTC derivatives dealers and advisors, including requirements relating to fair dealing, conflicts of interest, know-your-client, suitability and compliance. These rules meet IOSCO's international standards while taking into account CSA jurisdictions' commitments. The comment period closes on September 1, 2017.	The proposed instrument raises the level of responsibility of OTC derivatives dealers and advisors to one that is more closely aligned with the standards held in, and generally expected of, market participants in other securities markets.
	Registration of derivatives market participants CSA members are drafting a proposed derivatives registration rule that will set out the principal registration requirements and exemptions for derivatives market participants, including dealers, advisors and large market participants. The proposed rule is expected to be published in 2018. This work follows the CSA's consultation paper on derivatives registration, which was published in 2013.	Imposing registration requirements on derivatives market participants is intended to protect the soundness of our financial markets by ensuring that key market participants have the obligation to manage their risks.
	OTC compliance report We are reviewing a number of large derivatives market participants, specifically Canadian banks, to assess and test their compliance with the new OTC derivatives reporting requirements. Several non-compliance issues have been identified and the OSC has worked with dealers to correct the issues.	As we move beyond drafting rules for the OTC derivatives market into enforcing compliance, reviews provide us with new insights and data. We can use this information to determine how effective the new rules are in improving transparency and fairness in the market. Reviews can also provide early indications if further regulatory action or guidance is needed.

Implementing global standards for improved financial stability

While many factors led to the 2008 global financial crisis, OTC derivatives played a significant role in fostering market instability.

As a result, G20 countries committed to making sweeping reforms to improve the transparency, safety and efficiency of the OTC derivatives market. The FSB was established at the 2009 G20 Summit in London and began implementing reforms, a complex task that would require a substantial, collaborative effort spanning nearly a decade. The reforms have four main areas of focus: central clearing agencies, trade reporting, electronic platforms, and capital and margin requirements.

Working toward key implementation deadlines of June 2018, the FSB includes senior policy makers from ministries of finance, central banks, and supervisory and regulatory authorities for the G20 countries, plus four other key financial centres – Hong Kong, Singapore, Spain and Switzerland. OSC staff have been active participants in fulfilling the reform commitments and keeping the Canadian market on track with international standards.

Priority	What we did	Why it's important
Enhance oversight of industry cyber security preparedness	**Guidance on cyber security** In September 2016, the CSA issued Staff Notice 11-332 *Cyber Security*. The publication provided stakeholders with an update on CSA cyber security initiatives, references for existing standards and resources and expectations for market participants. **Cyber security disclosure review of issuers** In January 2017, CSA members published Multilateral Staff Notice 51-347 *Disclosure of cyber security risks and incidents*. The Staff Notice presented a review of cyber security disclosure issues included in the most recent annual filings of Standard & Poor's (S&P)/TSX Composite Index issuers. The report noted that 61% of issuers addressed cyber security in their risk factor disclosure. While only a few issuers disclosed that they had been subject to cyber attacks in the past, many showed awareness of the potential risks, including unauthorized access to confidential information and data corruption. **Cyber security roundtable** In February 2017, the CSA hosted a roundtable on cyber security with a cross-section of Canadian securities market stakeholders. Participants considered two hypothetical cyber incident scenarios that were designed to highlight opportunities for greater collaboration, communication and coordination across the stakeholders. The CSA determined that it will develop a more formal coordination process.	The financial sector is one of the prime targets of cyber attacks. The risks are real and the impacts can be far-reaching. Regulators have a central role to play in assessing and promoting the readiness and cyber resilience of market participants. We are working with domestic and international partners to better protect our markets through improved collaboration and communication on cyber security issues. We expect issuers, registrants and regulated entities to take appropriate action to safeguard themselves and their clients from cyber crime.

5 Be an innovative, accountable and efficient organization

Priority	What we did	Why it's important
Support successful organization change and continuity	**Evidence-based regulation** The OSC and CSA rely on several different research approaches to inform our regulatory actions. These approaches include: • economic and data analysis • analysis of compliance reports • commissioned studies • literature reviews • online polling • focus groups • public consultation This research has influenced our policies and publications on topics including behavioural insights, investor knowledge and education, best interest, embedded fees, retirement saving habits of older Canadians, cyber security, derivatives market reforms and the impact of exempt market reforms.	Our rules impact investors, firms providing financial services and the vitality of Ontario's capital markets. It is critical that the OSC's policies and publications are based on information that is as accurate and complete as possible. These research approaches also facilitate ongoing monitoring and assessment of the impact of our policy decisions.
	Investing in technology In June 2016, the CSA began work to create a new single integrated system to replace the CSA National Systems, which include investment-related databases such as the Cease-Trade Order Database, National Registration Database, National Registration Search and Disciplined List, System for Electronic Document Analysis and Retrieval and the System for Electronic Disclosure by Insiders. CGI Information Systems and Management Consultants Inc. and FosterMoore have been contracted to develop, launch and maintain the new system. It is expected to be delivered in stages throughout 2018 and 2019. The CSA is also planning to invest in a new system to facilitate the efficient identification and analysis of Canadian capital market misconduct and improve insight into the Canadian market structure. The new system, called the Market Analysis Program, will initially focus on equity markets and listed derivatives. Future phases may expand the program into other asset classes once the initial work is in production.	Given the rapid advances in technology in the financial sector, we must ensure the systems we use are as robust and secure as possible. This is especially important given the private and sensitive nature of the documents filed through the CSA's databases. The new system is expected to make filing easier for companies and individuals, and will improve the quality of data we use in our analysis and evidence-based regulation. Other technological investments that improve our ability to monitor and analyze market activity allow us to detect compliance issues and misconduct faster, and as a result, better protect investors.

On the pulse of investor and market participant issues

The OSC's Inquiries and Contact Centre includes a staff of experts who handle a wide variety of questions, complaints and comments from investors and market participants. In the past year, the team responded to 16,088 inquiries and complaints, an increase of 12 per cent from the previous year. Eighty-six per cent of inquiries and complaints were addressed on the same day they were received.

Along with assisting the public, this team provides a service to other OSC branches by flagging early trends in inquiries and complaints. For example, a significant uptick in complaints about binary options helped inform swift regulatory action on the matter.

TOP 3 INVESTOR INQUIRIES

- **21%** – Frauds and scams
- **17%** – Issuer obligations
- **12%** – Registration checks

TOP 3 MARKET PARTICIPANT INQUIRIES

- **30%** – Registration requirements
- **18%** – Issuer obligations
- **11%** – Forms and fees

Priority	What we did	Why it's important
	Investing in our people This year we introduced a Learning Portal that provides a one-stop shop for employees to discover and access the variety of opportunities provided by the organization, including the OSC Academy, professional and leadership training programs and the Administrative Professionals development program. In addition, the OSC is committed to supporting the health, safety and wellness of its employees and offers a comprehensive employee wellness program focused on providing employees with tools and resources in the areas of: • physical health and nutrition • mental health • retirement and financial planning • career, time and transition management • conflict management One way this was demonstrated was through the OSC's sponsorship of 15 teams to participate in the Global Corporate Challenge, an international walking competition that supports health and well-being goals. The OSC earned first place in its industry ranking in Canada by walking a combined 144,512,942 steps or 92,488 km.	We are committed to supporting the professional growth and development of our staff. This includes investing in programs that support the overall well-being of employees.
	Fostering inclusivity and diversity In June 2016, the OSC held its first annual Pride celebration where it announced the creation of an OSC Pride Employee Group. The Commission and staff continue to reflect the OSC's values of diversity through its hiring and appointments. This year, 47% of our Commission and 45% of our Senior Management are women.	At the OSC, we believe that inclusivity and diversity of perspective are strengths and contribute to well-considered decisions.

Governance

George Boileau, *Rampart*, 1997, Toronto,
The Ontario Securities Commission.

Lead Director's letter

On behalf of my fellow Commissioners, I would like to express our appreciation for the contributions of the Commissioners whose terms ended in this past year: Mary Condon, Sarah Kavanagh, Edward Kerwin and Alan Lenczner. We would also like to thank Christopher Portner for his dedicated service as a Commissioner and as our Lead Director for the past three years.

As a result of these Commissioners completing their terms of office, we welcomed four new Commissioners in recent months: Philip Anisman, Frances Kordyback, Robert Hutchison and Mark Sandler.

As Commissioners, we carry out several important and independent roles. First, we act as the Board of Directors of the Crown corporation, providing oversight of the management and effectiveness of all aspects of the business of the OSC. In addition, we are responsible for the regulation of Ontario's capital markets. We do this by engaging in the development of, and approving, regulatory rules and policies. We also perform an adjudicative function by conducting hearings of enforcement matters.

In the past year, the Commissioners have supported and advanced several key initiatives, which I would like to highlight.

One of the most important aspects of our mandate is the protection of investors in Ontario. As such, we believe that a best interest standard is needed as a guiding principle so that investors receive advice from industry professionals who are required to put the investor's interest first. In line with similar developments internationally, the Commission has strongly supported staff in moving forward on the consideration of a best interest standard, as well as specific amendments to requirements relating to suitability, know-your-client, know-your-product and conflicts of interest.

