



**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 2014 fiscal year ended March 31, 2014. 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 2014 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.

MD&A Contents

27

About the OSC

28

Operating results

34

Liquidity and financial position

38

2015 Strategy

39

Critical accounting estimates

39

Risks and risk management

40

Internal control over financial reporting (ICFR)

Important information about this MD&A

- The information in this MD&A is prepared as of June 3, 2014.
- 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 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 2014 Notes to the Financial Statements.
- All financial information related to 2013 and 2014 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 analysis of components may not sum to the analysis for the grouped components.

About the OSC

A summary of our role, mandate and goals

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

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

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

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

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

Cooperative capital markets regulator

On September 19, 2013, the Ministers of Finance of Ontario, British Columbia and Canada announced the establishment of a cooperative capital markets regulatory system (CCMR). Since then, Ontario, British Columbia and the federal government have been working collaboratively to develop proposed legislation and an agreement, as they move toward operationalizing the CCMR by July 1, 2015. The OSC continues to dedicate significant staff resources to the CCMR work.

Mandate

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

Vision

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

Goals

1. Deliver strong investor protection
2. Deliver responsive regulation
3. Deliver effective enforcement and compliance
4. Support and promote financial stability
5. Run a modern, accountable and efficient organization

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

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. In prior years, we accumulated a general operating surplus, which we plan to eliminate by March 31, 2016 through planned operating deficits, and investments in information technology (IT) and related Property, plant & equipment.

In 2014, our general operating surplus increased slightly by \$1.2 million as a result of extensive cost reductions relative to our 2014 plan. Some of these reductions were permanent in nature, while others will be realized in 2015. Despite adding to the surplus in

2014, we are on track to reduce the general operating surplus as planned by 2016.

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

Selected three-year annual information

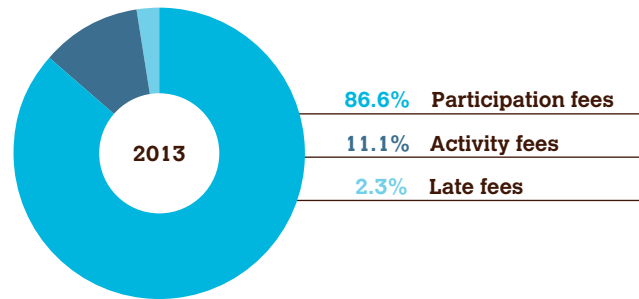
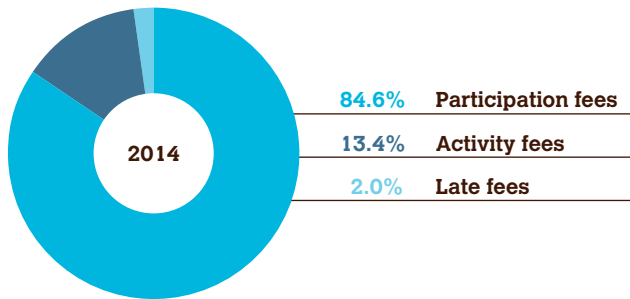
(Thousands)	2014	2013	2012
Revenue	\$98,677	\$87,278	\$85,638
Expenses	97,663	96,052	91,138
Excess/(Deficiency) of revenue over expenses (before recoveries)	\$1,014	\$(8,774)	\$(5,500)
Recoveries of enforcement costs	508	1,245	1,139
Excess/(Deficiency) of revenue over expenses	\$1,522	\$(7,529)	\$(4,361)
Remeasurement loss on defined benefit pension plans (IAS 19)	(290)	(287)	(319)
Other comprehensive income/(loss)	\$1,232	\$(7,816)	\$(4,680)
General surplus	\$6,540	\$5,308	\$13,123
Property, plant & equipment	\$6,940	\$7,775	\$1,877

Revenue

Fee increases resulted in higher total revenue of \$98.7 million in 2014, up \$11.4 million (13.1%) from total revenue of \$87.3 million in 2013. Higher revenue is attributed to the higher fee rates under the new fee rules, which came into effect in April 2013. However, total revenue for the year was under plan by \$2.5 million (2.5%),

with lower regulatory fee revenue in most categories. Participation fees account for 45% of the variance, while activity fees and late fees account for 21% and 29% of the variance, respectively. This is a result of a softer than expected market.

