Financial Services Commission of Ontario

Commission des services financiers de l'Ontario

Ontario

Financial Services Commission of Ontario
Annual Report
2018-2019

Financial Services Commission of Ontario
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CONTENTS

1. Corporate Overview

Please note that on June 7, 2019 the Financial Services Commission of Ontario (FSCO) ceased operation upon the launch of the new Financial Services Regulatory Authority of Ontario (FSRA) on June 8, 2019. This annual report covers the period from April 1, 2018 to June 7, 2019.

As a result of this transition, some of the information presented in this report will cover the period of April 1, 2018 through March 31, 2019 (the usual FSCO fiscal year) while some information will cover the period of April 1, 2018 to June 7, 2019 (usual fiscal year plus the period up to cessation of operations). The presentation of the data reflects the acquisition and extraction of industry data compiled at a specific point in time of either March 31, 2019 or June 7, 2019 and at the time of writing, could not be further manipulated.

About the Financial Services Commission of Ontario

The Financial Services Commission of Ontario (FSCO) is a regulatory agency accountable to the Minister of Finance, established by the *Financial Services Commission of Ontario Act, 1997* (FSCO Act). In Ontario, FSCO oversees:

- the insurance sector;
- pension plans;
- mortgage brokers;
- credit unions and caisses populaires;
- co-operative corporations;
- loan and trust companies; and
- the business and billing practices of health service providers that electronically invoice auto insurers for statutory accident benefits claims.

As a provincial regulator, FSCO enforces legislation, protects the public interest and supports a strong financial services and pensions industry.

As of March 31, 2019, FSCO regulated or registered:

- 304 insurance companies
- 6,935 pension plans
- 79 credit unions and caisses populaires
- 52 loan and trust corporations
- 1,237 mortgage brokerages
- 2,836 mortgage brokers
- 12,360 mortgage agents
- 211 mortgage administrators
- 4,929 accident benefit service providers
- 1,740 co-operative corporations

- 56,237 insurance agents
- 6,191 corporate insurance agencies
- 2,236 insurance adjusters

FSCO by the numbers:

- 95,362 regulated entities
- 53,806 inquiries to the contact centre
- 1,281 market conduct complaints
- 356 enforcement actions against licensed entities
- $4,653,529 imposed in administrative monetary penalties
- 1,246,960 unique visitors to FSCO's website

Amalgamation with the Financial Services Regulatory Authority of Ontario

On June 29, 2017, the *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act) came into force. The Act establishes FSRA's role, including its basic governance and accountability structure, in regulating the sectors under its jurisdiction.

Effective June 8, 2019, FSCO's regulatory functions transferred to FSRA under the FSRA Act and *Bill 100 Protecting What Matters Most Act (Budget Measures), 2019*, which received Royal Assent from the Lieutenant Governor and came into force by the Ontario government.

The newly established FSRA was created as an Ontario Crown agency, which replaces and assumes all regulatory responsibilities for FSCO and the Deposit Insurance Corporation of Ontario (DICO).

FSRA regulates many sectors that are important to Ontario consumers and pension plan beneficiaries, including:

- property and casualty insurance
- life and health insurance
- credit unions and caisses populaires
- loan and trust companies
- mortgage brokers
- health service providers (related to auto insurance)
- pension plan administrators
- cooperative corporations
- financial planners and advisors (proposed)*

*The *Financial Professionals Title Protection Act, 2019* (FPTPA) was passed in May 2019, but the legislation had not yet been proclaimed as of June 7, 2019.

Regulatory framework

FSCO was established under the FSCO Act*.*

Using a risk-based approach to enforce legislation, FSCO regulates:

- the insurance sector, including service providers who invoice auto insurers for statutory accident benefit claims;
- pension plans;
- credit unions and caisses populaires;
- mortgage brokers;
- co-operative corporations; and
- loan and trust companies in Ontario.

FSCO's approach is outlined in its regulatory framework. Accountable to the Minister of Finance, FSCO also seeks approval for its projects and direction through the agency business plan and reports back on its core activities through its annual report.

Mandate

FSCO's mandate is to provide regulatory services that protect the public interest and enhance public confidence in the regulated sectors. A Mandate Letter from the Ontario Government was not transmitted to FSCO for the 2018-2019 fiscal year due to the transition of FSCO to FSRA.

Vision

To be an effective regulatory supervisor that protects the public interest in the financial services and pensions marketplace.

Structure

To support FSCO's mandate, the FSCO Act sets out a three-part structure: Commission; Superintendent of Financial Services; and Financial Services Tribunal.

- **Commission**: meets quarterly and provides oversight, including the review and approval of key FSCO planning, strategic and accountability documents.

- **Superintendent of Financial Services**: administers and enforces the FSCO Act and all other acts that confer powers or assign duties to the Superintendent.

- **Financial Services Tribunal**: acts as an expert independent adjudicative body. The Financial Services Tribunal's (FST) chair and vice-chairs are also the Commission's.

How we regulate

FSCO regulates using a risk-based approach to enforce legislation. Our regulatory framework describes what we do, how we do it, and why. It outlines how FSCO fulfills its legislative mandate by achieving regulatory outcomes, our core regulatory activities and the principles we follow when conducting regulatory activities. It also summarizes what FSCO expects from the businesses and individuals it licenses and registers, and what they can expect from FSCO in the regulatory process.

Our role is to provide balanced and transparent regulation to help ensure:

- consumers are treated fairly;
- pension plans are effectively managed on behalf of beneficiaries; and
- financial products and services satisfy the needs of the public.

FSCO's relevant statutes

- *Financial Services Commission of Ontario Act, 1997*
- *Automobile Insurance Rate Stabilization Act, 2003*
- *Insurance Act*
- *Compulsory Automobile Insurance Act*
- *Prepaid Hospital and Medical Services Act*
- *Registered Insurance Brokers Act*
- *Motor Vehicle Accident Claims Act*
- *Co-operative Corporations Act*
- *Credit Unions and Caisses Populaires Act, 1994*
- *Loan and Trust Corporations Act*
- *Mortgage Brokerages, Lenders and Administrators Act, 2006*
- *Pension Benefits Act*

Governance

FSCO is governed by a four-member Commission, consisting of the Superintendent of Financial Services, a part-time chair and two part-time vice-chairs. Each member is appointed for a fixed term by the Lieutenant Governor in Council. Appointments to the commission are made in accordance with the guidelines established by Ontario's Public Appointments Secretariat.

On June 8, 2019, FSRA replaced FSCO and DICO as an integrated, independent, and self-funded regulator for financial services and pensions.

The purposes of the commission are to provide regulatory services that protect the public interest and enhance public confidence in the regulated sectors. Regulated sectors consist of all:

- co-operative corporations to which the *Co-operative Corporations Act* applies;

- credit unions, caisses populaires and leagues to which the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA) applies;

- persons engaged in the business of insurance and governed by the *Insurance Act*;

- corporations registered or incorporated under the *Loan and Trust Corporations Act*;

- mortgage brokers registered under the *Mortgage Brokers Act*; or

- persons who establish or administer a pension plan within the meaning of the *Pension Benefits Act* (PBA), and all employers or other persons on their behalf who are required to contribute to any such pension plan.

The commission will make recommendations to the Minister on matters affecting the regulated sectors and provide the resources necessary for the proper functioning of the FST.

Membership

The commission consists of the chair and two vice-chairs appointed by the Lieutenant Governor in Council, and the Superintendent. The Superintendent is appointed under the *Public Service Act* and is the Chief Executive Officer of the Commission. The Lieutenant Governor in Council also appoints a director of arbitrations who is the Director.

If the chair of the Commission is absent or unable to act, or if the office of chair is vacant, the vice-chairs shall designate one of them to act in the place of the chair. That individual shall have the powers of the chair. If a vice-chair of the Commission is absent or unable to act, or if the office of a vice-chair is vacant, the chair of the Commission may designate a member of the Tribunal to act in the place of the vice-chair. That individual shall have the powers of a vice-chair.

Remuneration

Appointees to FSCO are remunerated on a per diem basis as follows: chair: $350 plus retainer; vice-chair: $250 plus retainer.

Name	**Position**	**Tenure**
Ian McSweeney	Chair (Part-time)	Sept. 13, 2017 to Sept. 12, 2019
Denis Boivin	Vice-Chair (Part-time)	Oct. 18, 2017 to Oct. 17, 2019

Bethune Whiston	Vice-Chair (Part-time)	April 11, 2018 to April 10, 2020
Brian Mills*	CEO, Superintendent of Financial Services	April 1, 2018 to June 7, 2019
Total Remuneration		$519,339

*Brian Mills was not eligible for per-diems as the full time Chief Executive Officer and Superintendent of the Commission.

Leadership

*As of March 31, 2019

Brian Mills, Chief Executive Officer and Superintendent of Financial Services

Marco Ciavatta, Sr. Manager & Special Advisor (Acting), Office of the CEO and Superintendent of Financial Services

Richard Tillmann, Sr. Manager & Special Advisor (Acting), Office of the CEO and Superintendent of Financial Services

Lester Wong, Deputy Superintendent (Acting), Pension Division

Anatol Monid, Executive Director, Licensing and Market Conduct Division

Tom Golfetto, Executive Director and Director of Arbitrations, Automobile Insurance Division

Peter Burston, Director, Regulatory Coordination Branch

John Avgeris, Director, Corporate Services Branch (Acting)

Abigail Dancey, Director (Acting), Strategic Communications Branch

Steven Rathwell, Director (Acting), Enterprise Business Solutions Branch

Employees

FSCO's staff all report directly or indirectly to the Superintendent of Financial Services, who is also FSCO's Chief Executive Officer. As at March 31, 2019, FSCO employed 361 full-time staff, including two staff at the FST and 25 at the Motor Vehicle Accident Claims Fund (MVACF). This total does not include legal services staff employed by the Ministry of the Attorney General. As of June 8, 2019, 246 FSCO employees had transferred to FSRA, a number that does not include the Ministry of the Attorney General staff, the two FST staff, or the 25 MVACF staff.

2. Activities and Achievements

Final Year in Review

The 23 activities and achievements listed below align with the 2018 to 2021 Government mandated priorities for FSCO with 11 of the 23 fulfilling regulatory activities (RA), 8 fulfilling program delivery priorities (PD), and 4 fulfilling the enabling functions (EF).

During its final fiscal year, April 1, 2018 through June 7, 2019, FSCO:

- Responded to 1,281 market conduct complaints for all regulated sectors. (RA)
- Imposed administrative penalties amounting to $4,653,529. (RA)
- Investigated sector issues for which the FST issued 29 written rulings. (PD)
- Addressed questions and issues raised by stakeholders and members of the public regarding Ontario's new funding rules that took effect May 1, 2018. (RA)
- Oversaw the adoption of the FST's new Rules of Practice and Procedure to reflect the pending change in regulator from FSCO to FSRA. (RA)
- Held public consultations throughout April and May 2018 in advance of the release of a new Superintendent's guideline to establish a common understanding of what it means to treat financial services consumers fairly. (EF)
- Held a consultation on the description of proposed Municipal Employees Pension Plan (MEPP) funding regulations – Bill 31. (EF)
- Released FSCO's 15th Report on the Funding of Defined Pension Plans in Ontario in April 2018. (PD)
- Participated in the development of a Credit Union Market Conduct Review by the Canadian Credit Union Association (CCUA), released in April 2018. (PD)
- Held a Special Meeting on the conversion of Single Employer Pension Plans (SEPPs) to Jointly Sponsored Pension Plans (JSPPs) in June 2018. (PD)
- Helped to develop and publish Administrative Penalty (AMP) Guidelines in November 2018, with two types of penalties to be gradually phased in. (RA)
- Led a Defined Benefits Pension Plans Funding Review, which released funding recommendations in February 2019. (PD)
- Participated in public consultations on Syndicated Mortgage Investments. (PD)

- Participated in the negotiation of a Canadian Association of Pension Supervisors and Administrators (CAPSA) agreement on funding. (EF)

- Worked on the CAPSA Committee's Communique on Review of Leverage Use within pension plans, and Guidelines 8 and 9 on Defined Contribution Plans and Searching for Missing Members, released in February 2019. (RA)

- Worked with CAPSA toward reaching a Multilateral Agreement and CAPSA Guideline 2 on Electronic Communications. (RA)

- Campaigned for public fraud awareness, education and financial literacy, which was the topic at the FSCO annual pension forum. (PD)

- Worked on initiatives involving third parties, including CAPSA, Canadian Council of Insurance Regulators (CCIR), General Insurance Statistical Agency (GISA), Mortgage Broker Regulators' Council of Canada (MBRCC), and Canadian Insurance Services Regulatory Organizations (CISRO). This allowed FSCO and other regulators to stay informed of regulatory and industry developments, and develop and influence harmonization efforts to improve regulation across the country. (RA)

- Participated in CCIR's Working Groups on Regulatory Harmonization and Segregated Funds and a position paper that led to a prototype statement and recommendations in June 2018. (RA)

- Led and supported significant national initiatives as part of FSCO's role in national regulatory organizations, including hosting a pilot secretariat for CISRO. (RA)

- Released $6.589 million in unused capital funding, related to the defunct Enterprise Development Program, for FSRA's IT capital investments strategy. (PD)

- Worked with FSRA's transition team to identify 1,100 pieces of guidance with a view to reduce regulatory burden across non-securities financial services sector. (RA)

- Successfully transitioned regulatory responsibilities to the new FSRA as of June 7, 2019. (EF)

3. Operational Performance

Performance Measures and Targets

FSCO's performance standards are an established set of targets, developed in consultation with stakeholders. These can be categorized as:

- Regulatory functions:
  - applications and filings
  - licensing and registration
  - monitoring and compliance

- Enabling functions:
  - general services
  - communications

FSCO monitors its performance regularly against these standards and reports the results annually on its website. Where targets have not been met, FSCO reviews its processes to improve service delivery and develops mitigation strategies (for targets missed by five per cent or more).