We also support the efforts of the Investor Office in helping to educate investors so that they can make better informed decisions. Similarly, another area of focus has been the CRM2 initiative, which provides improved disclosure in client account statements so that investors have a clearer understanding of how their investments have performed, the costs they are paying and how those costs ultimately affect the performance of their investments.

The Commission has demonstrated leadership in establishing policies for best practices in gender diversity for public issuers. As a Board, we apply best practices in our own recruitment policies. As a result, for the past several years, we have had approximately equal representation of men and women on the Commission. As we look forward, we are also committed to ensuring that we actively seek out candidates who represent the diversity of the people of Ontario in all aspects: geographic, gender, ethnic and cultural.

In closing, we would like to acknowledge OSC staff, the Executive Management Team, and in particular, Executive Director Leslie Byberg, for their achievements over the past year. We would also like to express our sincere thanks and appreciation to Maureen Jensen for her leadership and commitment to the success of this organization. Maureen has been a tireless champion of the OSC and her vision has helped build an organization that is highly regarded in the financial and regulatory communities, both in Canada and around the world.

AnneMarie Ryan

AnneMarie Ryan
Lead Director
Ontario Securities Commission

The Commission


Philip Anisman


Peter W. Currie


Garnet W. Fenn


William J. Furlong


Robert P. Hutchison


Maureen Jensen
Chair and CEO


Frances Kordyback


Monica Kowal
Vice-Chair


Deborah Leckman


Janet Leiper


Timothy Moseley


Judith N. Robertson


AnneMarie Ryan
Lead Director


Mark J. Sandler


D. Grant Vingoe
Vice-Chair

Governance

Composition of the Board and Senior Management

The OSC is a self-funded Crown corporation, accountable to the Ontario Minister of Finance. The OSC operates under the direction of the Commission, which has 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.

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.

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.

	2015–16				2016–17			
	Female		Male		Female		Male	
	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Board of Directors (Commission)	8	53	7	47	7	47	8	53
Executive Committee (Chair, Vice-Chairs, Executive Director)	3	75	1	25	3	75	1	25
Senior Management (including Executive Committee)	9	45	11	55	9	45	11	55

Terms of Members of the Commission

(April 1, 2017)

	Appointed	Current term ends
Philip Anisman	November 2016	November 2018
Peter W. Currie	May 2016	May 2018
Garnet W. Fenn	July 2015	July 2017
William J. Furlong	January 2015	January 2019
Robert P. Hutchison	February 2017	February 2019
Maureen Jensen (Chair)	February 2016	February 2018
Frances Kordyback	November 2016	November 2018
Monica Kowal (Vice-Chair)	July 2014	July 2018
Deborah Leckman	February 2013	January 2019
Janet Leiper	January 2015	January 2019
Timothy Moseley	January 2015	January 2019
Judith N. Robertson	June 2011	May 2017
AnneMarie Ryan (Lead Director)	February 2013	January 2019
Mark J. Sandler	February 2017	February 2019
D. Grant Vingoe (Vice-Chair)	August 2015	August 2017

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

Board and Commission Committees

(April 4, 2017)

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
William J. Furlong
Frances Kordyback
Maureen Jensen *(Ex officio* member)

Human Resources and Compensation Committee

Judith N. Robertson (Chair)
Peter W. Currie
Garnet W. Fenn
Deborah Leckman
Timothy Moseley

Adjudicative Committee[1]

Timothy Moseley (Chair)
Philip Anisman
Monica Kowal
Janet Leiper
Judith N. Robertson
Mark J. Sandler
D. Grant Vingoe
Grace Knakowski *(Ex officio* member)

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

The mandates of the Committees and of the Lead Director are available at www.osc.ca.

Meeting attendance

(April 1, 2016 to March 31, 2017)

During the year, a total of 46 meetings of the Commission, Board, and Board Committees were held. The attendance of each Member at these meetings is shown in the table below.

	Type of meeting[1]				
Member	**Commission[2]**	**Board**	**Audit and Finance Committee**	**Governance and Nominating Committee**	**Human Resources and Compensation Committee**
Philip Anisman[3]	7/7	5/5		1/1	
Mary G. Condon[4]	4/4	1/1		0/1	
Peter W. Currie[3]	13/13	5/5	4/4		5/5
Garnet W. Fenn	16/17	8/8	6/8		7/8
William J. Furlong	16/17	8/8	8/8	3/3	
Maureen Jensen	16/17	8/8			
Robert P. Hutchison[3]	3/3	3/3			
Sarah B. Kavanagh[4]	3/4	1/1	2/3	1/1	
Edward P. Kerwin[4]	12/12	4/4			4/4
Frances Kordyback[3]	7/7	5/5	2/2	1/1	
Monica Kowal	17/17	8/8			
Deborah Leckman	17/17	8/8	8/8		9/9
Janet Leiper	17/17	8/8		4/4	
Alan J. Lenczner[4]	9/14	3/5	5/6		
Timothy Moseley	17/17	8/8			9/9
Christopher Portner[4]	12/12	4/4	3/4[5]	1/2[5]	3/4[5]
Judith N. Robertson	17/17	8/8			9/9
AnneMarie Ryan[6]	17/17	8/8	5/5	3/3	
			2/2[5]	1/1[5]	4/5[5]
Mark J. Sandler[3]	3/3	3/3			
D. Grant Vingoe	17/17	8/8			
Average by type of meeting	**96%**	**98%**	**91%**	**93%**	**98%**

1 Includes both regular and special meetings.
2 Policy and rule-making matters.
3 Member appointed to the Commission during the year.
4 Member's term of appointment ended during the year.
5 Lead Director may attend the meetings of the Board committees as a non-voting member.
6 Elected Lead Director in November 2016, replacing Commissioner Portner.

Advisory Committees

Advisory Committees

(March 31, 2017)

Investor Advisory Panel

Ursula Menke (Chair)
Connie Craddock
Letty Dewar
Harold Geller
Ken Kivenko
Alison Knight
Louise Tardif

Continuous Disclosure Advisory Committee

Sean Cable	PricewaterhouseCoopers 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 Nasseri	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

Exempt Market Advisory Committee

Robert Antoniades	Information Venture Partners
Julia Dublin	Barrister and Solicitor
Kerri Golden	JOLT Fund, LP
Neil Gross	
Darrin Hopkins	Richardson GMP
Andrea Johnson	Fraser Milner Casgrain LLP
David Kaufman	Westcourt Capital Corporation
Jeff Kennedy	Cormark Securities Inc.
Brian Koscak	Pinnacle Wealth Brokers
Vaughn MacLellan	DLA Piper (Canada) LLP
Janka Palkova	Convention of Independent Financial Advisors
David Palmer	Probe Metals Inc.
Craig Skauge	National Exempt Market Association
Michael Smith	Dickinson Wright LLP
Glorianne Stromberg	Consultant
Shane Szeto	TMX Group
Bryce Tingle	University of Calgary

Financial Reporting Advisory Committee

Carolyn Anthony	PwC LLP
Craig Cross	Collins Barrow
Reinhard Dotzlaw	KPMG LLP
Lara Gaede	Alberta Securities Commission
Carla-Marie Hait	British Columbia Securities Commission
Karen Higgins	Deloitte
Guy Jones	Ernst & Young LLP
Hélène Marcil	Autorité des marchés financiers
Rinna Sak	Grant Thornton LLP
Janet Stockton	BDO LLP
Eric Turner	Auditing and Assurance Standards Board
Rebecca Villmann	Accounting Standards Board

Fintech Advisory Committee

Dan Adamson	Outside IQ
Sue Britton	Fin+Tech Growth Syndicate
Randy Cass	Nest Wealth Asset Management
Jason Cassidy	Crypto Consultant
Christopher Church	Digital Asset Holdings
Christine Day	Questrade
Adam Felesky	Portag3 Ventures
Christian Lassonde	Impression Ventures
Elena Litani	TD Bank
Joseph Lubin	ConsenSys
Francis Pouliot	Satoshi Portal
Dan Rosen	Fields Institute for Research in Mathematical Studies
Marcel Schroder	Lendified/Vault Circle
Matthew Spoke	Nuco
Michael Tang	Deloitte
Joseph Weinberg	Paycase

Investment Funds Product Advisory Committee

Ghassan (Jason) Agaby	Dynamic Funds
Bill Bamber	CIBC World Markets Inc.
Tom Bradley	Steadyhand Investment Funds Inc.
Pat Chiefalo	BlackRock, iShares Canada
Barry Gordon	First Asset Capital Corp.
Jonathan Hartman	RBC Global Asset Management Inc.
Vishal Hingorani	TD Securities Inc.
Marian Passmore	Canadian Foundation for Advancement of Investor Rights (FAIR Canada)
Michael Schnitman	Mackenzie Investments
Atul Tiwari	Vanguard Investments Canada Inc.
John Wilson	Fidelity Investments Canada, ULC

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Management's Discussion and Analysis

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the OSC's financial performance for the 2017 fiscal year ended March 31, 2017. 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 2017 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 6, 2017.
- 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 2017 Notes to the Financial Statements.
- All financial information related to 2016 and 2017 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.