(Thousands)	% of 2014 Revenue	2014	2013	Change	% Change
Participation fees	84.6%	\$83,267	\$75,310	\$7,957	10.6%
Activity fees	13.4%	13,208	9,616	3,592	37.4%
Late fees	2.0%	1,966	2,004	(38)	-1.9%
Total fees	100.0%	\$98,441	\$86,930	\$11,511	13.2%
Interest income		128	237	(109)	-46.0%
Miscellaneous		108	111	(3)	-2.7%
Total revenue		\$98,677	\$87,278	\$11,399	13.1%



About our fees

- **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. Participation fees are based on a reference fiscal year, where future participation fees are indexed to a prior fiscal year's results. Fees are calculated using an increasing tiered structure based on average market capitalization for issuers and revenues for registrants. 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 for requests, such as making changes to a registration or searching for records. Activity fees are flat-rate fees based on the estimated direct cost for the OSC to review documents and respond to requests.

- **Late fees** are charged when market participants submit filings after applicable filing deadlines, and/or are late paying the fees related to a filing.

Our fee structure

The OSC is funded by fees from market participants. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 and 13-503. The current fee rules are effective from April 1, 2013 to March 31, 2016. We plan to balance our budget over each three-year fee cycle, and work to address unfavourable revenue variances throughout each year as identified (as was done in the current year).

We charge two types of regulatory fees: participation fees and activity fees. Under the current fee rules, participation fees increase 11.6% per year for reporting issuers and 4.7% per year for registrants. These increases are to better align revenue generated by each group with their participation in Ontario's

capital markets and costs incurred by the OSC for each group. Activity fees were revised to reflect the costs associated with providing the related services. There were no changes to late fees for issuers and registrants.

The current fee rules introduced the concept of a reference year as the basis for calculating participation fees. In February 2014, the OSC granted fee relief to certain market participants whose revenue or market capitalization have decreased significantly since their reference fiscal year. We are also re-examining our fee rules in 2015, one year earlier than originally planned. This is to ensure the fee rules remain appropriate, while allowing us to carry out our regulatory work and remain financially stable.

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

Participation fees

2013 Plan		\$80.0 M
2013 Actual		\$75.3 M
2014 Plan		\$84.4 M
2014 Actual		\$83.3 M
2015 Plan		\$87.4 M

Variance from prior year: Participation fee revenues were \$8.0 million (10.6%) higher in 2014 than in 2013, primarily due to a \$4.3 million increase from reporting issuers, a \$2.7 million increase from registrants, and \$1.0 million from marketplaces and other entities (which were required to pay participation fees for the first time in 2014).

Variance from current year plan: Participation fee revenues were \$1.1 million (1.3%) lower than the 2014 plan. Issuer participation fees were under plan by \$0.4 million (1.1%) due to the impact of fee relief granted to certain reporting issuers. Registrant participation fees were under plan by \$0.6 million (1.2%) due to registrant firm amalgamations and fee relief granted to certain registrants. Participation fees from marketplaces and other entities were \$0.2 million (16.6%) lower due to netting of fees paid by marketplaces and other entities that also pay participation fees as registrants.

2015 plan: The 2015 plan for participation fees totals \$87.4 million: \$37.7 million from issuers, \$48.4 million from registrants and \$1.3 million from marketplaces and other entities. This represents a \$4.1 million (5.0%) increase from 2014 actual results and a \$3.0 million (3.6%) increase from the 2014 plan, mainly due to the annual increase in participation fee rates for issuers and registrants under the fee rules.

Activity fees

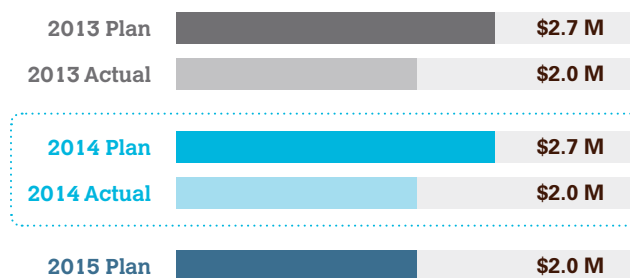
2013 Plan		\$10.5 M
2013 Actual		\$9.6 M
2014 Plan		\$13.7 M
2014 Actual		\$13.2 M
2015 Plan		\$11.6 M

Variance from prior year: Activity fee revenues were \$3.6 million (37.4%) higher this year than the prior year. This was primarily due to a \$2.3 million increase from reporting issuers, a \$0.5 million increase from registrants and \$0.7 million of new activity fees attributable to marketplaces and other entities introduced under the new fee rules. Similar to participation fees, the increase in activity fees can be attributed to increased fee rates and new fees, as described above.