FSCO also has key service standards related to its regulatory and corporate functions to ensure it is providing high quality, cost-effective services.

Licensing and Market Conduct Performance Results

FSCO's comprehensive performance measures and targets, aligned with our strategic priorities, illustrate our operational performance during the past fiscal period.

Applications and Filings: Automobile Insurance Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Applications for Private Passenger Automobile (PPA) Insurance Rate and Risk Classification	**Simplified Filings** that are complete based on documentation requirements set out in FSCO Filing Guidelines, will be reviewed and approved within 30 days, excluding timeout periods. (Changes proposed are in accordance with Simplified Filing Guidelines and CLEAR Simplified Filing Guidelines.)	90%	90%	87%

Filings (Approved)				
	Standard Filings that are complete based on documentation requirements set out in PPA Major Filing Guidelines, will be reviewed and approved within 45 days, excluding timeout periods. (Changes proposed consist of base rate changes uniform by territory and anniversary rate capping filings.)	90%	90%	N/A
	Comprehensive Filings that are complete based on documentation requirements set out in the PPA Major Filing Guidelines, will be reviewed and approved within 60 days, excluding timeout periods. (Changes proposed include non-uniform base rate changes, changes to differentials and risk classification system changes using company existing modeling techniques.)	90%	90%	81%
	Complex Filings that are complete based on documentation requirements set out in the PPA Major Filing Guidelines, will be reviewed and approved within 90 days, excluding timeout periods. (Changes proposed consist of introduction of predictive modeling.)	90%	90%	88%
Application for Third Party Liability Claims	Accurately completed **Form 1** (payment under Section 7). Applications will be reviewed and processed within 20 days.	85%	85%	100%

Applications and Filings: Motor Vehicle Accident Claims Fund Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Applications for Third Party Liability Claims	Accurately completed **Form 1** (payment under Section 7) applications will be reviewed and processed within 20 days.	100%	100%	100%

In 2018-19, the MVACF implemented an automated workflow to streamline Form 1 processing. Applications were reviewed and processed more efficiently due to this modernized process.

Applications and Filings: Pension Plans Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Applications for Defined Benefit Pension Plans	Complete and compliant **Surplus Applications** will be reviewed and approved within 150 business days.	95%	95%	N/A
	Complete and compliant **Wind-up Applications** will be reviewed and approved within 120 business days.	95%	95%	100%
	Complete and compliant **Transfer of Assets Applications** will be reviewed and approved within 120 business days.	95%	95%	N/A
	Complete and compliant **Refund of Employer Overpayment Applications** will be reviewed and approved within 90 business days.	95%	95%	N/A

	Complete and compliant **Refund of Member Contribution Applications** will be reviewed and approved within 60 business days.	95%	95%	N/A
Applications for Defined Contribution Pension Plans	Complete and compliant **Refund of Employer Overpayment Applications** will be reviewed and approved within 60 business days.	95%	95%	N/A
	Complete and compliant **Refund of Member Contribution Applications** will be reviewed and approved within 30 business days.	95%	95%	N/A
	Complete and compliant **Transfer of Assets Applications** will be reviewed and approved within 60 business days.	95%	95%	100%
	Complete and compliant **Wind-up Applications** (full and partial) will be reviewed and approved within 60 business days.	95%	95%	100%
	Complete and compliant **Surplus Withdrawal Applications** (wind-up and on-going) will be reviewed and approved within 120 business days.	95%	95%	N/A

Licensing and Registration: Application for Insurance Agent Licensing and Insurance Companies IVIC Submission Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Application for Insurance Agent Licenses	Electronic **applications for new and renewal insurance agent** licences that are complete and meet all requirements will be reviewed and approved within five business days.	100%	100%	77%
Insurance Companies IVIC Submissions	Approval of **an IVIC submission** within 30 days of receipt.	100%	100%	97%

FSCO's improved risk identification practices for insurance agent applications has led to an increase in files being selected for in-depth screening. FSCO is taking steps to review business systems and practices, so that insurance agent licensing timelines are not impacted by the detailed assessments of these applications.

Monitoring and Compliance: Examinations Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Examinations	**Final examination reports** will be issued within 30 business days of the completion of routine onsite examinations.	95%	95%	91%

General Services Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Telephone	All **calls will be answered** by the third ring during core business hours or directed to voicemail.	100%	100%	98%
	All **calls will be returned** by the next business day.	100%	100%	67%
Correspondence	**Correspondence will be answered** within 15 business days of receipt.	100%	100%	100%
	If a conclusive response is not possible within the standard time, **an interim acknowledgement will be provided** within five business days of receipt.	100%	100%	67%
Quality Service Complaints	When received in writing or through our website, where a reply is requested and contact information has been provided, **complaints will be acknowledged** within five business days.	100%	100%	99%
	When received in person or by telephone, where a reply is requested and contact information has been provided, **complaints will be acknowledged** within two business days.	100%	100%	100%
	Complaints will be concluded within 15 business days of receipt.	100%	100%	100%

Sectoral Complaints	**Complaints will be acknowledged** regarding one of the sectors that FSCO regulates within five business days.	100%	100%	92%
	Complaints will be concluded regarding one of the sectors that FSCO regulates within 150 days.	90%	90%	N/A
	Complaints will be concluded regarding one of the sectors that FSCO regulates within 365 days.	98%	98%	N/A

FSCO continues to be committed to delivering high quality customer service. Going forward, FSCO will make efforts to review the tools and supports required to achieve its performance standards.

Communications Performance Results

Service	Standard	2018-19 Target (%)	2018-19 Results (%)	2017-18 Results (%)
Website Response	All inquiries directed to the web manager e-mail account will be **concluded and/or responded to** within five business days.	**100%**	**100%**	**100%**

Service	Standard	**2018-19 Target (%)**	**2018-19 Results (%)**	**2017-18 Results (%)**
Accessible Formats	FSCO will respond within five business days to **requests for web content in accessible format**. Following discussions with the requestor, FSCO will provide agreed-upon web content (except online applications), in an accessible format within five business days.	**100%**	**N/A***	**N/A**
	FSCO will respond within five days to **requests for print publications in an accessible format**. Following discussions with the requestor, FSCO will provide agreed-upon publication material in an accessible format within five business days.	**100%**	**N/A**	**N/A**

*Data is listed as not applicable when no inquires requesting accessible web content or print publications were received during the specified timeframe.

4. Financial Performance

The financial results cover the period from April 1, 2018 to June 7, 2019, FSCO's final year of operation. The work was done in preparation for the transition of regulatory authority to FSRA on June 8, 2019.

Following an audit of the FSCO financial statements, the Office of the Auditor General of Ontario (AG) stated that the financial statements were found to present fairly the financial position of the FSCO as at June 7, 2019. The AG reviewed:

- the financial statements of the FSCO;
- the statements of operations;
- changes in net assets and cash flows for the period of April 1, 2018 to June 7, 2019; and
- notes to the financial statements, including a summary of significant account policies.

Expenditures

FSCO recovers most of its costs from the sectors it regulates through a combination of assessments and fees. Under the FSCO Act, the Lieutenant Governor in Council may assess all businesses, individuals and pension plans that form part of a regulated sector with respect to expenditures incurred by the Ministry of Finance, the Commission and the FST. The Minister of Finance is authorized to establish fees related to the regulated services provided by FSCO.

The government supports co-operative corporations by providing an allocation of $500,000 to help cover the costs of administering the sector.

As a government agency, FSCO receives an annual spending authority through the government planning process, based on needs and government priorities. FSCO files quarterly reports on its spending. The Office of the Auditor General of Ontario audits FSCO's annual financial statements.

In 2018-19, FSCO's expenditures totaled $77.9 million, up by $21.4 million or 38 per cent from expenditures of $56.5 million the previous year. This is partially the result of the fiscal period covering April 1, 2018 – June 7, 2019 as opposed to a traditional fiscal year.

With respect to Dispute Resolution Services (DRS), FSCO spent approximately $100,000 on arbitration services contracts in 2018-19, compared with $1 million in 2017-18 and $23 million in 2016-17. Since FSCO transferred its DRS activities to the Licence Appeal Tribunal (LAT) in April 2016, the number of open files has been decreasing steadily, all mediation files have been closed and fewer arbitration services have been required.

For more information about FSCO's expenditures, see the audited financial statements and notes, starting on page 56.

5. Priorities

Statement of Priorities

Section 11 of the FSCO Act, requires that FSCO publish a statement each year setting out its proposed priorities and the reasons for adopting them.

The 2018 Statement of Priorities provides a brief overview of FSCO's areas of focus in the coming year, as does the 2019-2022 FSCO Business Plan. Supporting the transition to the new regulatory authority will be much of FSCO's focus. Where resources allow, FSCO will also build on last year's efforts and successes in three key priority areas, aimed at:

- empowering consumers;
- fostering innovation; and
- providing leadership on the national stage.

FSCO is also committed to working with the government and recognizes the need to be flexible to address any new or changing priorities that may arise over the coming year.

1. **Support the implementation of the Financial Services Regulatory Authority of Ontario**

   In the fall of 2016, the provincial government passed legislation to create and establish the initial parameters of FSRA. FSRA is a new, independent, and flexible regulator that has a strong focus on protecting consumers, investors and pension plan beneficiaries.

   FSCO's chosen priorities for 2018-19 are consistent with the vision for the new organization. All operational decisions made in 2018-19 will consider the potential impact on the implementation of FSRA. As it progresses, FSCO will continue to work with the Ministry of Finance and the FSRA Board to support a seamless experience for our regulated sectors, while maintaining a focus on protection of consumers, investors and pension plan beneficiaries.

2. **Create greater consumer and pension plan beneficiary awareness and understanding of their rights and responsibilities and how to protect themselves**

   FSCO is committed to protecting consumers and pension plan beneficiaries in the sectors it regulates. We recognize that one of the most effective ways to do this is to equip consumers and pension plan beneficiaries with the tools they need to protect themselves. In 2018-2019, FSCO continued to invest in public education initiatives, such as national Fraud Prevention Month and Financial Literacy Month. These helped empower consumers and pension plan beneficiaries to make informed financial decisions. Our efforts will include seeking relevant partnerships to broaden our reach and improving consumer-facing tools and information.

FSCO continues to work with industry stakeholders to strengthen their understanding of FSCO's expectations regarding statutory compliance and the fair treatment of consumers. FSCO held public consultations in April and May 2018 in advance of the release of a new Superintendent's guideline establishing a common understanding of what it means to treat financial services consumers fairly. The guideline will align with national and international best practices, including guidance from CCIR. We will strengthen confidence in the regulated sectors through measurable, demonstrable outcomes for consumers.

3. Be proactive with respect to industry transformation and new technologies

Technology continues to evolve and advance at a rapid pace. FSCO recognizes the need for regulators to be more adaptable and agile to foster innovation in the marketplace. Over the coming year, FSCO will work to re-assess and re-align our processes to find ways to be more responsive to innovation in our regulated sectors. We will equip and empower staff to develop regulatory solutions. As well, we will use innovative supervisory approaches to better support new technologies and business models, while remaining focused on our consumer protection mandate.

More financial technology (Fintech) businesses seek to operate in Ontario, and consumer demand for innovative financial services and pensions continues to rise. FSCO is responding to the need to support these businesses as they navigate and comply with the Ontario's financial services and pensions legislation.

4. Achieve a higher degree of harmonization, supervisory cooperation, and jurisdictional participation

In today's global environment, financial services and pensions are interconnected, crossing jurisdictional and sectoral boundaries. It is critical that regulators throughout Canada work together and coordinate efforts. Greater cooperation leads to identifying emerging risks and sharing best practices. It also fosters a more consistent level of protection for consumers and pension plan beneficiaries across jurisdictions. In addition, greater regulatory harmonization can reduce the regulatory burden, and support market competition, new entrants and greater innovation. All of that ultimately benefits the consumer and the economy.