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About the OSC

A summary of our role, mandate and goals

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

We use our rule-making and enforcement powers to help safeguard investors, deter misconduct and regulate market participants in Ontario. We regulate firms and individuals who sell securities and provide advice in Ontario, as well as public companies, investment funds and marketplaces, such as the Toronto Stock Exchange.

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

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

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

Mandate

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Vision

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

Goals

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

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

Capital Markets Regulatory Authority (CMRA)

The OSC plays an important advisory role to the Ontario Ministry of Finance on the CMRA project. 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. Comments were received and are being considered. The CMRA, once established, would administer the uniform provincial/territorial CMA and a single set of regulations. In addition, legislation establishing the CMRA together with implementation legislation is also being developed to help ensure a smooth transition to the new regime and to integrate the new regime into the existing body of laws of each participating province and territory. There is, as well, a federal component to the proposed legislative scheme. The federal government published a revised consultation draft of the Capital Markets Stability Act on May 5, 2016 for a 60 day comment period.

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.

During 2017, the OSC expended approximately $0.7 million in staff resources, in addition to the $3.6 million expended from 2014 to 2016, for a total of $4.3 million toward the creation of, and transition to, the CMRA. These totals do not include time spent by members of the OSC's Executive who participate on the CMRA Transition Committee and are otherwise involved in the CMRA project.

Operating results

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

As a self-funded Crown corporation, the OSC operates on a cost-recovery basis. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2016, a smaller surplus in 2017 and a deficit in 2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The chart below provides a comparison of results over the last three years that are further described later in this document. Total revenues were higher than projected and total expenses were lower than projected, resulting in a higher than expected surplus. The general surplus is now expected to be $38.7 million by the end of 2018, assuming there is no significant growth or deterioration in the markets.

Fee rates will be reviewed in 2018 and the existing surplus will be taken into account in determining new rates. Other factors to be considered when reviewing the level of surplus and fee rates are the projected level of expenses, any projected capital expenses and the level of cash resources required to provide an adequate cash safety margin.

In 2017, our general operating surplus increased by $11.4 million as a result of higher revenue and lower than budgeted expenses relative to our 2017 plan.

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

Selected three-year annual information

(Thousands)		**2017**		**2016**		**2015**
Revenue	$	119,927	$	116,849	$	103,936
Expenses		110,082		103,958		98,870
Excess of revenue over expenses (before recoveries)		**9,845**		**12,891**		**5,066**
Recoveries of enforcement costs		160		900		2,995
Recoveries of investor education costs		1,471		1,198		—
Excess of revenue over expenses	**$**	**11,476**	**$**	**14,990**	**$**	**8,061**
General surplus	$	40,613	$	29,247	$	14,274
Property, plant & equipment (purchases)	$	2,743	$	3,058	$	1,616
Total assets	**$**	**270,899**	**$**	**242,884**	**$**	**207,414**
Non-current liabilities	**$**	**193,568**	**$**	**179,020**	**$**	**157,057**

Revenue increased from 2016 to 2017 primarily due to higher activity fees and late filing fees.

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

Total assets increased from 2016 to 2017 primarily as a result of the increase in the following:

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

Non-current liabilities increased from 2016 to 2017 primarily as a result of an increase in the offsetting liability corresponding to Net assets held for CSA Systems operation and redevelopment and Funds held pursuant to designated settlements and orders, as described above.

About our fees

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

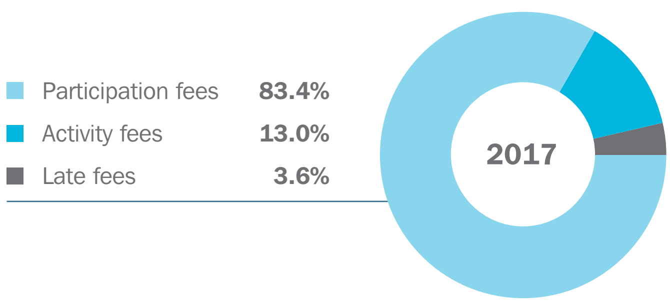
- **Participation fees** are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. Fees are calculated using an increasing tiered structure based on average market capitalization for issuers and revenues for registrants. Specified regulated entities are charged participation fees based on their market share or a fixed rate. In fiscal 2016, we changed the basis for calculating participation fees from a reference fiscal year (where participation fees were indexed to a prior fiscal year's results) to market participants' most recent fiscal year. The timing of participation fee revenue affects our cash flow. For more information, see the Liquidity and financial position section.
- **Activity fees** are charged when market participants file documents, such as prospectuses and other disclosure documents, registration applications and applications for discretionary relief, and are set to reflect the costs associated with providing the related services. Activity fees are also charged for requests, such as making changes to a registration or searching for records. Activity fees are flat-rate fees based on the estimated direct cost for the OSC to review documents and respond to requests. Activity fee rates were adjusted when the new fee rules were implemented at the start of fiscal 2016.
- **Late fees** are charged when market participants submit filings after applicable filing deadlines, and/or are late paying the fees related to a filing.

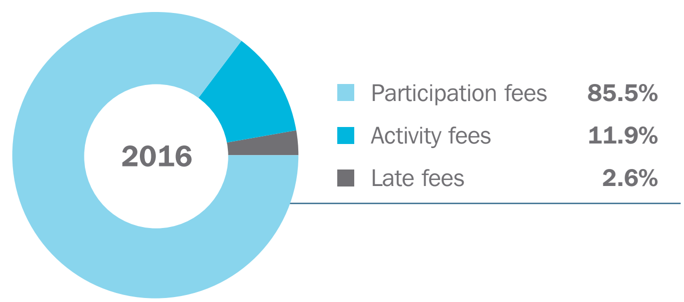
Revenue

Total revenues of $119.9 million were up $3.1 million (2.6%) from 2016. Total revenues for the year exceeded plan by $3.4 million (2.9%), mainly due to higher activity fees and late filing fees which were offset by lower participation fees.

Activity fees account for 82% of the variance, while the offsetting variances in participation fees and late filing fees, together with miscellaneous revenue and investment income, account for the remaining 18%.

(Thousands)	% of 2017 Revenue	2017	2016	Change	% Change
Participation fees	83.4%	$ 99,726	$ 99,714	$ 12	0.0%
Activity fees	13.0%	15,471	13,841	1,630	11.8%
Late fees	3.6%	4,319	3,083	1,236	40.1%
Total fees	**100.0%**	**$ 119,516**	**$ 116,638**	**$ 2,878**	**2.5%**
Miscellaneous		168	43	125	288.7%
Interest income		243	168	75	44.7%
Total revenues		**$ 119,927**	**$ 116,849**	**$ 3,078**	**2.6%**





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

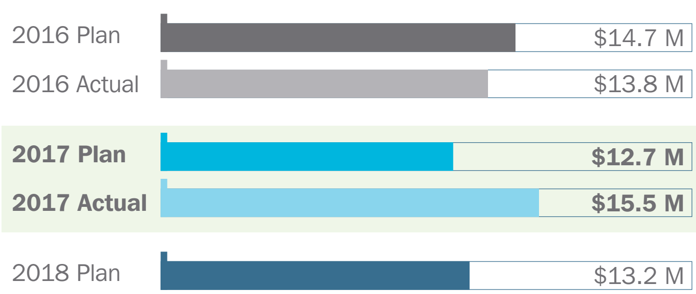
Participation fees

Variance from prior year: Total participation fee revenues were the same in 2017 compared to 2016.

Variance from current year plan: Participation fee revenues were $1.2 million (1.2%) lower than the 2017 plan. Issuer participation fees were $2.2 million (5.8%) under plan, as the expected growth across fee tiers assumed in the budget did not materialize in the actual results. Registrant participation fees were $1.1 million (1.9%) higher than plan due to increased registrant income which drives higher fees.

2018 plan: The 2018 plan for participation fees totals $99.5 million: $37.7 million from issuers, $60.3 million from registrants and $1.5 million from marketplaces and other entities. This represents a $0.2 million (0.2%) decrease from 2017 actual results and a $1.4 million (1.4%) decrease from the 2017 plan. Although these fees are anticipated to be slightly lower, they are in line with the 2017 actual results as fee rates are set until March 31, 2018 and we do not expect market changes to have a significant impact.

Activity fees

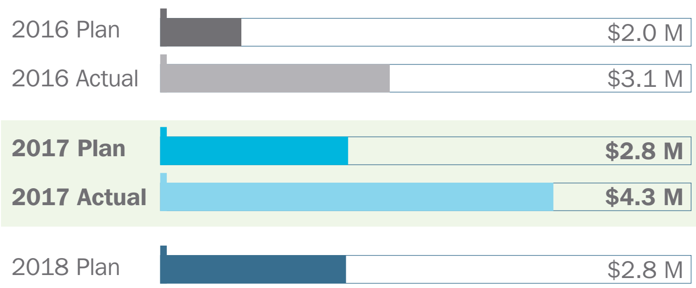


Variance from prior year: Activity fee revenues were $1.7 million (12.3%) higher this year than the prior year, primarily due to an increase from issuers.

