

OSC

ONTARIO
SECURITIES
COMMISSION

MD & A

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the Ontario Securities Commission's (OSC) financial performance for the fiscal year ended March 31, 2020. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out the OSC's plans and budget for the year ahead.

This MD&A should be read in conjunction with the OSC's 2020 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance.

Important information about this MD&A

- The information in this MD&A is prepared as of June 16, 2020.
- The terms "we", "us", "our" and "OSC" refer to the Ontario Securities Commission.
- This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on the OSC's current views of future events and financial performance. Key risks and uncertainties are discussed in the Risks and risk management section of this MD&A. However, some risks and uncertainties are beyond the control of the OSC and are difficult to predict. Actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
- The words "believe", "plan", "intend", "estimate", "expect", "anticipate" and similar expressions, as well as future conditional verbs, such as "will", "should", "would" and "could" often identify forward-looking statements.
- Unless otherwise specified, references to a year refer to the OSC's fiscal year ended March 31.
- Notes to the financial statements refer to the OSC's 2020 Notes to the Financial Statements.
- All financial information related to the current and preceding fiscal years has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, Note 2 *Basis of presentation*, Note 3 *Significant accounting policies* and Note 21 *Accounting pronouncements*.
- Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
- Due to rounding, some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components.

About the OSC

A summary of our role, mandate and goals

The Ontario Securities Commission is responsible for regulating the capital markets of Ontario. We are an independent self-funded Crown corporation of the Province of Ontario. Our powers are given to us under the *Securities Act* (Ontario), the *Commodity Futures Act* (Ontario) and certain provisions of the *Business Corporations Act*. We operate independently from the government and are funded by fees charged to market participants. We are accountable to the Ontario Legislature through the Minister of Finance. The OSC operates under the direction of the Commission. The Commission has three distinct functions in support of its mandate – making policies and rules, serving as the board of directors, and adjudicating. As policy and rule-makers, Members approve and oversee the implementation of regulatory initiatives and priorities. As the Board, Members oversee the management of the financial and other affairs of the OSC. As adjudicators, Members (other than the Chair and CEO who does not adjudicate) act independently of their other roles and preside over administrative proceedings brought before the OSC's Tribunal – the administrative tribunal that is assigned the power to conduct hearings under Ontario securities law and commodity futures law.

We use our rule making and enforcement powers to help safeguard investors, deter misconduct and regulate market participants in Ontario. The OSC oversees the operation of marketplaces, self-regulatory organizations (SROs), clearing agencies, and investor protection funds in Ontario. We work to regulate market participants including: firms and individuals who sell securities and derivatives, firms who provide investment advice in Ontario and public companies.

We are an active member of the Canadian Securities Administrators (CSA), the forum

for the 13 securities regulators of Canada's provinces and territories. The CSA works to foster a nationally coordinated and modernized securities regulatory framework.

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

Mandate

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

Vision

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

Goals

1. **Promote confidence in Ontario's capital markets**
2. **Reduce regulatory burden**
3. **Facilitate financial innovation**
4. **Strengthen our organizational foundation**

For more information about our goals, see our [Statement of Priorities at www.osc.gov.on.ca](https://www.osc.gov.on.ca).

About Our Fees

The OSC is funded by fees from market participants and we typically re-evaluate fee rates every three years. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 *Fees* and 13-503 *(Commodity Futures Act) Fees* ("Fee Rules"). When re-evaluating fee rates, the OSC considers the existing surplus, projected level of revenue and expenses, capital spending and the level of cash resources required to fund operations through capital market downturns. In 2020 we performed an analysis of our fee rates, but many of the underlying assumptions have since changed in light of COVID-19 including a potential negative impact on OSC revenues. We anticipate reassessing fee rates and are considering Fee Rule amendments once market conditions stabilize.

Participation fees are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. Fees are calculated, using an increasing tiered structure, based on average market capitalization for issuers and Ontario specified revenues for registrants. Specified regulated entities are charged participation fees based on their market share or a fixed rate. The basis for calculating participation fees is on a market participants' most recent fiscal year. The timing of participation fee revenue affects our cash flow. For more information, see the Liquidity and Financial Position section.