FSCO demonstrates its commitment to regulatory coordination and communication through its leadership engagement, and its participation in inter-jurisdictional associations of financial services and pensions regulators:

- Canadian Council of Insurance Regulators (CCIR);
- Canadian Association of Pension Supervisory Authorities (CAPSA);
- Mortgage Broker Regulator's Council of Canada (MBRCC);
- Canadian Insurance Services Regulatory Organization (CISRO);
- Joint Forum of Financial Market Regulators;
- Canadian Automobile Insurance Rate Regulators (CARR); and

- General Insurance Statistical Agency (GISA).

FSCO will strengthen collaborative relationships with other regulators and provide leadership in delivering strategic national policy initiatives. For example, FSCO will work with other CCIR members to coordinate simultaneous thematic and insurer-specific reviews across jurisdictions. This will ensure that insurance customers are being treated fairly throughout the country. These reviews will capitalize on information from the Annual Statement on Market Conduct, introduced last year, to identify areas of potential risk requiring attention.

Strategic Priorities

Each year, FSCO develops its strategic priorities. These are available for consultation with the public and industry stakeholders, and are published online as FSCO’s Statement of Priorities. In 2018-19, FSCO focused on the themes of enabling innovation, treating consumers fairly and supporting initiatives at the national level. FSCO had seven priority areas for the fiscal year:

1. Ensure financial services industry compliance with laws and regulations.
2. Disclose adequate information to enable informed decisions by consumers.
3. Create awareness of FSCO’s actions in the financial services marketplace.
4. Create common and integrated processes enabled by integrated technology solutions.
5. Enhance the collection, use and sharing of market intelligence.
6. Be an agile and adaptable organization.
7. Influence the development of provincial, national, and international regulatory policy.

Transition Risks and Mitigation

FSCO has nine corporate risk categories. Individual risk ratings are based on a residual risk assessment, which considers controls and the status of action plans. All individual risk assessments are rolled up under their associated corporate risk category. FSCO conducts a residual risk assessment at the corporate level resulting in an overall residual risk rating. (Residual risk is the risk that remains after considering all mitigating controls.) Based on current risk tolerances, FSCO has two high residual risks.

2018-19 Residual Risk Assessment

#	Corporate Risk Category	OPS Risk Category	2019-20 Residual Risk	Corporate Risk Mitigation Strategy
1	Ineffective financial management (including procurement)	Delivery/ operational	Low	Continue modifying FSCO's financial management practices to keep pace with best practices. Focus is on expenditures in fee-based sectors that need unanticipated regulatory activity.
2	Ineffective corporate governance and oversight of internal operations	Delivery/ operational, timeline	Low	Continue to document and monitor internal processes, respond to audit requests and recommendations, government recommendations, and improve oversight of operations using international regulatory best practices.
3	Unable to make use of the existing information technology tools in a cost-effective manner	Delivery/ operational	High	Some hardware and application systems are end-of-life and overdue for modernization. An operational review of its IT Unit by the Ministry of Finance's Internal Audit Service (FAST) found that system unavailability or failure is a significant recognized risk, and could impact programs and services required by its mandate. FSCO updated its 3-Year IT Plan to mitigate risk and will modify the Plan as needed during the transition to FSRA.

4	Lack of skills and capacity, and ineffective use of human resources to carry out FSCO's mandate	Delivery/ operational	High	FSCO's ability to recruit and retain staff has been affected by OPS's hiring freeze and FSRA transition uncertainty. FSCO has updated its Human Capital Plan, which will evolve as decisions are made to mitigate risk.
5	Ineffective stakeholder, public engagement	Stakeholder/ perception	Low	FSCO continues to seek, evaluate and respond to public and stakeholder input to increase transparency and communication of core regulatory functions.
6	Insufficient business intelligence and failure to be proactive with marketplace policy	Policy	Low	Expand on business intelligence mechanisms with stakeholders, other regulators, and the market to acquire and integrate information into FSCO's regulatory decision-making.
7	Inadequate Pensions Benefit Guarantee Fund (PBGF) funding	Financial	Low	Doing rigorous reviews to ensure only valid claims paid. Quarterly reviews of cash-flow analysis and projections to alert government of funding issues.
8	Ineffective strategic and operational planning	Delivery/ operational	Low	Implement processes to ensure alignment with FSCO's mandate and strategic direction; working with Ministry of Finance to support implementation of FSRA.
9	Ineffective protection of FSCO resources	Delivery/ operational	Low	Assessing and monitoring business operations to identify threats to safety, security and business continuity.

6. Achievements in Mandate

Innovative Projects and Practices

Over the past year, FSCO supported a variety of innovative products and business practices to ensure it remains a modern, responsive and efficient regulator. FSCO's Board and leadership team also worked closely with the FSRA transition team to lay the groundwork for a successful transition to the new regulatory agency.

Enabling Innovation

Ontario's thriving financial marketplace is constantly creating new and innovative products, services and delivery models that better meet the needs of consumers and pension plan beneficiaries. This brings both opportunities and challenges. FSCO recognizes the need for balance, between being nimble in supporting product and service innovation, and working within its legislative and regulatory frameworks to protect Ontario consumers and pension plan beneficiaries.

Pay-as-you-Drive Auto Insurance

FSCO approved the Canadian Automobile Association (CAA) MyPace program, an innovative auto insurance product aimed at Ontario drivers who drive fewer than 9,000 kilometers annually. This is the first pay-as-you-drive auto insurance product in Canada, allowing drivers to purchase insurance for a predetermined kilometer range. The product uses a telematics device installed in the car to measure distance driven. Drivers pay for coverage in 1,000-kilometer increments.

Supporting the Sharing Economy

New ridesharing and carsharing services continued to enter the marketplace throughout the year. In response to the rise of the sharing economy, and a gap in insurance coverage, FSCO, industry and regulatory partners worked to develop an adaptable insurance solution. FSCO approved an additional two auto insurance products for the sharing economy. By 2019, the number of companies with approved insurance products in Ontario was eight ridesharing and four carsharing companies, up from nine ridesharing and carsharing companies in 2018 with approved auto insurance coverage in Ontario. This ensures consumers have adequate protection when using innovative ridesharing and carsharing services.

Fintech

Ontario is home to many innovative financial technology (Fintech) companies. Many operate in FSCO's regulated sectors and require help and guidance navigating Ontario's regulatory landscape. FSCO established a working group to help identify and support those companies. The group worked to create an intake process promoting dialogue between FSCO and Fintech companies operating or about to start operating in a regulated sector.

Addressing “Missing” Pension Plan Members

Since 2017, pension plan administrators have been required to provide biennial statements to all retired and former members. This has helped plan administrators identify and resolve contact data issues with many plan members.

Moving forward, administrators’ contact data for their members will be more up-to-date since they will be in regular contact through the biennial statement. However, it can be challenging for administrators to find many members who do not provide up-to-date contact information.

To address this, the PBA was amended. It gave FSCO’s Superintendent the ability to waive the requirement to provide biennial statements to missing pension plan members, if reasonable efforts have been made to attempt to locate them.

Supporting Defined Benefit Pension Plan Mergers

In 2018-19, FSCO continued to work with defined benefit pension plan sponsors and representatives to explore merger opportunities between single-employer pension plans and jointly-sponsored pension plans. Such mergers can strengthen the security and sustainability of defined benefit pension plans, and promote increased pension coverage.

Evolving FSCO’s Business Practices

FSCO continuously looks to modernize its business practices, streamline processes, and create efficiencies to be a more effective regulator.

Automating Treatment Plan Approvals

In 2018-19, the MVACF reviewed its claims handling processes, and identified an opportunity to modernize its processes to be more efficient. MVACF opted into using the Health Claims for Auto Insurance (HCAI) database.

The change gave MVACF the ability to automate treatment plan approvals and denials, while remaining compliant with applicable laws and regulations. This has:

- improved delivery of health care benefits to Ontarians injured in car accidents involving uninsured drivers; and
- allowed MVACF to assess the effectiveness of treatment type and duration for specific injuries.

Maintaining Complex Technology Systems

FSCO uses several specialized technology platforms that are not integrated with one another and are costly to maintain. In 2016-17, FSCO created the Enterprise Development Program (EDP), to modernize processes and operations within FSCO supported by existing technology systems. The EDP would replace all of these individual systems with a common one that is easier to use, facilitating efficient communication between FSCO, regulated entities, consumers and pension plan beneficiaries.

The project was placed on hold after the government passed legislation to enable FSRA, a new, independent regulatory agency that will be responsible for regulating pensions and the financial services sectors. FSCO continues to maintain existing technology systems to protect the interests of consumers and pension plan members in Ontario.

Status of FSCO Projects

Each year, FSCO's Agency Business Plan outlines the organization's strategic direction and provides details about major initiatives planned or underway.

The following table lists the status of the projects or initiatives in FSCO's 2017-2020 Agency Business Plan, as at March 31, 2018. These activities remain under FSCO's jurisdiction, or are multi-jurisdictional initiatives with significant FSCO leadership or participation. For 2018-19, a number of projects were on hold pending implementation decisions related to the establishment of the FSRA, shown as at June 7, 2019.

Project	Status as at June 7, 2019	Status as at March 31, 2018	Projected completion
Common Traffic Injuries (previously listed as Minor Injury Treatment Protocol Project Implementation)	In progress	In progress	2018-19
Implement Value-for-Money Audit Recommendations: Pension Division	In progress	In progress	2018-19
Risk-Based Regulation: Pension Division	In progress	In progress	2018-19
CAPSA Multi-Lateral Agreement Implementation	In progress	In progress	2018-19
MBRCC Anti-Fraud Messaging for Consumers and Industry	Completed	In progress	2018-19
MBRCC Continuing/re-licensing education models	Completed	In progress	2019-20
Self-Assessment against International Association of	Completed	In progress	2018-19

insurance Supervisors' Insurance Core Principles (ICPs)			

7. Sector Overview

Ontario's Pension Plan Landscape

FSCO administered and enforced the PBA and its regulations to protect the rights of pension plan members, and regulate pension plans in an effective, responsive manner.

As of June 30, 2019, Ontario had:

- 4,159,455 overall pension plan members, up from 4,026,000 in 2018;
- 2,269,614 active members, compared to 2,211,000 in 2018;
- 1,889,841 retired members, former members and other beneficiaries, compared to 1,816,000 in 2018; and
- 6,935 pension plans, down from 6,962 in 2018.

The number of pension plans has been steadily decreasing over the last 10 years, down from 7,848 in 2009, although the number of pension plan members in Ontario has remained relatively steady.

Since 2009, single- and multi-employer defined benefit (DB) pension plans have experienced a decrease in membership, while jointly-sponsored DB pension plans have grown their membership. Defined contribution (DC) pension plans have seen a net increase in membership over the past decade.

Pension plan administrators are required to file a number of statutory filings throughout the year. The filing deadline depends on when each plan's year ends.

Statutory filing	**Filing rate at June 7, 2019**
Annual Information Return (AIR): Defined Benefit Pension Plans	99.74%
Annual Information Return (AIR): Defined Contribution Pension Plans	98.68%
Pension Benefits Guarantee Fund (PBGF) Certificate: Defined Benefit Pension Plans	97.61%
Financial Statements (FS): Defined Benefit Pension Plans	98.97%
Investment Information Summary (IIS): Defined Benefit Pension Plans	99.27%
Financial Statements (FS): Defined Contribution Pension Plans	96.82%

Actuarial Reports (AR) accompanied by an Actuarial Information Summary (AIS): Defined Benefit Pension Plans	98.27%
Statement of Investment Policies and Procedures (SIPP) accompanied by a SIPP Information Summary: Defined Benefit Pension Plans	99.10%
Statement of Investment Policies and Procedures (SIPP) accompanied by a SIPP Information Summary: Defined Contribution Pension Plans	97.89%

Ontario's Credit Unions and Caisses Populaires

Credit unions and caisses populaires provide deposit-taking and loan arrangement services for members in communities across Ontario. FSCO works with DICO to regulate the credit union and caisse populaires sector. FSCO's role includes enforcing the market conduct provisions in the CUCPA. The sector continues to see mergers and acquisitions, ultimately leading to fewer, larger and more complex organizations.

As at June 7, 2019, 67 credit unions and 12 caisse populaires were registered to operate in Ontario.

Loan and Trust Companies in Ontario

FSCO is responsible for registering loan and trust companies operating in Ontario, and taking action against unlicensed deposit-takers. Loan and trust companies are either:

- established to serve unique or niche markets; or
- subsidiaries of banks supporting trust activities related to savings or accumulation accounts registered with the Canada Revenue Agency.

As at June 7, 2019, 52 federally-incorporated loan and trust companies were registered to operate in Ontario. This number has remained fairly steady since 2015.