Variance from current year plan: Activity fee revenues were \$0.5 million (3.9%) lower than plan for the current year. Issuer activity fees were under plan by \$0.7 million (9.3%). Registrant activity fees were under plan by \$0.3 million (5.4%). This was a result of lower than expected filings of prospectuses and applications for exemptive relief due to a softer than expected market. Activity fees attributable to marketplaces and other entities were \$0.5 million (249.5%) higher than plan as these fees were introduced at the beginning of fiscal 2014 and volumes in this category were difficult to predict.

2015 plan: The 2015 plan for activity fees totals \$11.6 million: \$5.1 million from issuers, \$6.5 million from registrants and \$0 from marketplaces and other entities. This represents a \$1.6 million (12.5%) decrease from the current year actual results and a \$2.1 million (15.9%) decrease from the 2014 plan. While activity volumes are expected to decrease overall, approximately one-third of the decrease is based on the expectation that marketplaces and other entities will have no filings in 2015.

Late fees



Variance from prior year: Late fee revenues were consistent with last year's results.

Variance from current year plan: Late fee revenues were \$0.7 million (27.1%) lower than plan for the current year. This was mainly due to fewer than expected late filings of insider trade reports. In addition, the OSC is no longer entitled to late fees from insiders where the Alberta Securities Commission (ASC) is principal regulator.

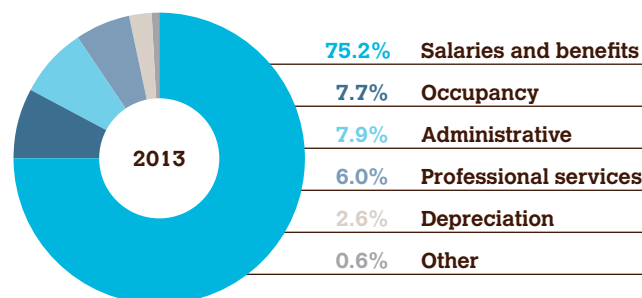
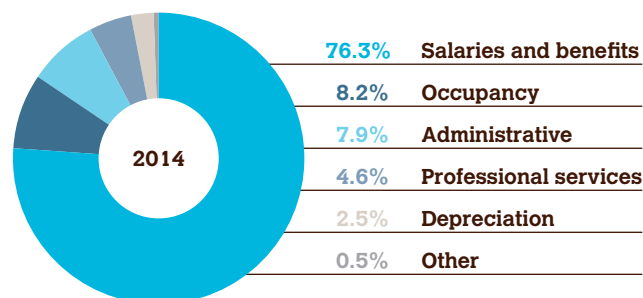
2015 plan: The 2015 plan for late fees totals \$2.0 million. This is in line with the current year's results.

Expenses

In 2014, our total expenses were \$97.7 million, up \$1.6 million (1.7%) from \$96.1 million in 2013 (excluding Recoveries of enforcement costs). Total expenses for the year were under plan by \$6.9 million (6.6%) (before enforcement cost recoveries) as a result of cost cutting and deferral initiatives to align

expenses with revenue. Targeted underspending in Salaries and benefits accounted for 34% of the variance, while 32% related to underspending in Professional services. Other areas of underspending included Administrative expenses (19%) and Depreciation (8%).

(Thousands)	% of 2014 Expenses	2014	2013	Change	% Change
Salaries and benefits	76.3%	\$74,471	\$72,222	\$2,249	3.1%
Occupancy	8.2%	7,997	7,434	563	7.6%
Administrative	7.9%	7,761	7,607	154	2.0%
Professional services	4.6%	4,446	5,767	(1,321)	-22.9%
Depreciation	2.5%	2,481	2,461	20	0.8%
Other	0.5%	507	561	(54)	-9.6%
	100.0%	\$97,663	\$96,052	\$1,611	1.7%
Recoveries of enforcement costs		(508)	(1,245)	737	-59.2%
Total expenses (net of recoveries)		\$97,155	\$94,807	\$2,348	2.5%



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

Salaries and benefits

2013 Plan		\$75.0 M
2013 Actual		\$72.2 M
2014 Plan		\$76.9 M
2014 Actual		\$74.5 M
2015 Plan		\$77.9 M

Variance from prior year: Salaries and benefits were \$2.2 million (3.1%) higher this year than the prior year. This was a result of an increase in the average number of active positions coupled with salary increases implemented at the beginning of the year.