Variance from current year plan: Activity fee revenues were $2.8 million (22.0%) above plan for the current year. Issuer activity fees were higher than plan by $1.6 million (20.9%) mainly due to higher than expected prospectus fees and exempt distribution fees. Merger and acquisition activity was also higher than expected. Registrant activity fees were $1.1 million (22.6%) higher than plan. This can mostly be attributed to a higher volume of applications for relief.

2018 plan: The 2018 plan for activity fees totals $13.2 million: $8.4 million from issuers, $4.7 million from registrants and $125 thousand from marketplaces and other entities. This represents a $2.3 million (14.8%) decrease from the 2017 actual results and a $570 thousand (4.5%) increase from the 2017 plan. The lower budget expresses uncertainty on the level of issuer and registrant activity fees and is considered prudent.

Late fees



Variance from prior year: Late fee revenues were $1.2 million (38.7%) higher than the prior year as a result of more late exempt distribution filings, issuer interim financial statements, registrant documents and System for Electronic Disclosure by Insiders (SEDI) insider filings than in the prior year.

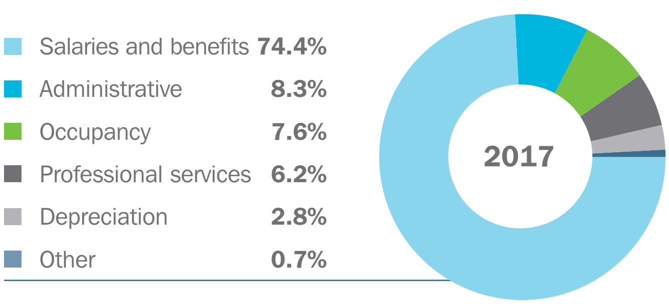
Variance from current year plan: Late fee revenues were $1.5 million (53.6%) higher than plan for the current year. This was also mainly due to more late exempt distribution filings, issuer interim financial statements, registrant documents and insider filings.

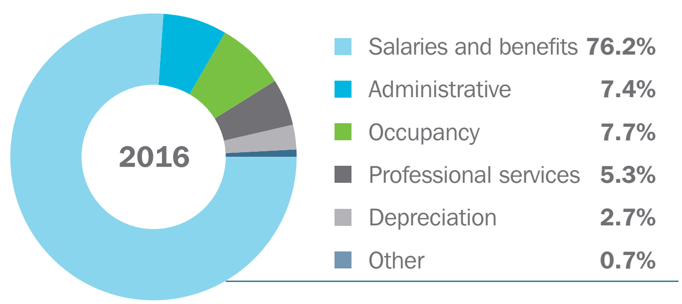
2018 plan: The 2018 plan for late fees totals $2.8 million. This represents a $1.5 million (34.9%) decrease from the 2017 actual results and a $67 thousand (2.4%) increase from the 2017 plan. This is lower than the 2017 actual revenue since there is uncertainty on the volume of late filings.

Expenses

In 2017, our total expenses were $110.1 million, up $6.1 million (5.9%) from $104.0 million in 2016 (excluding Recoveries of enforcement and investor education costs). The year-over-year increase is mainly attributable to higher salaries and benefits costs as a result of additional positions hired in priority areas and higher professional services costs to support Information Services (IS) strategic initiatives. Total expenses for the year were under plan by $5.3 million (5%) before Recoveries of enforcement costs and investor education costs, as a result of delays in filling vacant positions, lower IS consulting costs and underspending in Professional services. Other areas of underspending included information technology, travel and administrative expenses.

(Thousands)	% of 2017 Expenses	2017	2016	Change	% Change
Salaries and benefits	74.4%	$ 81,864	$ 79,174	$ 2,690	3.4%
Administrative	8.3%	9,085	7,737	1,348	17.4%
Occupancy	7.6%	8,353	8,009	344	4.3%
Professional services	6.2%	6,863	5,479	1,384	25.3%
Depreciation	2.8%	3,112	2,761	351	12.7%
Other	0.7%	805	798	7	0.9%
	100%	$ 110,082	$ 103,958	$ 6,124	5.9%
Recoveries of enforcement costs		(160)	(900)	740	-82.2%
Recoveries of investor education costs		(1,471)	(1,198)	(273)	100.0%
Total expenses (net of recoveries)		**$ 108,451**	**$ 101,860**	**$ 6,591**	**6.5%**





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

Salaries and benefits

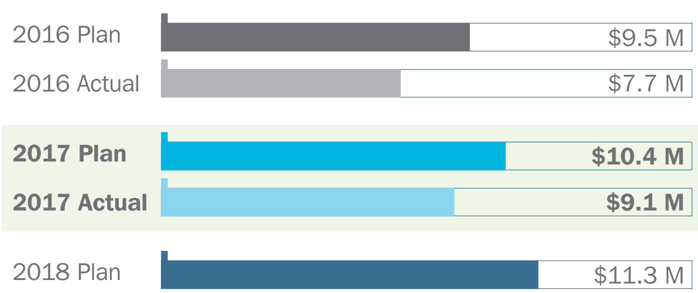
For details on the composition of the Salaries and benefits expenses incurred, see Note 15 of the financial statements.

Variance from prior year: Salaries and benefits were $2.7 million (3.4%) 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 2017 fiscal year, the OSC Board approved the addition of nine 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 a result of delays in filling vacant positions.

2018 plan: The 2018 plan for Salaries and benefits totals $86.1 million. This represents a $4.2 million (5.1%) increase from the current year actual results and a $2.6 million (3.1%) increase from the 2017 plan. The increase reflects the full year cost of 2017 staff additions and a limited number of new additions for 2018.

Administrative



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

Variance from prior year: Administrative expenses were $1.4 million (18.2%) higher this year than the prior year. This was a result of an increase in spending on library related IS resources and additional spending on information technology maintenance and support.

Variance from current year plan: Administrative expenses were $1.3 million (12.5%) lower than plan for the current year. This was primarily the result of lower information technology maintenance and support expenses than planned.

2018 plan: The 2018 plan for Administrative expenses totals $11.3 million. This represents a $2.2 million (24.2%) increase from 2017 actual results and a $937 thousand (9.0%) increase from the 2017 plan. This is mainly due to additional maintenance costs for items identified in the IS Strategic Plan for information systems, including some costs deferred from 2017.

Occupancy

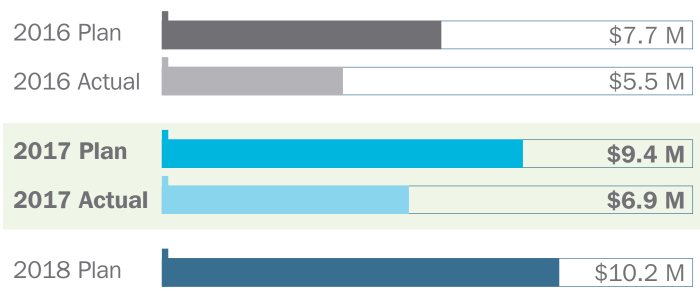
Variance from prior year: Occupancy expenses were $344 thousand (4.3%) higher this year than the prior year as a result of general increase in additional rent charges relating to energy, property taxes and common area maintenance.

Variance from current year plan: Occupancy expenses were $53 thousand (0.6%) higher than plan for the current year plan.

2018 plan: The 2018 plan for Occupancy expenses totals $8.1 million. This represents a $219 thousand (2.6%) decrease from the current year actual results and a $166 thousand (2.0%) decrease from the 2017 plan. The decrease results from lower than planned rent changes due to the new lease effective September 1, 2017.

During 2016, the OSC leased and renovated additional space that is being utilized by the CSA IT Systems Office and the Government of Canada on a cost recovery basis through a sublease agreement, including all renovation and lease costs. The amount of lease costs spent and subsequently recovered from these organizations in 2017 is $794 thousand ($715 thousand in 2016).

Professional services

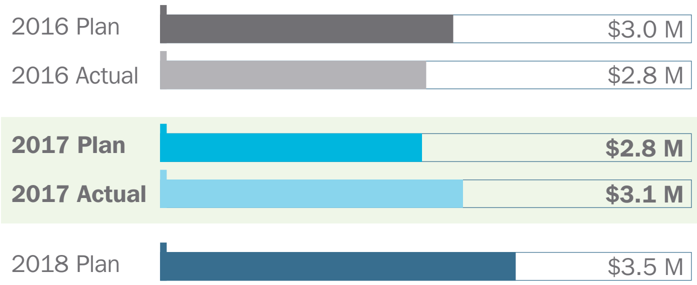


Variance from prior year: Professional services expenses were $1.4 million (25.5%) higher this year than the prior year. This was mainly due to additional spending related to the data management project and an increase in recruitment expenses.

Variance from current year plan: Professional services expenses were $2.5 million (26.6%) lower than plan for the current year. This is due to lower IS consulting costs, underspending due to the timing of projects and lower than expected enforcement related professional services.

2018 plan: The 2018 plan for Professional services expenses totals $10.2 million. This represents a $3.3 million (47.8%) increase from the current year actual results and a $0.8 million (8.5%) increase from the 2017 plan. This is mainly due to increased spending on IS projects.