Ontario's Mortgage Brokering Sector

In Ontario, mortgage agents, brokers, brokerages and administrators must be licensed with FSCO in order to conduct mortgage brokering business in the province. As at June 7, 2019, FSCO licensed:

- 12,360 mortgage agents;
- 2,836 mortgage brokers;
- 1,237 mortgage brokerages; and
- 211 mortgage administrators.

Service Providers in Ontario

Service providers bill auto insurers directly for medical and rehabilitation services they provide to injured auto accident benefit claimants. In December 2014, FSCO began licensing these service providers, and regulating the billing practices related to those services.

As at June 7, 2019, there were 4,929 licensed service providers in Ontario.

Co-ops in Ontario

Co-ops, or co-operative corporations, are run by their own members. They support the communities in which they operate and are funded by government or their members. As at June 7, 2019, there were 1,740 co-operatives registered in Ontario. As the regulator responsible for overseeing capital raised by co-ops, FSCO reviews and issues receipts for offering statements to ensure they meet full, true and plain disclosure requirements.

Ontario’s Insurance Sector

FSCO licenses and regulates insurance companies, insurance agents and agencies, and insurance adjusters in Ontario. FSCO’s main focus is overseeing the market conduct of entities that provide protection for Ontarians through the life and health, and property and casualty insurance sectors.

8. Enforcement and Market Conduct

Protecting consumers through enhanced oversight

FSCO is committed to protecting consumers and pension plan beneficiaries in all of its regulated sectors. In 2018-19, FSCO placed a strong emphasis on industry compliance with laws and regulations specifically relating to disclosure of risk and responsibility for consumers. FSCO also leveraged the variety of processes, procedures, and tools at its disposal to ensure consumers and pension plan members are treated fairly.

Setting expectations for financial services sectors

In today's complex and inter-connected financial services marketplace, treating consumers and pension plan beneficiaries fairly is fundamental to the strength and stability of the sectors FSCO regulates. That means putting the interests of consumers and pension plan beneficiaries first so that they can make the most informed financial decisions possible.

This concept is not new. In 2018-19, FSCO released the Treating Financial Services Consumers Fairly Guideline, developed in consultation with industry stakeholders. It aligns with international standards, as well as similar national supervisory efforts, as a tool to develop a common understanding of what it means to treat consumers fairly throughout a financial product's life cycle.
https://www.fsrao.ca/regulation/guidance

Formalizing desk reviews for life insurance agents and service providers

To ensure a consistent approach to monitoring activities across regulated sectors, FSCO formally enhanced its oversight of the life insurance and service provider sectors. This happened by expanding desk reviews, which are done over the phone or via email. FSCO analyzed the results of desk reviews, and shared them with life insurance agents and service providers in 2018-19.

Increasing oversight of the credit union and caisse populaire sector

FSCO was aware of consumer concerns about potential mis-selling of financial products and services through credit unions, caisses populaires and banks. To better understand the problem, credit unions and caisses populaires were required to complete a questionnaire about market conduct principles, and policies and procedures, emphasizing sales practices.

The questionnaire gave FSCO an important tool to identify red flags and monitor sector compliance with the law. It also provided an opportunity to share key findings and best practices with the sector. FSCO published a summary report in 2018-19, allowing organizations to benchmark their own policies and procedures against the industry.

Service providers continuing to build a culture of compliance

The service provider sector is unique among those FSCO regulates because it relates directly to people's health. Ontarians who are injured in car accidents need to trust the service providers that treat their injuries and liaise on their behalf with auto insurance companies.

Education is the first step towards compliance. That is why FSCO held its second annual market conduct symposium for the service provider sector in 2018-19. The half-day event provided information about the importance of compliance to combat fraud, including proper billing and business practices, strong policies and procedures, and complete record-keeping.

FSCO also met with some insurers and service provider stakeholder associations in the 2018-19 fiscal year. This provided an additional opportunity for all parties to share feedback with FSCO about billings, licensing and roles.

While education is important for compliance, FSCO continues to focus on enforcement activities. During 2018-19, FSCO held non-compliant service providers accountable by:

- denying three applications;
- suspending seven licences;
- revoking two licences; and
- imposing $47,500 in administrative monetary penalties.

Monitoring pension plans

In 2018-19, FSCO implemented targeted reviews to expand its efforts to proactively monitor pension plans, improve their management and better protect the interests of pension plan members.

Targeted reviews focus on specific regulatory requirements and processes, and provide FSCO with the information needed to ensure that legislated requirements are being followed.

In 2018-19, there were:

- two targeted reviews of pension plans;
- 62 on-site pension plan examinations; and
- 70 Tier 1 desk reviews.

Increasing continuing education requirements for the mortgage brokering sector

Every two years, principal brokers must renew their licence with FSCO to lawfully conduct mortgage brokering activities in Ontario. In order to renew their licence, principal brokers must complete a mandatory continuing education course, and ensure that their agents and/or brokers completed their mandatory continuing education course (seven hours in 2018). The education requirements also incorporate training on disclosures, and ensuring product suitability for borrowers and investors/lenders.

Protecting consumers through auto insurance regulation

All motorists in Ontario are legally required to have auto insurance coverage. Every auto insurance policy has mandatory third-party liability, uninsured automobile, direct compensation-property damage, and accident benefits coverages. Ontarians also have flexibility to choose to purchase additional or increased benefits and coverages.

FSCO is responsible for ensuring that an insurer's rate changes are reasonable and justified, and that the rates insurers charge are balanced with their ability to meet their future claims costs.

FSCO also administered the MVACF up to March 31, 2019. The MVACF provides compensation to people in auto accidents when:

- no auto insurance exists to cover the claim; or
- an insurer's insolvency prevents a response to a claim.

With the amalgamation of FSCO and DICO, FSRA will not take over the administration and funding of MVACF. Instead, effective April 1, 2019, responsibility for administration of the *Motor Vehicle Accident Claims Act* was transferred from the Minister of Finance to the Minister of Government and Consumer Services.

In 2018-19, MVACF enforcement actions included:

- 57 driver's license suspensions;
- 28 processed repayments;
- 332 debtors making payments; and
- $57,824.14 in repayments collected.

Regulating auto rates

FSCO sets the requirements for the prescriptive rules about rates and risk classification systems that insurers must follow under the *Insurance Act* and the *Automobile Insurance Rate Stabilization Act, 2003*. Insurers must file an application to increase or decrease rates with FSCO, which then determines if the proposed rates are reasonable based on actuarial data.

As a part of this process, FSCO also evaluates the company's rate-setting criteria and underwriting rules. If the application does not meet statutory standards, or the data does not support the request, the Superintendent may refuse part or all of the application.

During the 2018-19 fiscal year, FSCO approved 247 requests for rate changes and risk classification changes. From the review and approval of rates proposed by insurers, FSCO requested 28 amendments. This resulted in an estimated $443 million in premium savings for Ontario drivers, up from $276 million in savings the year prior. The average approved rate change for 2018-19 decreased to 3.52%, compared with 3.92% in 2017-18.

2018-19 Private Passenger Auto Rate Filings

Fiscal year	Estimated average approved rate change*	Approved filings	Filings amended downwards by Superintendent through rate review/approval process	% of filings amended downwards	Estimated premium savings from Superintendent-directed amendments** (millions)
2018-19	3.52%	127	28	22.05%	$443M
2017-18	3.92%	102	27	26%	$276M

*Auto Quarterly Rate Approvals – FSCO Website
**Difference between rate changes as originally filed by insurers and those finally approved by the Superintendent

Other Automobile Insurance Filings

Filing type	2018-19	2017-18
Non-private passenger auto rate filings	66	80
Underwriting rule filings	78	53
Endorsement filings	59	78
Form filings	49	72

The cost of claims plays an integral role in determining the insurance rates charged to consumers. FSCO is tracking two trends (as reported anecdotally by insurers), and monitoring their impact on insurance rates. These are increases in:

- claims costs related to property damage, due in part to the rising costs of repairing modern technologically advanced vehicles; and

- the number of accidents due to inattentive or distracted driving, which could be driving up the costs associated with direct compensation and collision claims.

Enabling inclusive practices

As of March 2017, Ontario drivers can choose to display an “X” gender option on their driver’s licence to advance gender inclusivity. Gender “X” includes transgender, non-binary, two-spirit and binary people, and people who do not want to disclose their gender identity.

FSCO has allowed insurers to use the simplified filing process to modify rates and risk classification systems to accommodate Ontario drivers who identify as gender “X.” As at March 31, 2018, FSCO had approved modified risk classification systems for at least six insurers to accommodate those who identify as gender “X.”

Supporting a review of the auto insurance system

On April 11, 2017, David Marshall’s report, *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*, was released. FSCO supported Mr. Marshall’s review by providing data and information about auto insurance regulation, administrative support and regulatory insights. His report included recommendations such as adopting mandatory programs of care for common injuries, and introducing independent examination centres at hospitals to provide medical assessments for insurance claims.

Helping people injured in auto accidents when no insurance exists

The MVACF is a “payer of last resort,” providing compensation to people in auto accidents when no auto insurance exists to cover the claim, or where an insurer’s insolvency prevents a response to a claim. For example, MVACF compensates victims of accidents involving uninsured or unidentified drivers of vehicles, such as a hit-and-run.

When applicable, MVACF makes statutory payments for accident benefits and third-party liability claims. MVACF is responsible for recovering all judgment amounts for third party liability claims paid out on behalf of an uninsured motorist.

Victim claims and claims administration	2018-19	2017-18
New claims	453	544
Statutory accident benefits claims paid	502	572
Payments for statutory accident benefits	$14.9M	$18M
Third party liability claims paid	84	106

Third-party liability, bodily injury and property damage	$6.8M	$7.3M

Pension Benefits Guarantee Fund (PBGF)

FSCO is responsible for administering the Pension Benefit Guarantee Fund (PBGF), which guarantees pensions up to $1,500 per month for pensioners in Ontario, in the case of wind-ups on or after May 19, 2017. It is funded through annual assessments paid by pension plan sponsors with covered benefits.

Defined benefit pension plan funding framework

The 2008 financial crisis highlighted the ongoing issue of balancing defined benefit pension plan funding with enabling businesses to grow and be more competitive. Falling asset values and interest rates, combined with increased lifespan of members, created significant financial challenges for pension plans and pension sponsors. In 2018-19, FSCO hosted a forum for the Pension Advisory Committee (PAC) to facilitate discussion around a proposed new funding framework that would address this issue. This forum supported the Ministry of Finance's initiative to review the funding framework for defined benefit pension plans.

Empowering consumers

FSCO recognizes that consumers and pension plan members are more empowered when they are more knowledgeable about their financial situation. In 2018-19, FSCO continued to deliver public education campaigns to:

- promote fraud prevention;
- address key gaps in financial literacy knowledge; and
- Provide information about scams and other unacceptable behaviour from the sectors it regulates.

As a service to consumers and pension plan beneficiaries, FSCO's website maintains information about potential scams relating to sectors it regulates. FSCO also issues warning notices about entities that FSCO believes may be of concern to consumers and the business community.

In 2018-19, FSCO issued 12 warning notices to inform about:

- six entities not licensed to do insurance business in Ontario (they appeared to issue false proof of auto insurance to a consumer);
- five entities not licensed to conduct mortgage business in Ontario (they appeared to solicit mortgage business and related services); and
- one apparent phishing scam.

Ensuring access to government services

Ontarians expect seamless access to government services, regardless of which organization is delivering the program or service. Throughout 2018-19, FSCO continued work towards the transition of various responsibilities to other government bodies.

Transfer of incorporation services for co-operative corporations (co-ops)

Ontario's co-ops span a number of sectors, including farming, retail, renewable energy, child care and, mostly, housing. In 2018-19, FSCO continued to support the Ontario government's work to post proposed regulatory amendments to the *Co-operative Corporations Act*. The amendments include the transfer of incorporation to the Ministry of Government and Consumer Services (MGCS), which is also responsible for the incorporation of all other businesses and not-for-profits in Ontario.

Until the regulatory changes come into effect, FSCO continues to be responsible for regulating and incorporating co-ops in Ontario under the *Co-operative Corporations Act*, and providing support to the government on this initiative.

Dispute resolution services

In April 2016, FSCO transferred its DRS activities to the LAT under Tribunals Ontario – Safety, Licensing Appeals and Standards Division. LAT is an adjudicative tribunal that is accountable to the Ministry of the Attorney General and makes decisions independent of government. LAT has handled all new statutory accident benefits disputes after April 1, 2016.

Prior to the launch of FSRA on June 8, 2019, FSCO maintained responsibility for existing mediation, neutral evaluation and arbitration applications received for all files remaining open as of March 31, 2016. That includes applications for appeal and variation/revocation accepted up to June 7, 2019, of decisions arising out of arbitration applications filed at FSCO prior to April 1, 2016.