Variance from current year plan: Salaries and benefits were \$2.5 million (3.2%) lower than plan for the current year. This was a result of targeted cost cutting measures, including maintaining vacancies for a longer than expected period of time, where possible.

2015 plan: The 2015 plan for salaries and benefits totals \$77.9 million. This represents a \$3.5 million (4.7%) increase from the current year actual results and a \$1.2 million (1.6%) increase from the 2014 plan. The increase reflects the expectation that most of the vacancies will be filled in 2015.

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

Occupancy

2013 Plan		\$7.8 M
2013 Actual		\$7.4 M
2014 Plan		\$8.3 M
2014 Actual		\$8.0 M
2015 Plan		\$8.1 M

Variance from prior year: Occupancy expenses were \$0.6 million (7.6%) higher this year than the prior year. This was a result of the new lease agreement that came into effect in August 2012, which reflects a higher rental rate.

Variance from current year plan: Occupancy expenses were \$0.3 million (3.4%) lower than plan for the current year as a result of a reduction in property taxes included in our space lease costs.

2015 plan: The 2015 plan for occupancy expenses totals \$8.1 million, which is in line with spending in 2014.

Administrative

2013 Plan		\$8.0 M
2013 Actual		\$7.6 M
2014 Plan		\$8.5 M
2014 Actual		\$7.8 M
2015 Plan		\$8.5 M

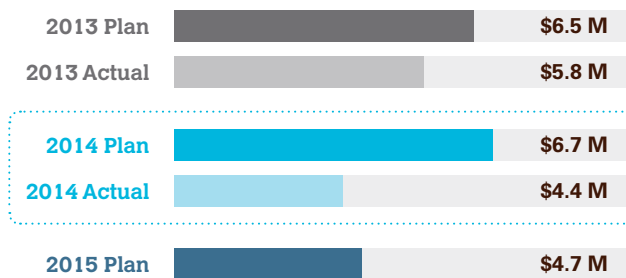
Variance from prior year: Administrative expenses were \$0.2 million (2.0%) higher this year than the prior year. This was a result of higher information services costs to support our research and analysis.

Variance from current year plan: Administrative expenses were \$0.7 million (8.5%) lower than plan for the current year. This was primarily the result of reduced spending on training initiatives, coupled with reduced maintenance costs on IT due to the deferral of planned costs.

2015 plan: The 2015 plan for administrative expenses totals \$8.5 million. This represents a \$0.7 million (9.3%) increase from the current year actual results, due to additional maintenance costs for our information systems deferred from 2014.

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

Professional services



Variance from prior year: Professional services expenses were \$1.3 million (22.9%) lower this year than the prior year. This was due to lower spending on consulting and other support on Enforcement matters, compared to 2013, which included additional spending on matters related to the emerging markets.

Variance from current year plan: Professional services expenses were \$2.2 million (33.3%) lower than plan for the current year as a result of targeted underspending and deferral of certain initiatives. In addition, specialized services were not required for specific Enforcement cases.

2015 plan: The 2015 plan for professional services expenses totals \$4.7 million. This represents a \$0.2 million (5.2%) increase from the current year actual results and a \$2.0 million (29.8%) decrease from the 2014 plan as a result of management's focus on maintaining costs at 2014 levels, where possible.

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 2014, total CSA spending on shared projects was \$1.9 million (\$1.9 million in 2013). The OSC contributed \$0.7 million (\$0.7 million in 2013). CSA shared costs expenses incurred by the OSC are included in professional services expenses.

CSA project costs are allocated to each CSA member based on the population of its jurisdiction as a percentage of all participating jurisdictions. All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2014, the OSC contributed \$0.3 million (\$0.3 million in 2013) to support the CSA Secretariat.

Depreciation



Variance from prior year: Depreciation expense was \$2.5 million, in line with the prior year.

Variance from current year plan: Depreciation expense was \$0.6 million (18.9%) lower than plan for the current year. This was because renovation costs and information systems purchases, which are capitalized, were incurred later than planned.

2015 plan: The 2015 plan for depreciation expense totals \$2.8 million. This represents a \$0.3 million (11.6%) increase from the current year actual results as new purchases begin to be depreciated.