Activity fees are charged when market participants file documents, such as prospectuses and other disclosure documents, registration applications and applications for discretionary relief, and are set to reflect the costs associated with providing the related services. Activity fees are also charged for requests, such as making changes to a registration or searching for records. Activity fees are flat-rate fees based on the estimated direct cost for the OSC to review documents and respond to requests.

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

2020 Organizational Developments

Operational Effectiveness

We successfully delivered on key priorities while achieving cost savings throughout the year. The OSC's financial management oversight framework considers shifts in organizational focus and their impact on priorities to make available the necessary resources to meet these needs while maintaining cost prudence.

Regulatory Modernization

We are focused on delivering objectives outlined in the Five-Point Capital Markets Plan contained in the April 2019 Budget, consisting of the following elements:

- The OSC's burden reduction task force
- Establishing the Office of Economic Growth and Innovation
- Improving the investor experience and protection
- Ensuring economically focused rule-making
- Ensuring competitiveness and clear services standards

Through the 107 burden reduction initiatives reported in November 2019, we are re-examining rules and processes to ensure they are appropriate and necessary in a fashion that maintains investor protection. Furthermore, we are working on staffing the newly created Office of Economic Growth and Innovation. By working closely with the Ontario government's Securities Modernization Taskforce, we are identifying potential areas for reform of Ontario securities laws and regulations. In response to the expanding and evolving core regulatory functions, a restructure was performed, and a Chief Administrative Officer was hired in December 2019 to oversee the OSC's business operations, previously overseen in conjunction with regulatory operations by the Executive Director.

Chair and CEO Transition

Following the departure of OSC Chair and CEO Maureen Jensen, Grant Vingoe has assumed Acting Chair and CEO effective April 15, 2020. Grant Vingoe was previously OSC Vice-Chair before accepting this role. He was a partner with international law firms in Toronto and New York for more than 25 years before joining the OSC. He has extensive experience in cross-border securities activities and corporate governance and regulatory policy.

Impact of the Novel Coronavirus Disease (COVID-19)

COVID-19 has resulted in significant capital markets volatility for Ontario market participants. As part of our commitment to support market participants during the COVID-19 crisis, we developed temporary relief in the form of blanket orders for market participants from certain regulatory requirements. We continue to collaborate with the Canadian Securities Administrators (CSA), to coordinate our approach for market participants on filing deadlines, meeting expectations for Annual General Meetings and other compliance requirements. We are also actively monitoring market operations and are working collaboratively with the Investment Industry Regulatory Organization of Canada (IIROC).

Given the onset of COVID-19 late in the fiscal year, there is minimal impact to the OSC's 2020 financial results. If capital market volatility continues throughout fiscal 2021, there may be an impact on the OSC's fiscal 2021 priorities and financial results. Business plan and budgetary considerations as a result of COVID-19 are included in the 2021 Strategy section.

Designated Fund

During the year, the designated fund grew by \$34.0 million as a result of six significant settlements. While the fund has grown to \$118.4 million, the inflow of funds into the account is completely dependent upon the nature of enforcement cases from year to year. See *Liquidity and Financial position* section for further details and Note 6 of the financial statements.

The recent growth in the designated fund and allocations from this fund have been an area of focus for the Commission. We expect to publish additional details regarding the Commission's allocations process by fiscal year-end.

Cooperative Capital Markets Regulatory System (CCMR)

The CCMR is designed to streamline the capital markets regulatory framework to protect investors, foster efficient capital markets and manage systemic risk while preserving strengths of the current system. The OSC continues to play an important advisory role to the Ontario Ministry of Finance on the project to create the CCMR. The participating jurisdictions engaged to implement the CCMR include British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island, Yukon, the Federal government and as of April 2019, Nova Scotia.