The Ontario Ministry of Finance will administer FSCO and DICO's dispute resolution process until June 30, 2020. As of July 1, 2020, any remaining cases will be extinguished, with the option to start a new proceeding at the LAT. The Ministry posted regulatory changes related to dispute resolution cases open with FSCO on or before June 8, 2019. Between June 8, 2019 and June 30, 2020, all open and ongoing dispute resolution cases will continue with DRS under the Ministry of Finance. During this time, no new proceedings may commence. This includes mediations, arbitrations, appeals, and applications for variation or revocation of an order under the pre-transition date *Insurance Act*. On July 1, 2020, any cases that have not been finally determined will be extinguished.

As of June 7, 2019, FSCO had 34 open arbitration files and 20 open appeal files, which continue to be resolved by DRS, now under the Ministry of Finance as FSCO's remaining dispute resolution files will not be transferring to FSRA. The Ministry of Finance, together with the Ministry of the Attorney General are committed to ensuring that the remaining cases will be dealt with in a fair and responsible manner.

Addressing inquiries and complaints

FSCO responds to public inquiries for information and reviews stakeholder and consumer complaints about the sectors it regulates

FSCO monitors the types of inquiries and complaints it receives to identify practices that may:

- be harmful to consumers and the marketplace; or
- violate legislation, regulations or FSCO's rules and procedures.

Tracking also helps FSCO identify issues or trends that require consumer or stakeholder education.

Inquiries

The number and type of inquiries to which FSCO responds each year depends on two main things: the social and economic environment; and changes to legislative and regulatory requirements.

FSCO's contact centre is often consumers', pension plan beneficiaries' and stakeholders' first point of contact with the organization. The centre provides information and support by responding to telephone inquiries and correspondence.

Inquiries to FSCO's contact centre in 2018-2019

Inquiry Type	Number	%
Licensing	22,663	42.1%
Mortgage Brokering	8,861	16.5%
Pensions	4,996	9.3%
Service Providers	3,541	6.6%
Insurance: Automobile and Other insurance	4,985	9.3%
Locked-in Accounts	2,834	5.3%
Non-FSCO	2,191	4.1%
FSCO - Other	3,141	5.8%
Insurance - Other	0	0%
Credit Unions/Caisses Populaires	293	0.5%
Co-operatives	159	0.3%
Loan & Trust	142	0.2%
Total	**53,806**	**100%**

Inquiries to FSCO's contact centre in 2017-2018

Inquiry Type	**Number**	**%**
Licensing	19,663	36.8
Mortgage Brokering	9,558	17.9
Pensions	6,022	11.3
Service Providers	4,415	8.3
Insurance - Automobile	3,550	6.6
Locked-in Accounts	3,322	6.2
Non-FSCO	2,662	5.0
FSCO - Other	2,517	4.7
Insurance - Other	1,037	1.9
Credit Unions/Caisses Populaires	253	0.5
Co-operatives	241	0.5
Loan & Trust	239	0.4
Total	**53,479**	**100%**

For more complex or specific issues related to licensing, market conduct or pensions, FSCO staff work directly with industry to help people get the information they need.

Market conduct inquiries in 2018-19

Inquiry Type	Number	%*
Insurance: Property and Casualty**	541	35.9
Mortgage Brokers	529	35.1
Insurance: Life and Health	270	17.9
Non-Jurisdictional	98	6.5
Credit Unions	32	2.1
Co-operatives	18	1.2
Insurance: Investments	10	0.7
Loan & Trust	9	0.6
Total	**1,507**	**100%**

* Percentages may not add to 100 due to rounding

**Includes service provider and auto insurance inquiries

Pension inquiries in 2018-19

Inquiry Type	Number	%*
Access to Information from FSCO	999	19.6%
Pension Services Portal (PSP) Inquiry	661	12.9%
Details on Filings (AIR, FS, IIS, PBGF, AVR, AIS and SIPP)	858	16.8%
Interpretation (Administration/Legislation/Policy)	623	12.2%
Marriage Breakdown (FLA)	402	7.9%
Information on LIRA/LIF/LRIF	287	5.6%
Member Rights Under PBA	276	5.4%
Lost or Missing Benefits	323	6.3%
Pension Assessments	179	3.5%
Unlocking/Financial Hardship	170	3.3%
Matter Outside FSCO Jurisdiction	105	2.1%

Deadlines for Submissions/Filings	148	2.9%
Request for Forms/Publications	40	0.8%
CCAA/Bankruptcy Explanation	7	0.1%
Other	31	0.6%
Total	**5,109**	**100%**

*Percentages may not add to 100 due to rounding

Complaints

In general, market conduct complaints relate to the actions or behaviours of regulated entities. These complaints are an important part of FSCO's risk-based approach to market conduct oversight.

FSCO reviews complaints that allege non-compliance with legislation or regulations in any of the sectors it regulates. Where there is a contravention, FSCO takes appropriate enforcement action. It is important to note that not all complaints result in a finding of contravention of the law.

Market conduct complaints in 2018-19

Complaint Type	Number	%*
Insurance - Property and Casualty**	416	33.8
Mortgage Brokers	383	31.2
Insurance - Life and Health	326	26.5
Insurance - Investments	44	3.6
Credit Unions	30	2.4
Non-Jurisdictional	16	1.3
Co-operatives	7	0.6
Loan & Trust	7	0.6
Total	**1,229**	**100%**

* Percentages may not add to 100 due to rounding

** Includes health service provider and auto insurance complaints

Pension complaints in 2018-19

Complaint Type	Total	%*
Commuted Value/Benefit Entitlement	37	71.2%
Non-Compliance with Legislation/Policy	4	7.7%
Non-Compliant Plan Provisions	8	15.4%
Reciprocal Transfer Agreement	3	5.7%
Total	**52**	**100%**

*Percentages may not add to 100 due to rounding

In 2018-19, the number of pension-related complaints fell to 52, from 189 one year earlier. Most involved two pension plans. FSCO has since worked with complainants to address most of the 2017-18 concerns.

Freedom of Information (FOI)

At the end of the fiscal year, FSCO had 14 outstanding requests for information, filed under the *Freedom of Information and Protection of Privacy Act*. These requests were transitioned to FSRA as of June 8, 2019 for resolution.

Enforcing the law

FSCO monitors, investigates and, where warranted, takes appropriate enforcement action within its regulated sectors. This enhances public confidence and protects consumers and pension plan members against non-compliant individuals and businesses, including those that may be conducting unlicensed activities.

FSCO's monitoring activities include:

- reviewing complaints;
- analyzing statutory filings, information returns and questionnaires;
- undertaking compliance audits for continuing education and errors and omissions insurance requirements; and
- conducting on-site examinations.

Based on review results, FSCO may decide to investigate further. FSCO also uses this information to assess an entity's risk level. Depending on the risk level and the sector, a licensee or registrant may be subject to a targeted review, an on-site examination and/or a desk review.

With findings of non-compliance with legislation and regulation, FSCO generally takes a progressive approach to discipline. Enforcement action and tools can vary based on the contravention, findings, risk factors and any past issues. They include:

- education;
- remediation;
- intervention;
- licence suspension and/or revocation; and
- administrative monetary penalties.

Enforcement actions FSCO took against non-compliant licensees in 2018-19									
Sector	**Warning notices**	**Caution letters**	**Warning letters**	**Cease and desist orders**	**Compliance orders**	**Licence suspensions***	**Licence revocations**	**Licence refusal/ denials**	**Total administrative monetary penalties ($)**
Service providers	0	0	0	0	0	65	1	5	$47,500
Mortgage brokering	4	6	79	0	0	-9	20	7	$1,022,980
Insurance sector (life insurance agents; property and casualty; life and health)	5	3	88	7	8	4	6-	5	$3,583,049
Credit Unions/ Caisse Populaires	0	0	2	0	0	0			
Total	**9**	**9**	**169**	**7**	**8**	**60**			**$4,653,529**
*Includes interim suspensions									

Motor Vehicle Accident Claims Fund (MVACF)

MVACF provides accident benefits and third-party liability payments to victims of accidents involving uninsured or unidentified vehicles. This body also has the ability to take enforcement action against uninsured motorists by suspending driver's licences for unpaid judgments.

Enforcement actions	**2018-19**	**2017-18**
Suspended driver's licences	57	228
Repayments processed	28	3,816
Debtors making payments	332	473
Collection of repayments	$57,824.14	$968,255.36

Syndicated mortgage investments

A mortgage loan can have more than one lender or investor. That is a syndicated mortgage. In Ontario, syndicated mortgage transactions governed by the *Mortgage Brokerages, Lenders and Administrators Act, 2016* (MBLAA) are under FSCO's purview.

FSCO considers syndicated mortgage investments (SMIs) to be high risk. These may not be suitable for the average lender or investor.

During 2018-19, FSCO registered 60 complaints about SMIs, compared to 47 in 2017-18.

In addition to issuing administrative monetary penalties, FSCO also issued two compliance orders and one other licence revocation in 2018-19 related to syndicated mortgage activity.

Getting ready for pension administrator fines

The Administrative Penalties regulation under the PBA came into effect on January 1, 2018. It gave FSCO the power to impose administrative penalties on persons, including pension plan administrators, who contravene the PBA and its regulations. FSCO expects that administrative penalties will be an effective additional tool to promote compliance in the pension sector.

FSCO is working to develop the policies and procedures to govern how those penalties are assessed and administered.

FSCO on the national stage

In 2018-19, FSCO further enhanced its reputation as a leader on the national stage. Over the past year, FSCO has influenced the development of provincial, national and international regulatory policy, been recognized as a first-class regulator, and taken the lead on important cross-jurisdictional initiatives.

FSCO's participation in national organizations

FSCO remained steadfast in its commitment to supporting discussions, policies and projects at the national level through its participation in:

- Canadian Association of Pension Supervisory Authorities (CAPSA)
- Canadian Automobile Insurance Rate Regulators Association (CARR)
- Canadian Council of Insurance Regulators (CCIR)
- Canadian Insurance Services Regulatory Organizations (CISRO)
- General Insurance Statistical Agency (GISA)
- Mortgage Broker Regulators' Council of Canada (MBRCC)

FSCO represents the province in these groups, serving as chair or vice-chair.

FSCO's participation in national organizations provides opportunities to strengthen relationships with other regulators, have input and influence at the national level, and affect positive change for consumers and pension plan members.

Harmonizing cross-jurisdictional standards for mortgage broker licensing education

For years, Canada's mortgage sector had varying licensing education requirements across the country. To address this, MBRCC spearheaded a FSCO-led initiative to harmonize mortgage brokering education standards.

Enabling extra-provincial credit union participation in syndicated loans

Syndicated loans are funded through multiple investors and provided to a single borrower. To improve risk management and increase access to funding to meet consumer demand, a regulatory change came into effect on January 1, 2018. It allowed credit unions from outside Ontario to participate in syndicated loans in Ontario if they are registered with FSCO. This stemmed from the 2014-2015 mandatory five-year review of the legislation and regulations governing credit unions and caisses populaires (the CUCPA).

FSCO prepared for this regulatory change by implementing a review and approval process to handle applications from extra-provincial credit unions. Information for extra-provincial credit unions, including registration forms, is now available on FSCO's website. Borrowers can now access additional lenders through syndicated loans by their local credit unions.

9. Report of the Financial Services Tribunal

The Financial Services Tribunal (FST), established by the FSCO Act, is an expert, independent adjudicative body. The FST conducts hearings and hears certain appeals on regulatory and disciplinary matters under statutes covering the sectors regulated by FSCO. That includes the:

- *Pension Benefits Act*
- *Insurance Act*
- *Mortgage Brokerages, Lenders and Administrators Act, 2006*
- *Credit Unions and Caisses Populaires Act, 1994*
- *Loan and Trust Corporations Act*
- *Prepaid Hospital and Medical Services Act*

The FST has exclusive jurisdiction to exercise the powers conferred on it by legislation, and to determine all questions of fact or law that arise in its hearings.

The FST has 9-15 members, all appointed by the Lieutenant Governor in Council. The FST's chair and vice-chairs are also the chair and vice-chairs of the Commission.