Liquidity and financial position

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

Liquidity

Cash

2013		\$11.2 M
2014		\$9.5 M

At March 31, 2014, the OSC held \$9.5 million in Cash (\$11.2 million in 2013) and \$20 million in Reserve fund assets (\$20 million in 2013), for a combined total of cash and cash equivalent resources available of \$29.5 million (\$31.2 million in 2013).

At March 31, 2014, the OSC had current assets of \$14.3 million (\$15.9 million in 2013) and current liabilities of \$18.3 million (\$17.1 million in 2013) for a current ratio of 0.8:1 (0.9:1 in 2013). The slightly lower current ratio is due to the reduction in our cash balance as described below.

The OSC uses multi-year forward-looking operational forecasts to anticipate potential future cash requirements. As forecasted, a higher amount was drawn on the line of credit and for a longer period in 2014 than in 2013. This resulted in an increase in interest paid on the line of credit.

The OSC's cash position decreased \$1.7 million (14.8%) from 2013 as a result of an operational surplus in 2014 that was more than offset by investment in leasehold improvements and investment in our IT infrastructure. In 2014, we had an excess of revenue over expenses of \$1.5 million (\$7.5 million deficiency in 2013), and our year-end surplus was \$6.5 million (\$5.3 million in 2013).

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

Cash flows

In 2014, cash flows from operating activities produced an inflow of \$5.4 million (\$4.1 million outflow in 2013). Property, plant & equipment investments in 2014 consumed \$6.9 million (\$7.8 million in 2013). Financing activities, which consisted of interest on the line of credit, utilized \$130,000.

Approximately 73% 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 end of December of each year. The OSC currently uses two key tools to manage temporary negative cash positions: a \$20 million general operating reserve and a \$35 million revolving line of credit. Subsequent to March 31, 2014, approval was received to replace the \$35 million revolving line of credit with a \$52 million revolving line of credit. See **Note 13** of the financial statements for details.

In 2014, we used all of our \$20 million in Reserve fund assets and \$24 million of our revolving line of credit to fund operations. We repaid the full outstanding balance of the line of credit at the start of January 2014, when most registrant participation fees were received. We restored the \$20 million in Reserve funds assets in February 2014.

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 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 the OSC faces relating to financial instruments, see **Note 4** of the financial statements.

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

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

Financial position

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

Trade and other receivables

Trade and other receivables were \$3.5 million in 2014, consistent with the prior year (\$3.6 million in 2013).

See **Note 5** of the financial statements for further details on Trade and other receivables.

Prepayments

Prepayments totaled \$1.3 million (\$1.1 million in 2013), reflecting a 14.4% increase as a result of prepaying a five-year maintenance contract to realize significant savings compared to annual prepayment terms.

Funds held pursuant to designated settlements and orders

2013		\$19.8 M
2014		\$18.6 M

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

The OSC may designate funds under settlement agreements and orders from enforcement proceedings to be allocated as the OSC may determine. This includes allocating money to harmed investors, where an allocation can be reasonably made, and for investor education. Funds not designated when settlements are approved or orders are made must be paid to the Consolidated Revenue Fund of the Government of Ontario.

In 2014, \$61.7 million in orders was assessed (\$80.2 million in 2013). The OSC recorded \$3.8 million of that money in Funds held pursuant to designated settlements and orders (\$4.9 million in 2013). Of this amount, the OSC collected \$1.8 million in 2014 (\$3.2 million in 2013) and deemed \$1.9 million (\$1.7 million in 2013) as being collectible.

As authorized by its Board, the OSC distributed \$1.4 million (\$28.6 million in 2013 relating to an asset-backed commercial paper (ABCP) settlement) to harmed investors, \$3.3 million (\$3.9 million in 2013) to the Investor Education Fund (IEF) and \$0.5 million (\$0.5 million in 2013) to FAIR Canada.

At March 31, 2014, the accumulated balance of designated funds was \$18.6 million (\$19.8 million in 2013). Of this amount, \$13.9 million was held in cash (\$14.6 million in 2013) and \$4.7 million was deemed as being receivable (\$5.1 million in 2013). After considering funds set aside for possible allocation to harmed investors, \$8.4 million of the funds on hand is available for distribution.

See **Note 6** of the financial statements for details relating to the Funds held pursuant to designated settlements and orders, and **Note 19** for details relating to the IEF.