Financial Highlights

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

As a self-funded Crown corporation, the OSC operates on a cost-recovery basis. The chart below provides a comparison of results over the last two years. The general surplus on March 31, 2020 was \$79.1 million, which increased by \$11.6 million from the prior year. Total revenue for the fiscal year ended March 31, 2020 was \$5.0 million (3.9%) higher than the prior year, increasing primarily as a result of higher registrant participation fees from growth in Ontario financial markets. Total expenses before recoveries and finance costs were \$4.6 million (3.8%) higher than the prior year, primarily due to an increase in salaries and benefits partially offset by lower professional services.

As a result of the adoption of IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases*, OSC premise and office equipment leases that were previously reported as off-balance sheet commitments are now capitalized on the Statement of Financial Position. This resulted in the setup of right of use assets and offsetting lease liabilities on April 1, 2019 of \$57.7 million. Given the OSC's subleasing activity as a lessor

on the premise lease, the \$57.7 million right of use assets were offset by a lease receivable totaling \$3.7 million, thus resulting in net right of use assets of \$54.0 million. Depreciation on the right of use assets began in 2020 while occupancy costs declined in 2020 as lease payments are now included in the measurement of the lease liabilities. Interest charges on the lease liabilities are recognized against finance costs. Refer to Note 3 of the financial statements for further information on the impact of IFRS 16 on our financial statements.

Total assets increased by \$106.7 million and total liabilities increase by \$95.1 million. The primary reasons for the increase in assets and liabilities is due to an increase in funds held pursuant to designated settlements and orders of \$34.0 million, held as both an asset and liability, as well as \$57.7 million to establish right of use assets and a lease receivable, and offsetting lease liabilities based on the adoption of IFRS 16. Furthermore, excess of revenue over expenses has also contributed an increase in total assets from 2019.

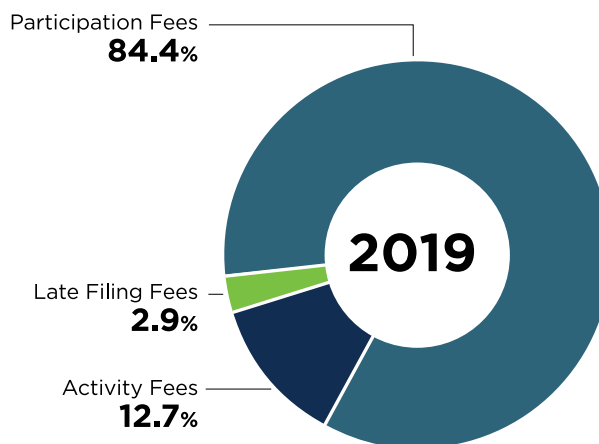
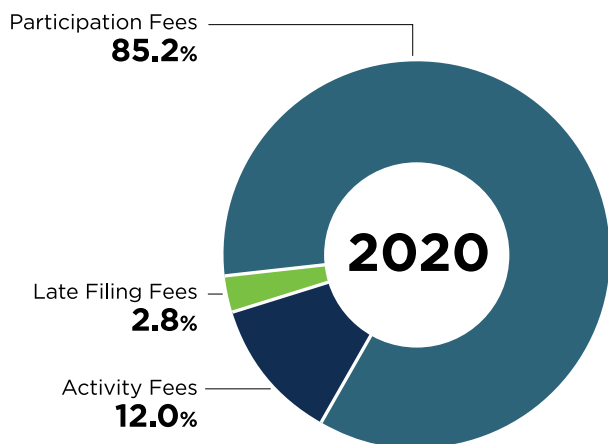
(Thousands of dollars)	2020 Actual	2019 Actual	2018 Actual
Revenue	\$ 134,396	\$ 129,353	\$ 124,819
Expenses	126,271	121,651	112,381
Excess of revenue over expenses before Recoveries and Finance costs	\$ 8,125	\$ 7,701	\$ 12,438
Finance costs	1,793	—	—
Recoveries of insurance proceeds net of loss on asset disposals	(622)	(471)	(521)
Recoveries of enforcement costs	(2,993)	(2,563)	(854)
Recoveries of investor education costs	(1,362)	(1,130)	(1,475)
Excess of revenue over expenses	\$ 11,309	\$ 11,865	\$ 15,288
General surplus	\$ 79,080	\$ 67,516	\$ 55,787
Property, plant, equipment and intangibles (additions)	\$ 3,839	\$ 5,657	\$ 3,384
Total assets*	\$ 446,915	\$ 340,233	\$ 276,319
Total liabilities*	\$ 347,835	\$ 252,717	\$ 200,533