Appointments to the FST and FSCO are made in accordance with the guidelines established by Ontario's **Public Appointments Secretariat.**

Name	Position	Tenure
Denis Boivin	Vice-Chair Chair	Dec 1, 2004-Oct 17, 2019 Sept 6, 2017-Sept 13, 2017
Ian McSweeney	Chair Vice-Chair	Sept 13, 2017-Sept 13, 2019 Mar 11, 2015-Sept 13, 2017
Craig Brown	Member	Aug 17, 2017-Aug 16, 2019
Paul Farley	Member	Jan 5, 2015-Mar 4, 2020
Caroline (Cally) Hunt	Member	Feb 8, 2018-Feb 7, 2020
Anthony Fredericks	Member	Apr 11, 2018-Apr 10, 2020
Julie Maciura	Member	Nov 2, 2016-Nov 1, 2018
Audrey Mak	Member	Nov 2, 2016-Nov 1, 2019
Christopher Portner	Member	Aug 17, 2017-Aug 16, 2019
Jeffrey Richardson	Member	Aug 12, 2008-Aug 9, 2019
Mohammad Faisal Siddiqi	Member	Mar 1, 2017-Mar 20, 2021
John Solursh (Special Appointment)	Member	Sept 12, 2018-Sept 11, 2019
Jill Wagman	Member	Dec 17, 2013-Dec 16, 2019
Bethune Whiston	Vice-Chair Member	Apr 17, 2018-Apr 10, 2020 Dec 17, 2013-Apr 17, 2018
Total Remuneration	**$317,507.00**	

The FST is committed to providing an expert impartial hearing process that is accessible, prompt and fair. It has established its own Rules of Practice and Procedure to guide the conduct of its hearings. The *Statutory Powers Procedure Act* also governs FST proceedings.

Hearing schedules, decisions and rules are posted on the **FST website**, along with biographical sketches of the current FST members.

During the 2018-19 fiscal year, the FST:

- Created and published a Guide to Regulatory Proceedings to assist parties in navigating its processes and procedures.

- Established new rules in anticipation of the launch of the Financial Services Regulatory Authority of Ontario (FSRA) as the new regulator for the financial services sectors.

- Continued to recruit new adjudicators to ensure a roster of members who have experience and expertise in the regulated sectors.

- Worked with the Ministry of Finance to ensure a smooth and efficient transition of its mandate from the FSCO Act to the *Financial Services Tribunal Act, 2017* (FST Act), proclaimed into force on April 1, 2019. The FST was continued as an independent tribunal.

- Established published service standards and a tracking mechanism to facilitate public reporting on services. See the table below.

Financial Services Tribunal Service Standards, April 1, 2018-March 31, 2019					
Total Fiscal Year (April 1, 2018-March 31, 2019)					
	# of Cases/ Decisions	**Target # of Cases**	**# of cases that met standard**	**# of cases that did not meet standard**	**Service Standard Achieved**
Letter to acknowledge hearing request (Standard = 5 days in 100% of cases)	96	96	95	1	99%
Confirm PHC date (Standard = 35 days in 90% of cases)	91	82	82	9	100%
Issue decision with reasons (Standard = 90 days in 90% of cases)	29	26	26	3	100%

2) FST Activities, April 1, 2018-March 31, 2019									
Activity	**Pension Matters (Excluding Financial Hardship)**	**Pension Matters (Financial Hardship)**	**Mortgage Matters**	**Insurance Matters**	**Credit Union Matters**	**Service Provider Matters**	**Total 2018-19**	**Total 2017-18**	**Total 2016-17**
Cases Pending at Beginning of Year	0	0	12	27	1	9	49	28	27
New Cases Received	11	0	32	50	0	6	99	66	49
Cases Closed	3	0	22	47	1	14	87	45	48
Cases Pending at End of Year	8	0	22	27	0	1	61	49	28
Oral Hearing Days	2	0	2	6	0	2	12	13	25
Written Hearings	1	0	6	8	0	1	16	14	8
Other Activity Days: Pre-Hearing Conferences, Telephone Conferences, Settlement Conferences and Motions	13	0	62	102	5	8	190	85	73
Total Hearing (Oral and Written) and Activity Days Before FST	16	0	70	116	5	11	218	112	106

Notes:

1. Table does not include FST quarterly meetings, days for deliberation or decision writing. Total member days were 619 for the period.
2. Numbers may reflect activity in respect of files opened prior to 2018-19 fiscal year.
3. Written hearings may relate to financial hardship matters, motions, requests for costs or requests for a review of a decision, and the FSRA plan for the implementation of the FST Act, once proclaimed.

10. Financial Statements: Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO
Financial Statements
For the Period from April 1, 2018 - June 7, 2019

Financial Services Commission of Ontario

Commission des services financiers de l'Ontario

Ontario

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May 22, 2020

Management's Responsibility for Financial Information

The Financial Services Commission of Ontario (Commission) was established under the Financial Services Commission of Ontario Act, 1997. Under the Act the Superintendent is responsible for the financial and administrative affairs of the Commission.

Under the direction of the Superintendent, Management of the Commission is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations. The preparation of financial statements involves the use of management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

Management of the Commission is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

These statements comprise the period of April 1, 2018 - June 7, 2019. Subsequent to the closure of FSCO, The Ministry of Finance assumed responsibility for financial information relating to FSCO. The Ministry of Finance engaged FSRA management and staff to complete the fiscal year end of June 7, 2019.

The financial statements have been audited by the Office of the Auditor General. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for government not- for-profit organizations. They have been approved by the Ministry of Finance. The Auditor's report follows.

Randy Nanek
Chief Financial Officer
FSRA

Stephen Power
EVP Corporate Services
FSRA

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Ministry of Finance

Opinion

I have audited the financial statements of the Financial Services Commission of Ontario (FSCO), which comprise the statement of financial position as at June 7, 2019, and the statements of operations, changes in net assets and cash flows for the period from April 1, 2018 to June 7, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FSCO as at June 7, 2019, and its financial performance and its cash flows for the period from April 1, 2018 to June 7, 2019 in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the FSCO in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Future of the FSCO

I draw attention to Note 1 of the financial statements, which indicates that on June 8, 2019 the operations of FSCO were transferred to the Financial Services Regulatory Authority of Ontario. My opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting 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.

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In preparing the financial statements, management is responsible for assessing the FSCO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the FSCO either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FSCO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 FSCO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSCO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. Effective June 8, 2019, the FSCO's operations were transferred to the Financial Services Regulatory Authority of Ontario.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
May 22, 2020

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

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Financial Position
As at June 7, 2019
($'000)

	June 7, 2019	March 31, 2018
ASSETS		
Current		
Cash	1	1
Accounts receivable (Note 3)	12,338	353
Prepaid expenses	375	236
	12,714	590
Due from the Province (Note 9a)	23,915	40,555
Capital assets, net (Note 4)	4,444	8,593
	41,073	49,738
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	15,715	12,384
	15,715	12,384
Employee future benefits obligation (Note 8)	2,121	4,549
Deferred revenue (Note 5)	17,930	23,224
Deferred lease inducements (Note 6)	66	261
Net assets		
Invested in capital assets	4,444	8,593
Internally restricted (Note 12)	797	727
	41,073	49,738

Subsequent event (Note 13)

See accompanying notes to financial statements

Approved by:

David Wai, CFA, P. Eng.
Assistant Deputy Minister, Financial Services Policy Division

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Operations
For the period ended June 7, 2019
($'000)

	April 1, 2018 - June 7, 2019	April 1, 2017 - March 31, 2018
Revenue (Note 7)		
Assessments	52,473	38,402
Fees, licences, registrations and other	24,912	17,172
	77,385	55,574
Expenses		
Salaries and wages	38,851	31,152
Employee benefits (Note 8)	16,448	7,991
Transportation and communication	648	525
Services	20,246	19,590
Supplies and equipment	375	338
Amortization	1,644	1,353
Bad debt expense	2,111	185
Write-off of IT assets under development (Note 4)	3,123	-
	83,446	61,134
Less: Recoveries (Note 10)	5,528	4,628
	77,918	56,506
Deficiency of revenue over expenses from operations	(533)	(932)
Contribution by the province (Note 9a)	603	1,190
Excess of revenue over expenses (Note 9a and 12)	70	258

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Changes in Net Assets
For the period ended June 7, 2019
($'000)

	Invested in Capital Assets	Internally restricted	Unrestricted Net Assets	April 1, 2018 - June 7, 2019 Total	April 1, 2017 - March 31, 2018 Total
Balance, beginning of year	**8,593**	**727**	-	**9,320**	**9,416**
Excess/(deficiency) of revenues over expenses	-	70	(603)	(533)	(932)
Contribution by the Province	-	-	603	603	1,190
Investment in capital assets	(4,149)	-	-	(4,149)	(354)
Balance, end of year	**4,444**	**797**	-	**5,241**	**9,320**

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Cash Flows
For the period ended June 7, 2019
($'000)

	April 1, 2018 - June 7, 2019	April 1, 2017 - March 31, 2018
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	70	258
Items not affecting cash:		
Amortization of capital assets	1,644	1,353
Amortization of deferred lease inducements	(195)	(165)
Employee future benefits	(2,428)	(518)
Bad debt expense	2,111	185
Loss on disposal of capital asset	3,363	-
Changes in non-cash working capital:		
Accounts receivable	(14,096)	(501)
Prepaid expenses	(139)	(224)
Accounts payable and accrued liabilities	3,331	(3,660)
Due from the Province	16,640	(3,506)
Deferred revenue	(5,294)	8,131
	5,007	1,353
Cash flows from capital activity		
Purchase of capital assets	(858)	(999)
	(858)	(999)
Cash flows from financing activity		
Investment in capital assets by the Province	(4,149)	(354)
	(4,149)	(354)
Net change in cash position	-	-
Cash, beginning of year	1	1
Cash, end of year	1	1

See accompanying notes to financial statements

1. OPERATIONS OF THE COMMISSION AND TRANSFER OF OPERATIONS

The Financial Services Commission of Ontario (Commission) was established under the *Financial Services Commission of Ontario Act, 1997*. The Commission's mandate through its regulated activities is to protect the public interest and enhance public confidence in insurance, pensions, credit unions, trust companies, caisses populaires, co-operatives and mortgage brokers, and also to make recommendations to the Minister of Finance on matters affecting the regulated sectors. The Commission administers the following legislation: *Insurance Act, Pension Benefits Act, Credit Unions and Caisses Populaires Act, 1994, Loan and Trust Corporations Act, Mortgage Brokerages, Lenders and Administrators Act, 2006* and *Co-operative Corporations Act*. As a regulatory agency of the Province of Ontario, the Commission is exempt from income taxes.

On June 8, 2019, the *Financial Services Commission of Ontario Act* was substantially revoked and the Financial Services Regulatory Authority of Ontario (FSRA) assumed the Commission's regulatory functions under the *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act) and Bill 100 Protecting What Matters Most Act (Budget Measures), 2019.

As a result, the Commission's last day of operations before this restructuring was June 7, 2019 (see Note 13). As of June 8, 2019, FSRA assumed the Commission's regulatory functions.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). The significant accounting policies used to prepare these statements are summarized below.

(a) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over their estimated useful life. The useful life of the Commission's capital assets has been estimated as follows:

Custom developed software	5-10 years
Office furniture and equipment	5 years
Computer hardware	3-6 years
Leasehold improvements	over the term of the lease

(b) Revenue Recognition

Assessment revenues from the insurance, pension, credit union, caisses populaires and the loan and trust sectors are recognized when the recoverable costs to administer the various Acts governing these sectors are incurred. Revenues from fees, licenses and registrations are recognized in the period to which they pertain.

2. SIGNIFICANT ACCOUNTING POLICIES (Con't)

(c) Financial Instruments

The Commission follows PSA-GNFPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value, cost or amortized cost. The Commission's Accounts receivable, and the Accounts payable and accrued liabilities are recorded at cost in the financial statements.

(d) Use of Estimates

Management has made estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual amounts could differ from these estimates. Significant items subject to such estimates and assumptions include the amortization expense, accrued liabilities, employee future benefits and allocation of costs between industry sectors.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance includes $11.58 million of accrued receivables related to amounts to be billed to the regulated sectors for the April 1, 2019 to June 7, 2019 period. Due to the wind down of the Commission, FSRA will bill the sectors for these amounts.

4. CAPITAL ASSETS

	June 7, 2019			March 31, 2018
	Cost	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
		($'000)		
Custom developed software	14,387	11,587	2,800	3,776
Custom software under development	-	-	-	3,306
Leasehold improvements	7,352	7,312	40	74
Computer hardware	2,932	1,328	1,604	1,437
Office furniture and equipment	2,209	2,209	-	-
	26,880	**22,436**	**4,444**	**8,593**

With the impending restructuring of the Commission, all major IT capital investments were terminated. Management determined that there was no future benefit to Custom software under development. As a result, $3.36 million of assets were written off of which $3.12 million was absorbed by the Commission and $0.24 million was allocated to the Motor Vehicle Accidental Claim Fund (MVACF), a related party.

5. DEFERRED REVENUE RELATED TO LICENCES AND REGISTRATION

Deferred revenue represents payments received for fees, licences and registrations that cover more than the current fiscal period. The deferred portion is recognized as revenue when the applicable future licence year occurs. The changes in the deferred revenue balances during fiscal period are summarized as follows:

	Balance, beginning of period	Received during the period	Recognized during the period	Balance, end of period
		($'000)		
Insurance Agents	4,293	5,767	(5,384)	4,676
Insurance Adjusters	30	302	(220)	112
Mortgage Brokers	13,569	4,238	(9,951)	7,856
Insurance Corporations	1,171	1,644	(1,518)	1,297
Service Providers	3,532	2,788	(3,532)	2,788
Other	629	1,733	(1,161)	1,201
	23,224	**16,472**	**(21,766)**	**17,930**

6. DEFERRED LEASE INDUCEMENTS

In July 2014, the Commission's office accommodation lease was extended from October 31, 2015 to October 31, 2020. The lease extension included an inducement in the amount of $0.82 million for the first four months of the lease extension.