Collecting monetary sanctions

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

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. For example, in 2014, the OSC entered into an arrangement with the Canada Revenue Agency in relation to its Refund Set-Off program, where tax refunds otherwise payable can be withheld and diverted to the OSC to offset outstanding sanction amounts.

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.

2012	Assessed	Collected	% Collected
Settlements	\$12,085,450	\$2,055,816	17.0%
Contested hearings	26,901,021	1,000,000	3.7%
Total	\$38,986,471	\$3,055,816	7.8%

2013	Assessed	Collected	% Collected
Settlements	\$33,922,886	\$1,251,268	3.7%
Contested hearings	46,251,826	1,966,866	4.3%
Total	\$80,174,712	\$3,218,134	4.0%

2014	Assessed	Collected	% Collected
Settlements	\$16,010,927	\$1,230,469	7.7%
Contested hearings	45,664,682	538,300	1.2%
Total	\$61,675,609	\$1,768,769	2.9%

Net assets held for CSA Systems redevelopment (formerly Funds held for CSA Systems redevelopment)

2013		\$94.8 M
2014		\$115.7 M

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

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

Prior arrangement with CDS

CDS Inc. (CDS) operated the CSA Systems from their inception until January 13, 2014.

Current arrangement with CGI

Effective January 13, 2014, CGI Information Systems and Management Consultants Inc. (CGI) took over operation of the CSA Systems.

In general, the service provider arrangement has not changed significantly as a result of the transition of systems operations to CGI. Consistent with prior years, CSA Systems fee revenues were not included with OSC operations in 2014.

The net funds held by the OSC from previous operational surpluses under CDS – and those now being accumulated under CGI's operation of the CSA Systems – are reflected in the Statement of financial position as both a Non-current asset and an equal offsetting Non-current liability of \$115.7 million (\$94.8 million in 2013).

Management has determined that this presentation appropriately reflects the arrangement. See **Note 2(d)** of the financial statements for details on the judgments involved in management's determination of the appropriate accounting treatment for the Net assets held for CSA Systems redevelopment.

Designated Principal Administrator – Operations

Under the new operating agreement among the PAs, 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 use by market participants.

The Net assets held for CSA Systems redevelopment include surplus funds accumulated from CSA Systems operations received, held and managed by the DPA on behalf of the PAs. The use of these surplus funds is restricted by various agreements between the PAs.

CSA IT Systems Project Office

The CSA Systems business relationships with third-party technology providers are managed through the CSA IT Systems Project Office, which consists of employees of the OSC.

Net assets

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.

As at March 31, 2014, \$52.1 million (\$48.9 million in 2013) of the total cash funds included in the Net assets held for CSA Systems redevelopment was attributable to SEDAR and SEDI, and \$59.9 million (\$45.7 million in 2013) was attributable to NRD.

See **Note 7** and **Note 17(a)** of the financial statements for details relating to the Net assets held for CSA Systems redevelopment, including current and prior year operating results.

Reserve fund assets

Since 2001, the OSC has held \$20.0 million in Reserve fund assets 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

2013		\$9.3 M
2014		\$13.7 M

Property, plant & equipment increased 47.7% to \$13.7 million (\$9.3 million in 2013). The increase is the result of planned investment in leasehold improvements and investment in our IT infrastructure.

See **Note 9** of the financial statements for details relating to Property, plant & equipment.

Trade and other payables

2013		\$17.1 M
2014		\$18.3 M

Trade and other payables increased 7.3% to \$18.3 million (\$17.1 million in 2013). An increase in Trade payables for 2014 from the prior year due to IT capital expenditures purchased at year end was partially offset by a decrease from the prior year in Other accrued expenses relating to the office renovation fee-for-service contract accruals at March 31, 2013.

See **Note 10** of the financial statements for details relating to Trade and other payables.

The OSC's lease commitments are outlined in **Note 11** of the financial statements.

Pension liabilities

2013		\$2.7 M
2014		\$3.1 M

The accrued supplementary pension plans' defined benefit obligation pension liability of \$3.1 million (\$2.7 million in 2013) represents future obligations for supplementary pension plans for present and past Chairs, and Vice-Chairs. Amendments to IAS 19, *Employee Benefits* are the main reason for the increase. The OSC's related expenses for the year were \$0.2 million (\$0.2 million in 2013).

For further details on the supplementary pension plan and related defined benefit obligation, including the impact of adoption of the revisions to IAS 19, effective April 1, 2013, see **Note 12(b)** of the financial statements.