Depreciation



Variance from prior year: Depreciation expense was $351 thousand (12.5%) higher than the prior year due to an increase in the capital asset base.

Variance from current year plan: Depreciation expense was $312 thousand (11.1%) higher than plan for the current year due to timing of capital expenditures.

2018 plan: The 2018 plan for Depreciation expense totals $3.5 million and is higher due to continuing capital expenditures.

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. This amount is lower than the $2.3 million expected to be recovered as the underlying expenses were lower than expected. 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."

CSA shared costs

As a member of the CSA, the OSC pays a portion of the costs to operate the CSA's office and joint CSA projects. In 2017, total CSA spending on shared projects was $1.9 million ($1.9 million in 2016). The OSC contributed $746 thousand ($739 thousand in 2016). 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 38.5%. All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2017, the OSC contributed $421 thousand ($396 thousand in 2016) to support the CSA Secretariat.

Liquidity and financial position

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

Liquidity

Cash

At March 31, 2017, the OSC held $42.3 million in Cash ($29.2 million in 2016) and $20.0 million in Reserve fund assets ($20.0 million in 2016), for a combined total of cash and cash equivalent resources available of $62.3 million ($49.2 million in 2016).

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

At March 31, 2017, the OSC had current assets of $48.7 million ($34.6 million in 2016) and current liabilities of $16.7 million ($14.6 million in 2016) for a current ratio of 2.9:1 (2.4:1 in 2016). 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 2017, a lower amount was drawn on the line of credit than forecasted. This resulted in a reduction in interest charges paid on the line of credit.

The OSC’s Cash position increased $13.1 million (44.9%) from 2016 as a result of an operational surplus in 2017 adjusted by investments in fixed assets. In 2017, we had an excess of revenue over expenses of $11.5 million ($15.0 million in 2016), and our year-end surplus was $40.6 million ($29.2 million in 2016).

Cash flows

In 2017, Cash flows from operating activities produced an inflow of $15.8 million ($15.4 million in 2016). Property, plant & equipment investments in 2017 consumed $2.7 million ($3.1 million in 2016).

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 uses two key tools to manage temporary negative cash positions: a $20.0 million general operating reserve and a $52.0 million revolving line of credit, both as approved by the Minister of Finance.

In 2017, we used all of our $20 million in Reserve fund assets and $75 thousand ($14.4 million in 2016) of our revolving line of credit to fund operations. We repaid the full outstanding balance of the line of credit and restored the $20.0 million in Reserve fund assets in early January 2017 when most registrant participation fees were received.

The agreement for the current line of credit expires on June 30, 2018. During the year, the Commission will work with the Ontario Financing Authority to secure the Minister of Finance’s approval to renew the line of credit for an additional two years, up to the same maximum of $52.0 million as the current line of credit.

Financial instruments

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

The OSC acts as a custodian of Funds held pursuant to designated settlements and orders, and funds held for CSA Systems redevelopment (included in Net assets held for CSA Systems operations and redevelopment). Both are recorded at fair value.

The OSC is not exposed to significant interest rate, currency or liquidity risks from these investments because they are short-term in nature and all balances are denominated in Canadian dollars. For a complete analysis of the risks relating to these financial instruments, see Note 4 of the financial statements.

Trade and other receivables, Trade and other payables and accrued liabilities are recorded at amortized cost, which approximates fair value given their short-term maturities. For more information on Trade and other receivables, see Note 5 of the financial statements. For more information on Trade and other payables (including accrued liabilities), see Note 10 of the financial statements.

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

Financial position

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

Trade and other receivables

Trade and other receivables were $4.8 million ($3.8 million in 2016). The 26.3% increase was primarily due to a $1.4 million accrual of revenue for unpaid participation fees.

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

Prepayments

Prepayments totaled $1.5 million ($1.5 million in 2016).

Funds held pursuant to designated settlements and orders

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

The OSC may designate funds under settlement agreements and orders from enforcement proceedings to be allocated as the Board of the OSC 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 2017, $164.0 million in orders was assessed ($223.3 million in 2016). Included in the $164.0 million in orders assessed by the OSC are four orders for which the respondents were required to make payment directly to harmed investors, totaling $148.1 million ($164.3 million in 2016). While this amount is considered for our enforcement sanctions statistics, it is not captured in the OSC's accounting records and does not form part of the Funds held pursuant to designated settlements and orders balance. The OSC recorded $7.9 million of orders in Funds held pursuant to designated settlements and orders ($13.5 million in 2016).

As authorized by its Board, the OSC distributed $3.1 million ($627 thousand in 2016) to harmed investors and $1.4 million ($584 thousand in 2016) 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 OSC concluded an agreement with FAIR Canada to begin accessing the funds distributed to them by the OSC. The agreement states that $500 thousand per year can be used for operating expenses.

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.

At March 31, 2017, the accumulated balance of designated funds was $38.0 million ($35.6 million in 2016). Of this amount, $36.5 million was held in cash ($31.2 million in 2016) and $1.5 million was deemed as being receivable ($4.4 million in 2016). After considering funds set aside for possible allocation to harmed investors, $14.3 million of the funds on hand is available for distribution ($14.6 million in 2016).

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 improved in 2017 primarily because respondents were well-established market participants that promptly paid the sanctions assessed to them.

We continue to look for ways to improve our collections rates, including reviewing the experiences of other public and private sector organizations to identify methods that can be used by the OSC. We actively pursue collections using internal and external resources.

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

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

Fund held pursuant to designated settlements and orders

(Thousands)

2015		**Assessed**		**Collected**	**% Collected**
Settlements	$	17,890	$	7,156	40.0%
Contested hearings		35,081		343	1.0%
Total	**$**	**52,971**	**$**	**7,499**	**14.2%**
2016		**Assessed***		**Collected**	**% Collected**
Settlements	$	23,284	$	9,969	42.8%
Contested hearings		35,743		990	2.8%
Total	**$**	**59,027**	**$**	**10,959**	**18.6%**
2017		**Assessed***		**Collected**	**% Collected**
Settlements*	$	7,890	$	7,856	99.6%
Contested hearings**		12,798		50	0.4%
Total	**$**	**20,688**	**$**	**7,906**	**38.2%**

* Does not reflect amounts paid directly by respondents to investors
** Includes $4.8 million that would be owing to the OSC if not paid directly by respondents to investors

Reserve fund assets

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

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

Property, plant & equipment

Property, plant & equipment decreased 3.1% to $12.5 million ($12.9 million in 2016). The decrease is the result of lower expenditure on additions and the impact of depreciation on acquisitions.

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

Trade and other payables

Trade and other payables increased 14.4% to $16.7 million ($14.6 million in 2016). This increase is a result of an increase in accrued liabilities and accrued payroll expenses.

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

During the year the OSC signed a new lease for premises effective September 1, 2017. The term is for 10 years ending August 31, 2027 and contains two consecutive options to extend the term beyond August 31, 2027, each for a period of 5 years. 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.

Pension liabilities

The accrued supplemental pension plans' defined benefit obligation Pension liabilities of $3.8 million ($3.6 million in 2016) represents future obligations for supplemental pension plans for present and past Chairs and Vice-Chairs. The OSC's related expenses for the year were $360 thousand ($233 thousand in 2016).

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

Net assets held for CSA Systems redevelopment

The core CSA National Systems (CSA Systems) are hosted and operated by CGI Information Systems and Management Consultants Inc. (CGI). The CSA Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), SEDI and the National Registration Database (NRD). The CSA 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.

Net assets held for CSA Systems operation and redevelopment includes all surplus funds accumulated from CSA Systems operations that are collected, held and administered by the DPA on behalf of the PAs. The use of these surplus funds is governed by various agreements between the PAs, and the total is reflected in the Statement of financial position as both a Non-current asset and an equal offsetting Non-current liability of $151.7 million ($139.9 million in 2016).

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

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

In 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 Net assets held for CSA Systems redevelopment, including current and prior year operating results, see Note 7 and Note 17(a) of the financial statements.

2018 Strategy

Our plans and budget for fiscal year 2018

Statement of Priorities

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

The Statement of Priorities is our cornerstone accountability document.

On March 28, 2017, the OSC published its 2018 OSC Draft Statement of Priorities – Request for Comments. The draft Statement of Priorities was open for public comment until May 23, 2017 and is available on the OSC website at www.osc.gov.on.ca.