The deferred lease inducement is comprised of the portion of future lease payments attributed to the rent-free period and the leasehold improvements allowance and is recognized as reduced rent expense over the term of the lease on a straight line basis.

($'000)	June 7, 2019	March 31, 2018
	($'000)	
Balance, beginning of period	426	591
Less: Lease inducements amortization	-	(165)
Deferred lease inducements	426	426
Less: current portion included in accounts payable and accrued liabilities	(165)	(165)
Balance, end of period	**66**	**261**

7. REVENUE

Under *The Financial Services Commission of Ontario Act*, the Commission may recover all of its costs through revenue assessments and fees charged to all entities or individuals that comprise the regulated sectors. For the fiscal period, revenue from the following Acts and regulations earned under the Acts administered by the Commission are:

	June 7, 2019	March 31, 2018
	($'000)	
Insurance Act		
Insurer assessment	29,759	21,773
Fees, licenses and other	7,663	6,129
Service provider fees and licenses	4,949	3,783
Pension Benefits Act		
Pension plan assessment	22,270	16,072
Registration fees and other	77	74
Credit Unions and Caisses Populaires Act		
Credit Union assessment	405	398
Fees and other	162	109
Loan and Trust Corporations Act		
Loan and Trust assessment	39	159
Fees, licenses and registrations	5	2
Mortgage Brokerages, Lenders and Administrators Act, 2006		
Fees, licenses, registrations and other	12,049	7,063
Co-operative Corporations Act		
Fees and other	7	12
	77,385	55,574

8. EMPLOYEE FUTURE BENEFITS

The Commission's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees. The future liability for benefits earned is recognized in the Province's consolidated financial statements. These benefits are recognized as follows:

i. Pension Benefits

The Commission's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Commission's annual payments to the funds. The Commission is not a sponsor of these funds, hence gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Commission. The Commission's payments of $3.64 million (2018 - $2.76 million) are included in employee benefits in the Statement of Operations.

ii. Employee Future Benefits Obligation

Employee future benefits include accrued severance entitlements, unused vacation, additional severance for those employees expected to be declared surplus, and other future compensation entitlements earned. The total costs for the period for all termination benefits amount to $6.49 million (2018 - $0.77 million) and are included in employee benefits and salaries and wages in the Statement of Operations. The total liability for these costs is reflected in the employee future benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities in the statement of financial position, as follows:

	June 7, 2019	March 31, 2018
	($'000)	
Total liability for employee future benefits	14,658	7,964
Less: Due within one year and included in accounts payable and accrued liabilities	(12,537)	(3,415)
Employee future benefits obligation	**2,121**	**4,549**

8. EMPLOYEE FUTURE BENEFITS (cont'd)

The legislative severance portion of the employee future benefits obligation was calculated based on the following assumptions: discount rate of 3.25% (2018 - 2.9%) and estimated average years to retirement of 10.56 years (2018 – 10.4 years). Due to policy changes for these benefits, no assumption of wage and salary escalation was used (2018 – 0%). These assumptions are management's best estimates.

The commission's restructuring costs for employee termination payments also included enhanced severance and payment in-lieu of notice. These costs totalled $3.67 million (2018 - $0) and $3.71 million (2018 - $0) respectively and are included in accounts payable and accrued liabilities in the Statement of Financial Position and in employee benefits and salaries and wages in the Statement of Operations.

iii. Other Non-Pension Post-Employment Benefits

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Province and accordingly is not included in these financial statements.

9. RELATED PARTY TRANSACTIONS

(a) Amounts due from the Province

The due from the Province balance reflected in the financial statements is the difference between the cash receipts submitted to the Province and the Commission's expenses paid. Should the Commission incur a deficit in any period, it is absorbed by the Province.

The Commission's surplus (deficit) by sector for the period are as follows:

Surplus (Deficit) by Sector:	**June 7, 2019**	**March 31, 2018**
	($'000)	
Deficit by sector:		
Co-op Sector	(503)	(356)
Mortgage Brokers Sector	(100)	(834)
	(603)	(1,190)
Surplus by sector:		
Health Service Providers Sector	70	258
	70	258

(b) Employee Benefits

Certain employee future benefits are paid for by the Province as indicated in Note 8.

(c) Other administrative expenses

The Ontario Ministry of Government and Consumer Services, the Ministry of Finance, the Ministry of Attorney General and FSRA have charged for administrative services, including pay and benefits services, information technology services, legal services and office accommodation. Total related party expenses paid by the Commission were $15.70 million (2018 - $14.51 million).

(d) Office Accommodation Lease

The Commission's office accommodation lease was assigned to the FSRA as of July 1, 2018. FSRA invoiced the Commission its portion of the accommodation costs which totalled $4.82 million for the period ending June 7, 2019 which is included in Services Expenses in the Statement of Operations

10. RECOVERIES

The Commission provides administrative and other support services to a number of organizations and recovers the costs of providing these services from the organizations in accordance with the memorandum of understanding or agreement signed with the respective organizations. Details of these recoveries are as follows:

	June 7, 2019	March 31, 2018
	($'000)	
Motor Vehicle Accident Claims Fund (Related Party)	2,742	2,493
Pension Benefits Guarantee Fund (Related Party)	849	758
General Insurance Statistical Agency	692	484
Canadian Association of Pension Supervisory Authorities	364	232
Canadian Council of Insurance Regulators	623	433
Mortgage Broker Regulators' Council of Canada	258	228
	5,528	**4,628**

11. FINANCIAL INSTRUMENTS

Interest rate risk:

The Commission's financial assets and liabilities are not exposed to interest rate risk.

Currency risk:

The Commission's exposure to currency risk is minimal as few transactions are in currencies other than Canadian dollars.

Credit risk:

The Commission is exposed to low credit risk in its financial instruments from accounts receivable owing from regulated sector organizations and individuals due to high historical collection rates.

Liquidity risk:

The Commission's exposure to liquidity risk is minimal as the Commission may recover all of its costs through revenue assessments and fees charged to all entities or individuals that form part of the regulated sectors. As well any deficiency of revenue over expenses is absorbed by the Province and is reflected in the Due from the Province on the Statement of Financial Position.

12. INTERNALLY RESTRICTED NET ASSETS

The Commission internally restricted \$0.80 million (2018- \$0.73 million) derived from the Health Service Providers sector (Note 9a). This amount will be transferred to FSRA and will be utilized in the respective sector in the future.

13. SUBSEQUENT EVENT - COMMISSION WIND DOWN AND RESTRUCTURING

On March 3, 2015, the government announced an Expert Advisory Panel ("Panel") to conduct the review of the mandates of the Commission, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario. The Panel conducted a public consultation on the issues being examined and issued a Final Report on March 31, 2016, recommending the establishment of a new financial services regulator in Ontario.

On June 8, 2019, FSRA became operational and assumed substantially all of the Commission's operations as well as certain assets, liabilities, and contractual obligations. A transfer order, made under provisions of the *FSRA Act*, by the then-Minister of Finance and Chair of Cabinet, sets out parameters for this transfer. As well, the transfer order also established that all rights, liabilities and obligations which related to civil proceedings commenced by or against the Commission or the Superintendent are transferred to the Ministry of Finance and all regulatory proceeding are transferred to FSRA.

As of June 8, 2019, the Commission has no employees. The Commission's assets and liabilities will be transferred to FSRA and the Ministry of Finance as follows:

Assets & Liabilities	**FSRA**	**Ministry of Finance**	**Total**
		($'000)	
Assets Transferred:			
Cash		1	1
Accounts Receivable	11,727	611	12,338
Prepaid	375		375
Due from Province	5,760	18,155	23,915
Capital Assets, net	4,444		4,444
Total Assets	**22,306**	**18,767**	**41,073**
Liabilities Transferred:			
Accounts Payable and Accrued Liabilities	1,392	14,323	15,715
Employee Future Benefits Obligation	2,121		2,121
Deferred Revenue	17,930		17,930
Deferred Lease Inducements	66		66
Net Assets	797	4,444	5,241
Total Liabilities and Net Assets	**22,306**	**18,767**	**41,073**

14. COMPARATIVE INFORMATION

Comparative information is for a fiscal year and current period information is for approximately 14 months, therefore the comparison, in some cases, may not be relevant.

11. Financial Statements: Pension Benefits Guarantee Fund

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2019

Financial Services Commission of Ontario

Deputy Superintendent
Pension Division

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Commission des services financiers de l'Ontario

Surintendant adjoint
Division des régimes de retraite

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Ontario

June 6, 2019

Pension Benefits Guarantee Fund
Management's Responsibility for Financial Information

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Pension Benefits Guarantee Fund.

Under the direction of the Superintendent, FSCO Management (Management) is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of Management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

In the administration of the Pension Benefits Guarantee Fund, Management is dedicated to the highest standards of integrity in provision of its services and has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Lester J. Wong
Deputy Superintendent, Pensions

Kwan Lee, MAcc, CPA, CA
Chief Accountant

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario

Opinion

I have audited the financial statements of the Pension Benefits Guarantee Fund (the "Fund"), which comprise the statement of financial position as at March 31, 2019 and the statements of operations and fund surplus, cash flows, and re-measurement gains and losses for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund at March 31, 2019 and the results of its operations, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Fund either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
June 6, 2019

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

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Financial Position
As at March 31, 2019

	March 31, 2019 ($ '000)	March 31, 2018 ($ '000)
ASSETS		
Current		
Cash	1	6
Accounts receivable	235,494	194,055
Investments (Note 4)	826,892	773,695
	1,062,387	967,756
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	10,152	7,407
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	5,912	15,945
	27,064	34,352
Claim payable - Long term	96,600	96,600
Loan payable - Long term (Note 5)	102,893	107,904
	226,557	238,856
Fund surplus from operation	842,927	736,570
Accumulated remeasurement losses	(7,097)	(7,670)
Fund surplus	835,830	728,900
	1,062,387	967,756

See accompanying notes to financial statements

Approved by:

Brian Mills
Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Operations and Fund Surplus
For the year ended March 31, 2019

	2019 ($ '000)	2018 ($ '000)
Revenue		
Premium revenue	102,348	89,011
Pension plan recoveries (Note 7)	1,022	8,125
Investment income (Note 4)	17,814	10,618
Pension consulting services recoveries (Note 9)		5,135
	121,184	112,889
Expenses		
Claims	(5,469)	108,999
Bad debt expenses	10,740	
Amortization of loan discount (Note 5)	5,989	6,229
Pension consulting services (Note 8)	2,546	3,266
Administration fee (Note 10)	715	758
Investment management fees (Note 10)	306	217
	14,827	119,469
Excess/(deficit) of revenue over expenses	106,357	(6,580)
Fund surplus, beginning of year	736,570	743,150
Fund surplus, end of year	842,927	736,570

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2019

	March 31, 2019 ($ '000)	March 31, 2018 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficit) of revenue over expenses	106,357	(6,580)
Items not affecting cash		
Amortization of loan discount (Note 5)	5,989	6,229
Losses on disposal of investments	3,474	642
	115,820	291
Changes in non cash working capital		
Accounts receivable	(41,440)	114,331
Claims payable	(10,033)	107,875
Accounts payable and accrued liabilities	2,745	868
	67,092	223,365
Cash flows from investing activities		
Purchases of investments	(3,102,613)	(2,781,807)
Proceeds from sale of investments	3,046,516	2,569,448
	(56,097)	(212,359)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(5)	6
Cash (overdraft) position, beginning of year	6	-
Cash position, end of year	1	6

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2019

	March 31, 2019 ($ '000)	March 31, 2018 ($ '000)
Accumulated re-measurement losses, beginning of year	**(7,670)**	**(1,752)**
Unrealized losses attributed to portfolio investments	(2,901)	(6,560)
Realized losses reclassified to the statement of operations	3,474	642
Accumulated re-measurement losses, end of year	**(7,097)**	**(7,670)**

See accompanying notes to financial statements

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.

- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators from estimates provided by actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(c) Premium Revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan's fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year.

	2019 ($'000)	2018 ($'000)
Estimated revenue	109,200	69,300
Actual revenue related to current and prior years received in current year	62,448	83,711
Less: prior year's estimated revenue	(69,300)	(64,000)
	102,348	**89,011**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue, claims payable and pension plan recoveries receivable.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

Investments consist of:

	2019 ($'000)		2018 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	274,284	274,284	360,207	360,207
Government bonds	552,608	559,706	413,488	421,160
	826,892	833,990	773,695	781,367

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the Money Market Portfolio at the end of the last quarter was $0.55M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $7.88M for a 1.00% change in rates.