* Includes \$267.1 million of restricted funds from designated orders and settlements as well as funds collected by the CSA to operate and redevelop national systems

Revenue

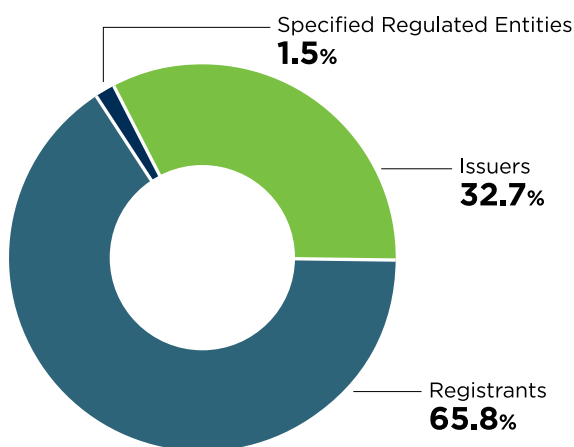
For the year-ended March 31, 2020, total revenue of \$134.4 million was \$5.0 million (3.9%) higher than the prior year, primarily due to higher participation fees from registrant firms. Total revenue for the year exceeded budget by \$7.6 million (6.0%), primarily due to higher participation fees from registrants and issuers.

(Thousands of dollars)	2020 Actual	2020 Budget	2019 Actual	Variance Favourable/(Unfavourable)			
				Budget		Prior Year	
				\$	%	\$	%
REVENUE							
Participation fees	\$ 112,610	\$ 106,140	\$ 108,083	\$ 6,470	6.1%	\$ 4,527	4.2%
Activity fees	15,918	16,006	16,312	(88)	-0.6%	(394)	-2.4%
Late filing fees	3,695	2,886	3,716	809	28.0%	(21)	-0.6%
Total fees	\$ 132,223	\$ 125,032	\$ 128,111	\$ 7,191	5.8%	\$ 4,112	3.2%
Miscellaneous	\$ 763	\$ 575	\$ 156	\$ 188	32.7%	\$ 607	389.2%
Interest income	1,410	1,232	1,086	178	14.4%	324	29.8%
Total revenues	\$ 134,396	\$ 126,839	\$ 129,353	\$ 7,557	6.0%	\$ 5,043	3.9%



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

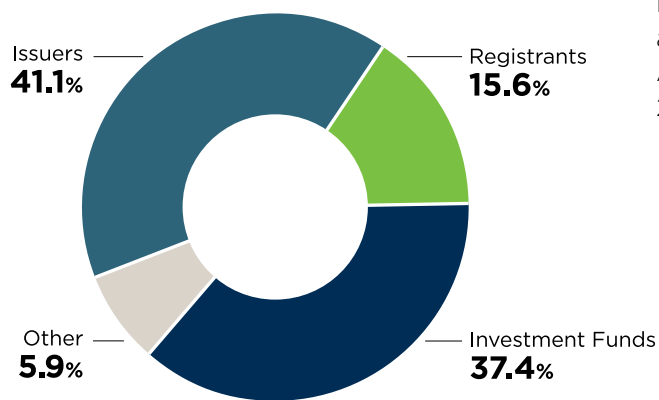
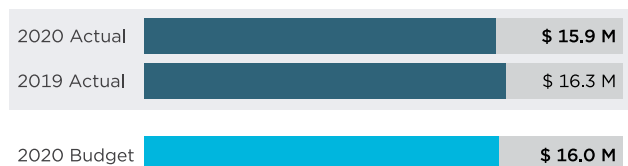
Participation Fees



Participation fee levels are set using a tiered structure based on Ontario specified revenues for registrants and unregistered capital market participants and average market capitalization for reporting issuers. Participation fee revenues were \$4.5 million (4.2%) higher in 2020 than the prior year, primarily as a result of Ontario specified revenue growth from existing large registrants, moving these firms into higher fee tiers.