2018 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 2018 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 2018 OSC Budget over 2017 as this will require focused investments in the following areas:

- Deliver strong investor protection
  - Publish regulatory reforms to define a best interest standard and improve the advisor/client relationship
  - Define regulatory action needed to address embedded commissions
  - Advance retail investor protection, engagement and education through the OSC's Investor Office
  - Address independent evaluator's recommendation that OBSI be better empowered to secure redress for investors
- Deliver effective compliance, supervision and enforcement
  - Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework
  - Actively pursue timely and impactful enforcement cases involving serious securities laws violations
  - Increase deterrent impact of OSC enforcement actions and sanctions through a more visible and active collection strategy
- Deliver responsive regulation
  - Identify opportunities to reduce regulatory burden while maintaining appropriate investor protections
  - Work with fintech businesses to support innovation and promote capital formation and regulatory compliance
  - 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
  - Enhance OSC business capabilities
  - Work with the Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the CMRA

As a result, the budget reflects an increase of 4.9% from the 2017 budget and 8.5% from 2017 spending. Salaries and benefits, which comprise $86.1 million or 73.2% of the budget, represent an increase of $4.2 million or 5.1% over 2017 spending. The key reasons for this increase are:

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

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the underspending noted in the prior years and the fact that budget amounts will decrease, or remain flat in approximately 65% of its operating branches. The budget also includes resources for work toward the implementation of the CMRA.

The capital budget, although relatively flat compared to 2017 spending, reflects the cost to support the OSC's information technology needs, in particular, a significant data management program initiative. The budget also includes further refresh of the OSC's personal computers and laptops.

2018 plan

(Thousands)	2016–17 Budget	2016–17 Actual	2017–18 Budget	2017–18 Budget to 2016–17 Budget: Change	2017–18 Budget to 2016–17 Budget: % Change	2017–18 Budget to 2016–17 Actual: Change	2017–18 Budget to 2016–17 Actual: % Change
Revenues	$ 116,522	$ 119,927	$ 115,781	$ (741)	-0.6%	$ (4,146)	-3.5%
Expenses	112,141	108,451	117,657	5,516	4.9%	9,206	8.5%
Surplus (deficiency) of revenue compared with expenses	$ 4,381	$ 11,476	$ (1,876)	$ (6,257)		$ (13,352)	
Capital expenditures	$ 2,989	$ 2,743	$ 2,735	$ (254)		$ (8)	

For more information on the 2018 planned budget amounts for significant revenue and expense line items, see the Revenue and Expenses sections of this MD&A.

Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with IFRS requires that management 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 the Net assets held for CSA Systems 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 Strategic Risk Inventory. It includes a "top-down" and "bottom-up" view of the risks and controls within the OSC. The top-down portion describes the environment in which the OSC works, while the bottom-up portion deals with day-to-day operational risks that affect our ability to do our work.

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

Business risks

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

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

Internal audit

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

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

Systems risk

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

The OSC relies on CSA Systems, which are operated by CGI, to collect most of its fee revenue. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 – Type II) that reviews and evaluates the internal controls design and effectiveness of the CSA Systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually. The most recent test was performed in March 2017.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See Note 17 of the financial statements for more information. No material change is expected in the volume of fees collected through these systems. Following a competitive tender for redeveloping these systems, the CSA IT Systems Project Office signed an agreement with CGI to redevelop the systems as described under the heading Net Assets held for CSA Systems redevelopment.

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, 2016, 2017 and 2018, 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. This year, no new legal actions were commenced against the OSC and there are no other outstanding actions involving the OSC from prior years.

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, 2017. 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, 2017, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director, Corporate Services, certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

Financial Statements

Management's Responsibility and Certification

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

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

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

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

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

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

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

Maureen Jensen
Chair and Chief Executive Officer

H.R. Goss
Director, Corporate Services

June 6, 2017

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Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

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, 2017, 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, 2017 and its financial performance, and its cash flows for the year ended in accordance with the International Financial Reporting Standards.

Toronto, Ontario
June 6, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

20 Dundas Street West
Suite 1530
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

20, rue Dundas ouest
suite 1530
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123

www.auditor.on.ca

Statement of Financial Position

(in Canadian dollars)

As at March 31	Note(s)	2017	2016
ASSETS			
Current			
Cash		$ 42,345,003	$ 29,244,715
Trade and other receivables	4, 5	4,795,056	3,831,842
Prepayments		1,527,576	1,522,706
Total current		**$ 48,667,635**	**$ 34,599,263**
Non-current			
Funds held pursuant to designated operations and settlements and orders	3(d), 6	37,995,716	35,555,504
Net assets held for CSA Systems operations and redevelopment	2, 7, 17	151,732,608	139,855,968
Reserve fund assets	8	20,000,000	20,000,000
Property, plant & equipment	9	12,502,675	12,872,939
Total non-current		**$ 222,230,999**	**$ 208,284,411**
Total assets		**$ 270,898,634**	**$ 242,883,674**
LIABILITIES			
Current			
Trade and other payables	10	$ 16,717,810	$ 14,617,340
Total current		**$ 16,717,810**	**$ 14,617,340**
Non-current			
Pension liabilities	12(b)	3,839,928	3,608,042
Funds held pursuant to designated settlements and orders	3(d), 6	37,995,716	35,555,504
Net assets held for CSA Systems operations and redevelopment	2, 7, 17	151,732,608	139,855,968
Total non-current		**$ 193,568,252**	**$ 179,019,514**
Total liabilities		**$ 210,286,062**	**$ 193,636,854**
SURPLUS			
General		$ 40,612,572	$ 29,246,820
Reserve	8, 13	20,000,000	20,000,000
Operating surplus		**$ 60,612,572**	**$ 49,246,820**
Total liabilities and surplus		**$ 270,898,634**	**$ 242,883,674**

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)	2017	2016
REVENUE			
Fees	3(c), 14	$ 119,516,341	$ 116,638,258
Miscellaneous		167,627	43,216
Interest income		243,132	167,951
		$ 119,927,100	**$ 116,849,425**
EXPENSES			
Salaries and benefits	15	$ 81,864,332	$ 79,174,128
Administrative	16	9,084,988	7,737,356
Occupancy		8,352,813	8,009,082
Professional services		6,862,591	5,478,737
Depreciation	9	3,112,148	2,761,282
Other		805,454	797,546
		$ 110,082,326	**$ 103,958,131**
Recoveries of enforcement costs	3(g)	(160,250)	(899,940)
Recoveries of investor education costs	3(g), 19	(1,470,894)	(1,198,271)
		$ 108,451,182	**$ 101,859,920**
Excess of revenue over expenses		**$ 11,475,918**	**$ 14,989,505**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit and loss:			
Remeasurements of defined benefit pension plans	12(b)	$ (110,166)	$ (16,971)
Other comprehensive loss		**$ (110,166)**	**$ (16,971)**
Total comprehensive income		**$ 11,365,752**	**$ 14,972,534**

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)	2017	2016
Operating surplus, beginning of year		$ 49,246,820	$ 34,274,286
Total comprehensive income		11,365,752	14,972,534
Operating surplus, end of year		**$ 60,612,572**	**$ 49,246,820**
Represented by:			
General		$ 40,612,572	$ 29,246,820
Reserve	8, 13	20,000,000	20,000,000
		$ 60,612,572	**$ 49,246,820**

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

Statement of Cash Flows

(in Canadian dollars)

For the year ended March 31	Note(s)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenue over expenses		$ 11,475,918	$ 14,989,505
Adjusted for:			
Interest received		$ 232,868	$ 160,772
Interest income		(243,132)	(167,951)
Interest expense on line of credit		—	55,188
Pension liabilities		121,720	30,269
Loss on disposal of property, plant & equipment	9	865	8,201
Depreciation	9	3,112,148	2,761,282
		$ 14,700,387	**$ 17,837,266**
Changes in non-cash working capital:			
Trade and other receivables		$ (952,951)	$ (849,324)
Prepayments		(4,870)	(149,225)
Trade and other payables		2,100,470	(1,465,430)
		$ 1,142,649	**$ (2,463,979)**
Net cash flows from operating activities		**$ 15,843,036**	**$ 15,373,287**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant & equipment	9	$ (2,742,748)	$ (3,057,689)
Net cash used in investing activities		**$ (2,742,748)**	**$ (3,057,689)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid on line of credit		$ —	$ (55,188)
Net cash flows used in financing activities		**$ —**	**$ (55,188)**
Net increase in cash position		$ 13,100,288	$ 12,260,410
Cash, beginning of year		**29,244,715**	**16,984,305**
Cash, end of year		**$ 42,345,003**	**$ 29,244,715**

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, 2017 and for the year then ended and includes comparatives. These financial statements were authorized for issue by the Board of Directors on June 6, 2017.

(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"). 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.

Net assets held for Canadian Securities Administrators (CSA) Systems operations and redevelopment (CSA Systems net assets)

The OSC has been appointed to administer the financial management processes of the CSA Systems net assets, which mainly consist of surplus funds accumulated from systems fees charged to market participants. 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 net assets or any future development of the CSA Systems. The OSC has also determined that in performing its administrative role for the CSA Systems net assets, it does not control or have significant influence over how the net assets are managed.

The OSC exercised judgment to determine that the net assets administered by the OSC on behalf of CSA Systems are best represented by the presentation of an asset and a corresponding liability.

See Note 7 for more information, including summary financial information related to the CSA Systems net assets.

(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, 2017. 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 amount is significantly doubtful, in which case it is recognized when payment is received. Estimation is required to determine the amount of designated settlements to recognize, orders that will be collected 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 related to estimated designated settlements and order amounts deemed to be collectible. Expenses may change related to the 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.