Discounted notes with maturities between April 2019 and June 2019 have yields in the range of 1.652% to 2.374% (2018 – maturities between April 2018 and September 2018 had yields in the range of 0.770% to 1.670%).

The government bonds maturing between June 2019 and March 2022 have yields in the range of 0.980% to 2.526% (2018 – maturing between June 2018 and June 2021 have yields in the range of 0.938% to 2.254%).

5. LOAN PAYABLE TO THE PROVINCE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2019 as follows:

	2019 ($'000)	2018 ($'000)
Face Value	165,000	176,000
Less: Discount	(51,107)	(57,096)
Amortized Cost	113,893	118,904
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	102,893	107,904
Balance	113,893	118,904

The discount of $51.1M is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2020	5,737
2021	5,471
2022	5,193
2023	4,901
2024	4,593

6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue receivable of $119.3M, RST receivable of $9.5M, investment income receivable of $5.6M, the HST receivable of $0.1M and pension plan recoveries receivable of $101M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as the lesser of:

- $600 per Ontario plan beneficiary, or
- a varying percentage (0.75% - 2.25%) of the plan's PBGF assessment base.

The probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the HST receivable is considered to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2019, the Fund has an investment balance of $827M (2018 - $774M) to settle current liabilities of $27M (2018 - $34M). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2019, the Fund had $1.0M (2018 – $8.1M) in recoveries.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2019, $2.5M was paid to such external experts (2018 - $3.3M paid).

9. PENSION CONSULTING SERVICES RECOVERIES

In fiscal 2018, the PBGF was reimbursed for certain legal and consulting costs, which it incurred in respect of the Stelco restructuring, by the Ministry of the Environment and Climate Change which also participated in the restructuring. There is no such recovery in fiscal 2019.

10. RELATED PARTY TRANSACTIONS

For fiscal 2019, an administration fee of $0.7M (2018 - $0.8M) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees consist mainly of fees paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in note 5.

12. Financial Statements: Motor Vehicle Accident Claims Fund

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

FINANCIAL STATEMENTS

MARCH 31, 2019

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

MARCH 31, 2019
TABLE OF CONTENTS

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David.Wai@ontario.ca

Ontario

September 23, 2019

Motor Vehicle Accident Claims Fund
Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management, in accordance with Canadian public sector accounting standards, has prepared the financial statements and, where appropriate, included amounts based on Management's best estimates and judgements.

Management agrees with the specialists' work in evaluating the Unpaid Claims amount and has adequately considered the specialists' qualifications in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the specialists' independence or objectivity.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems, and practices to provide reasonable assurances that the financial information is reliable and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit and Risk Committee.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's report outlines the scope of the auditor's examination and report.

Tammie Kip
Senior Manager
Motor Vehicle Accident Claims Fund

Alec Chan
Senior Manager, Special Projects,
Financial Management, Corporate Services Branch
Financial Services Regulatory Authority

1

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Motor Vehicle Accident Claims Fund

Opinion

I have audited the financial statements of the Motor Vehicle Accident Claims Fund (MVACF), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and MVACF deficit, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MVACF as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of MVACF in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting 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.

In preparing the financial statements, management is responsible for assessing the MVACF's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless MVACF either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing MVACF's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MVACF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MVACF's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause MVACF to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
September 23, 2019

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

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

	2019	2018
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 57,989,081	$ 50,873,187
Accounts receivable - driver's licence fees (note 3b)	708,021	674,278
Accounts receivable - debtors (note 3c)	45,341,198	44,227,614
Less: allowance for doubtful accounts	33,566,902	34,168,022
	11,774,296	10,059,592
Total current assets	70,471,398	61,607,057
Capital assets (note 4)	553,975	553,975
Less: accumulated amortization	553,975	553,975
	-	-
Unpaid claims recoverable (note 5)	-	-
Total assets	**$ 70,471,398**	**$ 61,607,057**
LIABILITIES AND MVACF ACCUMULATED DEFICIT		
Current		
Accounts payable and accrued expenses	$ 2,250,234	$ 2,644,220
Unpaid claims and adjustment expenses - current (note 5)	30,826,142	26,756,331
Total current liabilities	33,076,376	29,400,551
Employee future benefits obligation (note 3g)	431,826	430,805
Deferred revenue	77,081,979	75,821,513
Unpaid claims and adjustment expenses - long term (note 5)	119,289,615	121,660,478
Total liabilities	229,879,796	227,313,347
MVACF accumulated deficit (note 3)	(159,408,398)	(165,706,290)
Total liabilities net of MVACF accumulated deficit	**$ 70,471,398**	**$ 61,607,057**

See accompanying notes.

APPROVED:

David Wai
Assistant Deputy Minister
Financial Services Policy Division
Ministry of Finance

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

	2019	2018
REVENUE		
Fees on issue or renewal of driver's licences	$ 31,005,714	$ 30,452,704
Prior year recoveries	5,748,269	2,138,323
Other revenue	3,088	9,097
Total revenue	36,757,071	32,600,124
EXPENSES		
Change in net unpaid claims and adjustment expenses	1,698,948	(2,781,148)
Accident benefit claims payments	14,899,063	17,964,250
Administrative expenses		
Salaries and wages	1,913,767	1,905,234
Employees' benefits	343,634	227,972
Transportation and communication	14,130	18,614
Claims (solicitors' fees, etc.)	2,806,938	3,098,696
Accident benefit claims expense	1,812,193	3,024,629
Other services	2,581,854	2,150,193
Bad debts expense	4,380,188	5,669,254
Supplies and equipment	8,464	8,622
Total expenses	30,459,179	31,286,316
Excess of revenue over expenses	6,297,892	1,313,808
MVACF accumulated deficit, beginning of year (note 3)	165,706,290	167,020,098
MVACF accumulated deficit, end of year	**$ 159,408,398**	**$ 165,706,290**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2019	2018
OPERATING ACTIVITIES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 32,232,436	$ 31,423,890
Repayment by debtors	741,685	988,738
Prior year recoveries	5,990,622	2,138,323
Other revenue	3,089	9,098
	38,967,832	34,560,049
Cash outflows		
Statutory payments (note 9)	(22,184,503)	(23,725,312)
Payments to employees	(2,255,741)	(2,191,247)
Administrative expenses (note 9)	(7,411,694)	(8,139,506)
	(31,851,938)	(34,056,065)
Net cash provided (used) in operating activities	7,115,894	503,984
Funds on deposit with the Ministry of Finance, beginning of year	50,873,187	50,369,203
Funds on deposit with the Ministry of Finance, end of year	**$ 57,989,081**	**$ 50,873,187**

See accompanying notes.

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act,* and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements. MVACF provides compensation for these types of coverage in claims resulting from automobile accidents involving uninsured or unidentified drivers, when there is no available policy of insurance.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB) are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

b) Accounts Receivable – Driver's Licence Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Plenary a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800*. Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at- fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Expected recoverable amounts of $7.1 million (2017/18 - $6.9 million) increase the accounts receivable – debtors accordingly.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF, the activity on the account since the date of the judgment, and the financial status of the defendant/debtor.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. Criteria would include writing off amounts related to unidentified drivers, uninsured motorists killed at the time of the accident or deceased subsequent to accident, debtor that declared bankruptcy, debts with balances under $50, accounts with no repayments after 3 years with collections efforts exhausted/debtor deported, etc. These criteria are used to select a block of accounts that is reviewed annually by the enforcement and collections staff. The Ministry of Finance, Internal Audit Section audits the identified accounts for potential write-off and provides a certificate of assurance verifying that the established criteria for the write-off have been met. The write-off transaction is authorized by an Order-In–Council (OIC) under the authority set out in the *Financial Administration Act*.

For March 31, 2019, a write-off of $5.2 million was submitted to the Ministry of Finance but has not yet been approved. A write-off of $5.7 million for March 31, 2018 was approved during the year, through an OIC. This write-off is recorded in the current year's financial statements and represents a reduction of the accounts receivable debtors and allowance for doubtful accounts. There is no impact in the current year statement of operations.

Accounts receivables-debtors and the allowance for doubtful accounts are adjusted on receipt of the OIC approving the write off.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

Prior year recoveries are recorded in the period they are determined. In the current year, $5.7 million (2017/18 - $2.1 million) recoveries were recorded but related to prior year claims.

e) Unpaid Claims and Adjustment Expenses

Unpaid claims and adjustment expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement proceedings. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements. Note 6 contains additional analysis related to structured settlements.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

e) Unpaid Claims and Adjustment Expenses (continued)

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimants. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2019 (2018 – nil) as all insurers are rated AA- or above by Standard & Poor's Rating. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in note 6 – Contingent Gains.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian PSA-GNFPO requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable, contingent liabilities, allowance for doubtful accounts and employee future benefits.

g) Employee Future Benefits Obligation

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees or required by the Management Board of Cabinet's Compensation Directive. The future liability for benefits earned by MVACF's employees is recognized in the Province of Ontario's (the Province) consolidated financial statements.

While the Province continues to accrue for these costs each year and fund them annually when due, MVACF also recognizes the liabilities pertaining to a basic severance entitlement and compensated absences components of its employee future benefits costs in these financial statements. When these costs are funded by the Province when due, MVACF derecognizes these liabilities in the year.

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Province and accordingly is not included in these financial statements.

h) Financial Instruments

MVACF follows PSA-GNFPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. MVACF's accounts receivable, and the accounts payable and accrued liabilities are recorded at cost in the financial statements.

4. CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)		2019	
	Cost	**Accumulated Amortization**	**Net Book Value**
Computer equipment	**$ 30,153**	**$ 30,153**	**$ -**
Office equipment	**7,406**	**7,406**	**-**
Furniture and fixtures	**16,416**	**16,416**	**-**
Leasehold improvements	**500,000**	**500,000**	**-**
	$ 553,975	**$ 553,975**	**$ -**

(in dollars)		2018	
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 30,153	$ -
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 553,975	$ -

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses and unpaid claims recoverable consist of the following:

	2019		2018	
(in thousands of dollars)	**Gross**	**Recoverable (liability)**	Gross	Recoverable (liability)
ACCIDENT BENEFITS				
Statutory accident benefits	**$115,333**	**$ -**	$110,525	$ -
THIRD-PARTY LIABILITY (TPL)				
Property damage	**632**	**(7)**	357	-
Bodily injury	**33,655**	**(489)**	37,535	-
Total TPL	**34,287**	**(496)**	37,892	-
Totals	**$149,620**	**$ (496)**	$148,417	$ -

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)	**2019**	2018
Balance, beginning of year	**$ 148,417**	$ 151,461
Increase in provision for losses that occurred in prior years	**(1,064)**	681
Amounts paid during the year on claims of prior years		
Statutory payments	**(16,982)**	(22,537)
Claims expenses	**(8,097)**	(8,105)
Amounts paid during the year on claims of the current year		
Statutory payments	**(586)**	(585)
Claims expenses	**(279)**	(210)
Provision for losses on claims that occurred in the current year	**28,211**	27,712
Balance, end of year	**$ 149,620**	$ 148,417

6. CONTINGENT GAINS AND LIABILITIES

a) Contingent Gains

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2019 for information purposes.

As at March 31, 2019, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately \$61.4 million (2017-18 - \$72.0 million) with applicable reversionary interest of approximately \$42.9 million (2017-18 - \$53.9 million).

b) Contingent Liabilities

In accordance with PSA-GNFPO, MVACF makes a provision for a liability when it's both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and it is possible that MVACF's financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution to court decisions.

7. ROLE OF THE ACTUARY AND AUDITOR

FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include the provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice in Canada. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary's report outlines the scope of his work and opinion.

The Auditor General of Ontario is appointed as the external auditor of the MVACF with the responsibility to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out her audit, the Auditor General also considers the work of the actuary and his report on the provision for unpaid claims and adjustment expenses. The auditor's report outlines the scope of the audit and her opinion.

8. FINANCIAL INSTRUMENT RISKS

Credit risk is the risk that other parties fail to perform as contracted. MVACF is exposed to credit risk in its financial instruments from accounts receivable – debtors. Credit risk on balances receivable arises from the possibility that the entities which owe money to the Funds may not fulfill their obligation. Collectability is reviewed regularly and an allowance for doubtful accounts, if necessary, is established to recognize the impairment risks identified.

Liquidity risk is the risk that MVACF will not be able to meet its cash flow obligations as they fall due. Liquidity risk arises from accounts payable and accrued expenses, employee future benefits obligation, and unpaid claims and adjustment expenses. The risk is mitigated since the Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

9. COMPARATIVE FIGURES

Certain prior year figures have been restated to conform with the method of presentation adopted for the current year.

Financial Services
Commission
of Ontario

Ontario

Commission des
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de l'Ontario

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