Participation fee revenues were \$6.5 million (6.1%) higher in 2020 than budget, primarily due to higher registrant and issuer participation fees of \$5.1 million and \$1.4 million, respectively.

Activity Fees

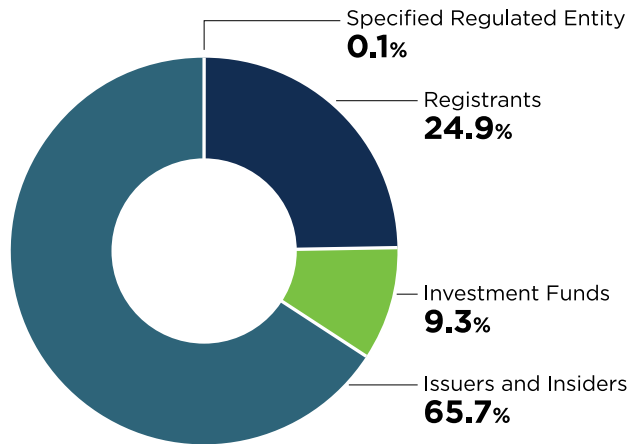


The majority of issuer activity fees are charged for services relating to securities offerings and applications (e.g. exemptive relief applications from Ontario Securities Act requirements). The majority of registrant activity fees are charged for services relating to registrations (e.g. new firm or individual) and applications.

Activity fee revenues were \$0.4 million (2.4%) lower in 2020 than the prior year, primarily as a result of lower dealer/advisor registrations. Activity fee revenues were comparable to the 2020 budget.

Late Fees

2020 Actual		\$ 3.7 M
2019 Actual		\$ 3.7 M
2020 Budget		\$ 2.9 M

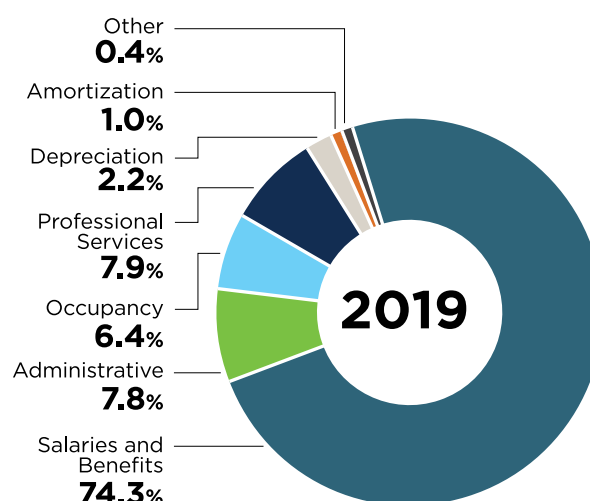
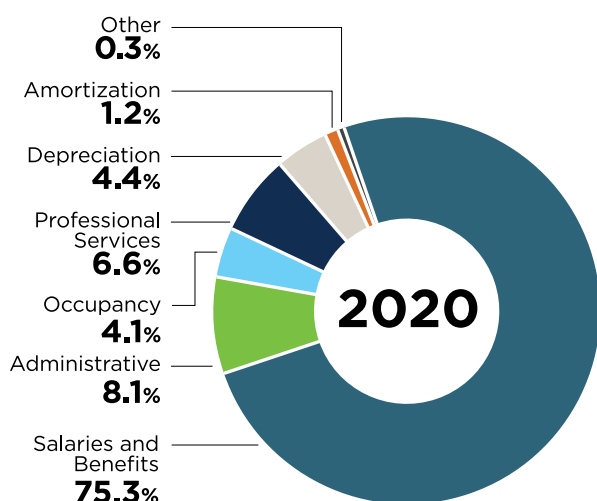


Late fees are triggered when market participants do not pay or do not file regulatory forms by established due dates as required by securities legislation. Late fees are intended to promote compliance with securities legislation to allow for filings to be made publicly available on a timely basis and to ensure the OSC can carry out required regulatory tasks. Late fee revenues in 2020 are comparable to 2019. Late fee revenues were \$0.8 million (28.0%) higher than the 2020 budget primarily due to a higher volume of late issuer filings. In May 2019, the OSC issued a moratorium on registrant late fees owing for disclosing outside business activities past the required filing deadline. In the past few years, an average of \$0.7 million was generated from these filings.