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 included in the Net assets held for the CSA Systems operations and redevelopment, and Reserve fund assets 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	Over remaining term of the lease plus one option period

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

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

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

(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. In addition, 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, and 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, except in the case of specified regulated entities that file their participation fees through the OSC's electronic filing portal, which 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.

Activity fees

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

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.

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 members' 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(c).

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 time pattern 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, Net assets held for CSA Systems operations and redevelopment (cash components) and Reserve fund assets are held by Schedule 1 banks (and credit unions in British Columbia with respect to Net assets held for CSA Systems operations and redevelopment cash components). 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 0.85% (2016 – 0.91%).

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

Impact on operating surplus

	25 basis points increase in rates	**25 basis points decrease in rates**
Reserve fund assets	$ 29,863	$ (29,863)
Cash balance	41,786	(41,786)
	$ 71,649	**$ (71,649)**

Credit risk

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

Schedule 1 financial institutions hold approximately 75% of the OSC's financial assets including those held for CSA Systems operations and redevelopment and another 16% are held in two credit unions in British Columbia (for cash components of Net assets held 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. In addition, the investment policy for Cash, Reserve fund assets and for Funds held pursuant to designated settlements and orders limits amounts held on deposit in any one of the Schedule 1 banks to $30.0 million for each category.

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:

- Net assets held 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, 2017	March 31, 2016
Current		$ 2,526,475	$ 2,016,130
Past due 31 to 60 days		922,861	1,099,936
Past due 61 to 90 days		484,114	61,100
Past due greater than 90 days (net)		861,606	654,676
Total Trade and other receivables	5	**$ 4,795,056**	**$ 3,831,842**

Past due greater than 90 days detail	Note	March 31, 2017	March 31, 2016
Past due greater than 90 days (gross)		$ 1,034,609	$ 816,511
Allowance for doubtful accounts	5	(173,003)	(161,835)
		$ 861,606	**$ 654,676**

Reconciliation of allowance for doubtful accounts is as follows:

	Note	March 31, 2017	March 31, 2016
Opening balance		$ 161,835	$ 308,078
Current year provision		316,268	113,210
Written-off during the year		(305,100)	(259,453)
Closing balance	5	**$ 173,003**	**$ 161,835**

In 2017, $305,100 of Trade and other receivables that related to balances owing prior to April 1, 2016 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 as part of the current year provision for those prior years. The current year provision of $316,268 was charged to bad debt expense for fiscal 2017.

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, 2017, the OSC had a cash balance of $42.3 million and reserve fund assets of $20.0 million to settle current liabilities of $16.7 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 utilized the credit facility to a maximum of $75 thousand for one day. As at March 31, 2017, there is no amount outstanding on the credit facility.

The overall exposure to liquidity risk remains unchanged from 2016.

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, 2017	March 31, 2016
Trade receivables		$ 717,605	$ 845,910
Other receivables		3,003,059	1,869,080
Allowance for doubtful accounts	4	(173,003)	(161,835)
		$ 3,547,661	**$ 2,553,155**
Interest receivable		44,230	33,965
Amount recoverable from investor education costs	19	687,769	629,824
HST recoverable		515,396	614,898
Total Trade and other receivables	4	**$ 4,795,056**	**$ 3,831,842**

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. As a result of an amendment to the *Securities Act* (Ontario) effective June 2012, 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 in its discretion. This includes allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2017, the accumulated balance is determined as follows:

	Note	March 31, 2017	March 31, 2016
Opening balance		$ 35,555,504	$ 24,702,966
Assessed during the year		$ 163,955,995	$ 223,287,035
Less:			
Amounts to be paid directly to investors		(148,057,864)	(164,260,580)
Orders deemed uncollectible		(7,988,558)	(45,526,682)
Amount recorded from assessments in year		**7,909,573**	**13,499,773**
Amounts collected in relation to external order		—	105,000
Adjustments to amounts assessed in prior years		(1,194,980)	(1,839,616)
Total settlements and orders recorded		**6,714,593**	**11,765,157**
Add: Interest		255,131	195,550
Add: Recovery of stale cheque previously paid to harmed investor		—	102,350
Less: Payments			
Paid to the OSC for recovery of Investor education costs	19	(1,412,949)	(583,734)
Paid to harmed investors		(3,116,563)	626,785)
Closing balance		**$ 37,995,716**	**$ 35,555,504**
Represented by:			
Cash		$ 36,464,623	$ 31,164,377
Receivable		1,531,093	4,391,127
		$ 37,995,716	**$ 35,555,504**

The $6,714,593 (2016 – $11,765,157) identified as total settlements and orders recorded reflects the portion of $163,955,995 (2016 – $223,287,035) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes a reversal of $1,194,980 (2016 –$1,839,616) in adjustments from orders recorded in prior years. Included in the total assessed was $148,057,864 (2016 – $164,260,580) where the respondents were required to distribute monies to harmed investors, which are not captured in the OSC's accounting records.

The adjustments to amounts assessed in prior years include portions of orders that had been previously deemed as collectible that are now deemed as uncollectible in fiscal 2017, less the amounts from prior years that are on payment plans that were recorded in fiscal 2017, and the amounts that had been previously deemed uncollectible where payment was received in fiscal 2017. As at March 31, 2017, $1,531,093 (2016 – $4,391,127) was considered receivable because these amounts are expected to be collected.

The OSC collected a total of $7,905,652 (2016 – $10,959,020) of the designated settlements and orders assessed during the year, resulting in an average collection rate of 38.21% (2016 – 18.57%).

As authorized by the Board, the OSC made payments from the designated funds totalling $4,529,512 (2016 – $1,210,519). Details on the recipients of these payments are included in the table above.

7. Net assets held for CSA Systems operations and redevelopment (CSA Systems net assets)

The core Canadian Securities Administrators National Systems (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, British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC) and l'Autorité des marchés financiers (AMF) are principal administrators (PAs) of the CSA Systems.

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 Net assets held 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. CGI forwards the gross system fees collected from users of the CSA Systems to the DPA as they are received and invoices the DPA for services provided by CGI in relation to the CSA Systems.

The DPA administers payments to CGI for services provided as they become due from the surplus funds. 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.

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 results of the Net assets held for CSA Systems operations and redevelopment are presented below.

Financial position	As at March 31, 2017	As at March 31, 2016
ASSETS		
Current		
Cash	$ 19,886,194	$ 96,490,056
Investments	115,000,000	40,000,000
Trade and other receivables	4,494,379	2,550,211
Prepayments	1,953,035	696,490
Total current	**$ 141,333,608**	**$ 139,736,757**
Intangible asset	14,636,653	1,862,781
Total assets	**$ 155,970,261**	**$ 141,599,538**
LIABILITIES		
Current		
Trade and other payables	$ 4,186,601	$ 1,616,813
Deferred revenues	51,052	126,757
Total current	**$ 4,237,653**	**$ 1,743,570**
Total liabilities	**$ 4,237,653**	**$ 1,743,570**
SURPLUS		
Opening surplus	$ 139,855,968	$ 128,793,173
Excess of revenue over expenses	11,876,640	11,062,795
Closing surplus	**$ 151,732,608**	**$ 139,855,968**
Total liabilities and surplus	**$ 155,970,261**	**$ 141,599,538**

Results of operations	Year ended March 31, 2017	Year ended March 31, 2016
REVENUE		
NRD system fees	$ 14,293,387	$ 14,122,155
SEDAR system fees	10,697,122	10,799,086
Data distribution services fees	705,230	615,230
Interest income	1,709,469	1,693,848
Total revenues	**$ 27,405,208**	**$ 27,230,319**
EXPENSES		
Salaries and benefits	$ 2,564,850	$ 2,893,628
Professional services	11,690,939	12,240,191
Amortization	482,850	411,712
Other	789,929	621,993
Total expenses	**$ 15,528,568**	**$ 16,167,524**
Excess of revenues over expenses	**$ 11,876,640**	**$ 11,062,795**

Cash flows	Year ended March 31, 2017	Year ended March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenditures	$ 11,876,640	$ 11,062,795
Adjusted for:		
Interest income received	263,702	1,901,855
Interest income	(1,709,469)	(1,693,848)
Impairment loss	—	210,000
Amortization	482,850	411,712
	10,913,723	11,892,514
Changes in non-cash working capital:		
Trade and other receivables	(498,401)	245,303
Prepayments	(1,256,545)	(23,581)
Trade and other payables	(191,947)	3,812
Deferred revenues	(75,705)	65,817
	(2,022,598)	291,351
Net cash flows from operating activities	**$ 8,891,125**	**$ 12,183,865**
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of intangible asset	(10,494,987)	(1,084,317)
Purchase of investments	(75,000,000)	(40,000,000)
Maturity of investments	—	90,000,000
Net cash flows used in investing activities	**$ (85,494,987)**	**$ 48,915,683**
Net (decrease)/increase in cash position	**$ (76,603,862)**	**$ 61,099,548**
Cash position, beginning of period	**96,490,056**	**35,390,508**
Cash position, end of period	**$ 19,886,194**	**$ 96,490,056**
Supplemental cash flow information		
Intangible assets funded by Trade and other payables	**$ 2,761,735**	**$ —**

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

8. Reserve fund assets

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. The March 31, 2017 accumulated reserve fund assets are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%.