2015 Strategy

Our plans and budget for fiscal year 2015

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.

On April 3, 2014, the OSC published its draft 2015 Statement of Priorities. It sets out nine key priorities that are continuing from the previous year and three new priorities that are intended to reflect the evolution of the marketplace and public input: corporate governance – women on boards, regulatory burden reduction, and timely and fair adjudication.

The draft Statement of Priorities was open for public comment until June 1, 2014. The draft document is available on the OSC website at www.osc.gov.on.ca.

The Statement of Priorities is our cornerstone accountability document.

2015 Budget

The 2015 OSC budget is focused on investing in the key strategies identified in the 2012-15 OSC Strategic Plan, while maintaining fiscal responsibility. In setting this budget, the OSC has taken a strategic approach to assess areas where resources can be reduced or the work can be done differently or more efficiently, and to refocus resources to priority areas. Increased use of technology is a key element of the OSC's strategy.

As a result, the 2015 budget is 0.6% lower than the 2014 budget. Salaries and benefits, which comprise \$77.9 million (75.7%) of the budget, reflect an increase of \$3.5 million (4.7%) over 2014 spending. This is due to:

- budgeting of full-year costs for vacancies and staff hired throughout 2014
- new positions approved to achieve the OSC's strategic initiatives, including:
 - bringing in-house computer forensic support for enforcement cases
 - addressing the expected increase in hearing days
 - supporting the work to upgrade our IT Infrastructure

The significant decrease in the capital budget largely reflects the completion of the build-out of additional office space, which took place in 2013 and 2014.

The budget also includes an investment to upgrade and expand our information technology, including completing the replacement of our network. In addition, funds have been allocated to implement a refresh of our mobile devices program.

2015 Plan

(Thousands)	2013-14 Budget	2013-14 Actual	2014-15 Budget	2014-15 Budget to 2013-14 Budget		2014-15 Budget to 2013-14 Actual	
				Change	% Change	Change	% Change
Revenue	\$101,160	\$98,677	\$101,325	\$165	0.2%	\$2,648	2.7%
Expenses	103,552	97,155	102,976	(576)	-0.6%	5,821	6.0%
(Deficiency)/Excess of revenue over expenses	\$(2,392)	\$1,522	\$(1,651)	741		\$(3,173)	
Capital expenditures	\$5,661	\$6,940	\$3,349	\$(2,312)		\$(3,591)	

For details on 2015 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 management 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 IEF and the Net assets held for CSA Systems redevelopment.

Sources of estimation uncertainty primarily consisted of the Supplemental pension plan defined benefit obligation, Designated settlements and orders, and Recoveries of enforcement costs.

See **Note 2(d)** of the financial statements for details relating to judgments and sources of estimation uncertainty that impact the OSC.

Risks and risk management

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

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

Strategic risks

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

Our Strategic Risk Inventory is a key input to our risk management and business planning process.

Strategic Risk Inventory

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

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

Business risks

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

Operational risk can include risk to the OSC's reputation. Reputational risk is addressed by 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.

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

Systems risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs extensive security and vulnerability assessments to highlight potential areas of risk. The results of these assessments 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 each system. CGI is also required to have an operating disaster recovery site for these systems and to test it annually.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See **Note 17** of the financial statements for details. No material change is expected in the volume of fees collected through these systems. In fiscal 2015, the CSA IT Systems Project Office intends to issue a competitive tender for redeveloping these systems.

Business continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. An offsite facilities test was successfully performed in June 2013. The BCP is continually reviewed and refined, and includes strategies to effectively address various market disruption scenarios.

Financial risk

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

The fee rules for fiscal years ending March 31, 2014, 2015 and 2016 introduced the concept of a reference fiscal year to calculate participation fees. This was expected to significantly reduce the impact of market fluctuations on participation fee revenue. However, market uncertainties continue to affect our ability to precisely forecast revenue. These inherent variances may continue, but are not expected to impair our operations.

Legal risk

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

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 effective risk management practices, risk-based internal controls, good governance and sound business practices.

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

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 (1992 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, 2014. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

In the current year, new verification of participation fee revenue internal controls were implemented to address a control improvement identified in 2013. There have been no other changes that occurred during the most recent year ended March 31, 2014, 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.

The OSC plans to transition to the 2013 Internal Control – Integrated Framework issued by COSO for 2015.