Expenses

For the year-ended March 31, 2020, expenses before recoveries and finance costs amounted to \$126.3 million, representing a decrease of \$3.2 million (2.5%) against the budget and an increase of \$4.6 million (3.8%) against the prior year.

(Thousands of dollars)	2020 Actual	2020 Budget	2019 Actual	Variance Favourable/(Unfavourable)			
				Budget		Prior Year	
				\$	%	\$	%
Salaries and benefits	\$ 95,099	\$ 93,295	\$ 90,394	\$ (1,804)	-1.9%	\$ (4,705)	-5.2%
Administrative	10,188	12,359	9,537	2,171	17.6%	(651)	-6.8%
Occupancy	5,137	4,614	7,735	(523)	-11.3%	2,598	33.6%
Professional services	8,304	11,426	9,576	3,122	27.3%	1,272	13.3%
Depreciation	5,540	5,732	2,703	192	3.3%	(2,837)	-105.0%
Amortization	1,521	1,178	1,159	(343)	-29.1%	(362)	-31.3%
Other	482	839	547	357	42.6%	65	11.9%
Total expenses (before recoveries and finance costs)	\$ 126,271	\$ 129,443	\$ 121,651	\$ 3,172	2.5%	\$ (4,620)	-3.8%
Finance costs	\$ 1,793	\$ 1,729	\$ —	\$ (64)	-3.7%	\$ (1,793)	-100.0%
Recoveries of insurance proceeds net of loss on asset disposals	(622)	—	(471)	622	100.0%	151	32.0%
Recoveries of enforcement costs	(2,993)	(1,000)	(2,563)	1,993	199.4%	430	16.8%
Recoveries of investor education costs	(1,362)	(1,587)	(1,130)	(225)	-14.1%	232	20.6%
Total recoveries	\$ (3,184)	\$ (858)	\$ (4,164)	\$ 2,326	271.1%	\$ (980)	-23.5%
Total expenses (net of recoveries)	\$ 123,087	\$ 128,585	\$ 117,487	\$ 5,498	4.3%	\$ (5,600)	-4.8%



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

Salaries and Benefits

2020 Actual		\$ 95.1 M
2019 Actual		\$ 90.4 M
2020 Budget		\$ 93.3 M

The OSC's largest cost is salaries and benefits, representing 77.3% of total expenses net of recoveries. In 2020, salaries and benefits were \$4.7 million (5.2%) higher than the prior year partially due to an increase in the OSC's average headcount by 17 positions from 555 in 2019 to 572 in 2020. Five new positions were created to enhance data-gathering, intelligence and analytical capabilities while three positions created to support the restructure, including hiring the Chief Administrative Officer. The remaining increase in headcount is due to filling more vacant positions in 2020. In addition, inflationary performance-based salary increases were provided to staff during the year.

Salaries and benefits expenses were \$1.8 million (1.9%) higher than the 2020 budget. This was primarily due to filling more vacant positions in 2020 and higher employee termination expenditures compared to the budget.

For details on the composition of the salaries and benefits expenses incurred, see Note 16 of the financial statements.

Administrative

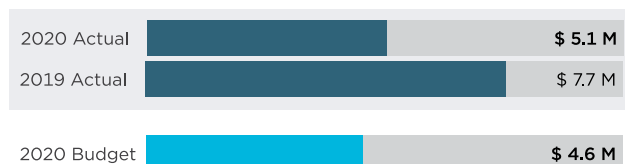
2020 Actual		\$ 10.2 M
2019 Actual		\$ 9.5 M
2020 Budget		\$ 12.4 M

Administrative expenses primarily consist of ongoing information technology (IT) maintenance and support charges, Commission expenses, research and stakeholder outreach costs. Administrative expenses were \$0.7 million (6.8%) higher than the prior year, primarily as a result of higher IT maintenance costs as we continue to invest in cloud hosted software, offset by lower Commission expenses.