9. Property, plant & equipment

2017	Office furniture	Office equipment	Computer hardware and related applications	Networks and servers	Leasehold improvements	Total
GROSS CARRYING AMOUNT						
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
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**
2016						
GROSS CARRYING AMOUNT						
Balance as at April 1, 2015	$ 4,720,355	$ 668,400	$ 19,721,836	$ 3,027,295	$ 9,344,762	$ 37,482,648
Additions	76,966	16,570	1,759,776	195,994	1,008,383	3,057,689
Disposals	(5,448)	—	(64,233)	—	—	(69,681)
Balance at March 31, 2016	$ 4,791,873	$ 684,970	$ 21,417,379	$ 3,223,289	$ 10,353,145	$ 40,470,656
DEPRECIATION						
Balance as at April 1, 2015	$ (4,271,240)	$ (479,857)	$ (17,508,940)	$ (547,802)	$ (2,090,075)	$ (24,897,914)
Depreciation for the year	(203,912)	(23,982)	(764,446)	(638,382)	(1,130,560)	(2,761,282)
Disposals	5,161	—	56,319	—	—	61,480
Balance at March 31, 2016	**$ (4,469,991)**	**$ (503,839)**	**$ (18,217,067)**	**$ (1,186,184)**	**$ (3,220,635)**	**$ (27,597,716)**
Carrying amount at March 31, 2016	**$ 321,882**	**$ 181,131**	**$ 3,200,312**	**$ 2,037,105**	**$ 7,132,510**	**$ 12,872,940**

10. Trade and other payables

	March 31, 2017	March 31, 2016
Trade payables	$ 1,148,122	$ 1,320,361
Payroll accruals	12,017,104	10,985,698
Other accrued expenses	3,552,584	2,311,281
	$ 16,717,810	**$ 14,617,340**

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, 2017	March 31, 2016
Less than one year	$ 8,205,840	$ 8,362,862
Between one and five years	34,513,391	3,518,456
More than five years	49,859,515	—
	$ 92,578,746	**$ 11,881,318**

Lease expense recognized during 2017 was $7,826,890 (2016 – $7,491,391). 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 $794,465 from these two organizations.

The current lease on OSC premises began August 30, 2012 for a term of five years, expiring on August 31, 2017. The OSC has entered into a new lease that begins September 1, 2017 for a term of ten years, expiring on August 31, 2027. The OSC has 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 OPSPP. The OSC's contribution to the OPSPP for the year ended March 31, 2017 was $5,078,084 (2016 – $4,851,811), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for fiscal 2018 are $5,640,450.

Information on the level of participation of the OSC in the OPSPP compared with other participating entities is not available.

(b) Supplemental pension plans

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

The OSC is responsible for governance of these plans. The OSC Board's Audit and Finance Committee and Human Resources and Compensation Committee assist 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 (2016 – 12 years).

	March 31, 2017	March 31, 2016
Defined benefit obligation, beginning of year	$ 3,608,042	$ 3,560,802
Current service cost	230,996	115,100
Interest cost	129,189	117,627
Benefit payments	(238,465)	(202,458)
Plan amendment	—	—
Actuarial loss on obligation	110,166	16,971
Defined benefit obligation, end of year	**$ 3,839,928**	**$ 3,608,042**

Actuarial assumptions

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

	March 31, 2017	March 31, 2016
Discount rate(s)	3.55%	3.70%
Inflation	2.25%	2.25%
Expected rate(s) of salary increase	0%	0%
CPP YMPE increase	2.75%	2.75%
Increase in CRA limit	$ 2,914.4	$ 2,890.0

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, 2017	March 31, 2016
Discount rate increased by 0.5% (obligation will decrease by)	5.5%	5.3%
Discount rate decreased by 0.5% (obligation will increase by)	6.1%	5.8%
Life expectancy increased by 1 year (obligation will increase by)	2.9%	2.7%
Life expectancy decreased by 1 year (obligation will decrease by)	3.0%	2.8%
Inflation rate increased by 0.5% (obligation will decrease by)	2.0%	2.6%
Inflation rate decreased by 0.5% (obligation will increase by)	2.5%	3.2%

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2017 was $360,185 (2016 – $232,727). The OSC expects to incur $236,700 in benefit payments relating to the supplemental pension plan during the next fiscal year.

13. Capital management

The OSC has established 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 fund assets are restricted to direct and guaranteed obligations of the Government of Canada and its provinces, and to instruments issued by Canadian Schedule 1 banks 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 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.

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.

Any general operating surpluses generated are normally returned to market participants through lower fees than otherwise required to recover costs or direct refunds.

The Commission revised its participation fees and activity fees through fee rule amendments that became effective April 6, 2015. While participation fee rates remained the same, some activity fee rates were adjusted at the beginning of fiscal 2016.

Fee rates will be reviewed in fiscal 2018 and the existing surplus will be taken into account in determining new rates. Other factors to be considered when reviewing the level of surplus and fee rates are the projected level of expenses, any projected capital expenses and the level of cash resources required to provide an adequate cash safety margin.

Fees received are as follows:

	March 31, 2017	March 31, 2016
Participation fees	$ 99,726,141	$ 99,714,224
Activity fees	15,470,992	13,840,855
Late filing fees	4,319,208	3,083,179
	$ 119,516,341	**$ 116,638,258**

15. Salaries and benefits

	March 31, 2017	March 31, 2016
Salaries	$ 67,727,969	$ 65,735,420
Benefits	8,113,532	7,848,643
Pension expense	5,438,269	5,084,538
Severance/termination payments	584,562	505,527
	$ 81,864,332	**$ 79,174,128**

16. Administrative

	March 31, 2017	March 31, 2016
Commission expense	$ 1,887,267	$ 1,755,599
Communications & publications	1,865,559	1,511,122
Maintenance & support	3,069,562	2,418,854
Supplies	799,956	730,270
Other expenses	786,178	642,480
Training	676,466	679,031
	$ 9,084,988	**$ 7,737,356**

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 2017, 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. This year, no new legal actions were commenced against the OSC and there are no other outstanding actions involving the OSC from prior years.

18. Related party transactions

(a) Net assets held for CSA Systems operations and redevelopment

In the course of normal operations, the OSC entered into transactions with the Net assets held for CSA Systems operations and redevelopment. During the year, total related party charges incurred and to be reimbursed were $3.7 million ($3.2 million in 2016). At March 31, 2017, $1.1 million was still owed to the OSC ($1.0 million in 2016). 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.

The remuneration of key management personnel includes the following expenses:

	March 31, 2017	March 31, 2016
Short-term employee benefits	$ 3,984,123	$ 3,357,387
Post-employment benefits	364,594	294,136
Total compensation	**$ 4,348,717**	**$ 3,651,523**

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, 2017	March 31, 2016
Payroll costs	$ 672,628	$ 527,443
OSC in the Community costs	16,134	92,735
Media Campaign costs (Fraud Prevention Month)	217,131	73,901
Website and other IT costs	154,063	115,492
Consulting costs	410,938	388,700
Total	**$ 1,470,894**	**$ 1,198,271**

The amount recorded in the year is $1,470,894 (2016 – $1,198,271), of which $687,769 (2016 – $629,824) is owing to the OSC at March 31, 2017. The amount reimbursed to the OSC in the year from the Designated settlements fund was $1,412,949 relating to costs incurred in the 2016 and 2017 fiscal years.

20. Accounting pronouncements

Accounting standards adopted in the current year

The following IFRS standards, interpretations and amendments have been issued and are effective for the year ended March 31, 2017.

IAS 1, *Presentation of financial statements*

IAS 1, *Presentation of Financial Statements*, was amended in December 2014 to clarify, among other things, guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The amendment was adopted on April 1, 2016, without significant impact on the OSC's Statement of financial position or Statement of comprehensive income.

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, 2017, 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 with early adoption permitted. IFRS 9 is not expected to have a material impact on the OSC financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 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.

Over the next year, the OSC will determine the impact of the standard, which is currently not known or reasonably estimable. During this time, the OSC will 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, if any. The OSC will disclose the impact of the standard in the next annual financial statements.

To ensure effective implementation of the standard, an internal cross-functional team, reporting to the Audit and Finance Committee, is currently engaged in implementing a comprehensive transition plan. This plan includes, among other things, a detailed analysis of our two most material sources of revenue: participation fees and activity fees.

IFRS 16, *Leases*

In January 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 all associated interpretations.

The standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. 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.

Under the standard, all leases will be on the balance sheet of lessees, except short-term leases and leases of low value items.

As the OSC has lease arrangements, there may be an increase to both assets and liabilities upon adoption of the standard, and potentially changes to the timing of recognition and classification of expenses associated with the lease arrangements. The OSC is analyzing the standard to determine its impact on the OSC's financial statements.

To ensure effective implementation of the standard, an internal cross-functional team, reporting to the Audit and Finance Committee, will be engaged in implementing a comprehensive transition plan.

ONTARIO
SECURITIES
COMMISSION

Ontario

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