Administrative expenses were \$2.2 million (17.6%) lower than the 2020 budget. In addition to lower Commission expenses, various cloud-hosted technology solution projects were deferred to 2021 resulting in lower information technology costs compared to the budget. In addition, spending on research and stakeholder outreach were lower than the budget.

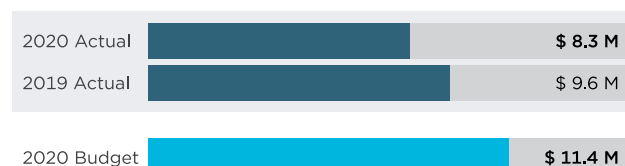
For details on the composition of administrative expenses incurred, see Note 17 of the financial statements.

Occupancy



As a result of the adoption of IFRS 16, non-lease component payments (i.e. common area maintenance) continue to be presented as occupancy costs. Occupancy costs were \$2.6 million (33.6%) lower than the prior year primarily due to the capitalization of the premise lease that relates to lease payments included in the measurement of the lease liabilities and an adjustment to reclassify lease income from a subtenant previously offset against occupancy costs to miscellaneous income. Occupancy costs were \$0.5 million (11.3%) higher than the budget primarily due to the adjustment to reclassify lease income.

Professional Services



Professional services include consultants who provide specialized services to meet corporate and regulatory needs and CSA shared costs. As a member of the CSA, the OSC pays a portion of the costs to operate the CSA's office and joint CSA projects. CSA project costs are allocated to each CSA member based on the population of its jurisdiction as a percentage of all participating jurisdictions (Ontario - 38.7% in 2020 and 2019). All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat.

Professional services expenses were \$1.3 million (13.3%) lower than the prior year and \$3.1 million (27.3%) lower than the 2020 budget primarily as a result of decreased spending on external legal services on collection cases and enforcement matters and lower spend on information technology projects. In 2020, total CSA spending on shared projects was \$2.3 million (\$2.3 million in 2019). The OSC contributed \$0.9 million (\$0.9 million in 2019).

Depreciation

2020 Actual		\$ 5.5 M
2019 Actual		\$ 2.7 M
2020 Budget		\$ 5.7 M

Depreciation expenses were \$2.8 million (105.0%) higher than the prior year, primarily as a result of depreciation on the right of use assets established in 2020 in accordance with IFRS 16 *Leases*. Depreciation expenses were comparable to the 2020 budget.

Finance Costs

2020 Actual		\$ 1.8 M
2019 Actual		\$ 0.0 M
2020 Budget		\$ 1.7 M

As a result of the adoption of IFRS 16 in 2020, interest charges on lease payments capitalized as part of the lease liabilities are recognized as finance costs.

Recovery of Enforcement Costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a monetary sanction is issued, unless management determines that collecting the monetary sanction is significantly doubtful, in which case, recovery is recognized when payment is received. In 2020, \$3.0 million was recorded (\$2.6 million in 2019).

Recovery of Investor Education Costs

During the year, the OSC recorded \$1.4 million in recoveries of investor education costs from funds held pursuant to designated settlements and orders (\$1.1 million in 2019). These recoveries are reviewed and approved by the Audit and Finance Committee on a quarterly basis.

Subparagraph 3.4(2)(b)(ii) of the *Securities Act* (Ontario) states that enforcement monies may be designated “for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets.”

Liquidity and Financial Position

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

Liquidity

At March 31, 2020, the OSC held \$84.2 million in cash (\$74.0 million in 2019) and \$20.0 million in reserve fund assets (\$20.0 million in 2019), for a combined total of cash and cash equivalent resources available of \$104.2 million (\$94.0 million in 2019). We hold an appropriate level of cash, reserve fund assets and credit access to ensure liquidity for our forecast cash requirements.

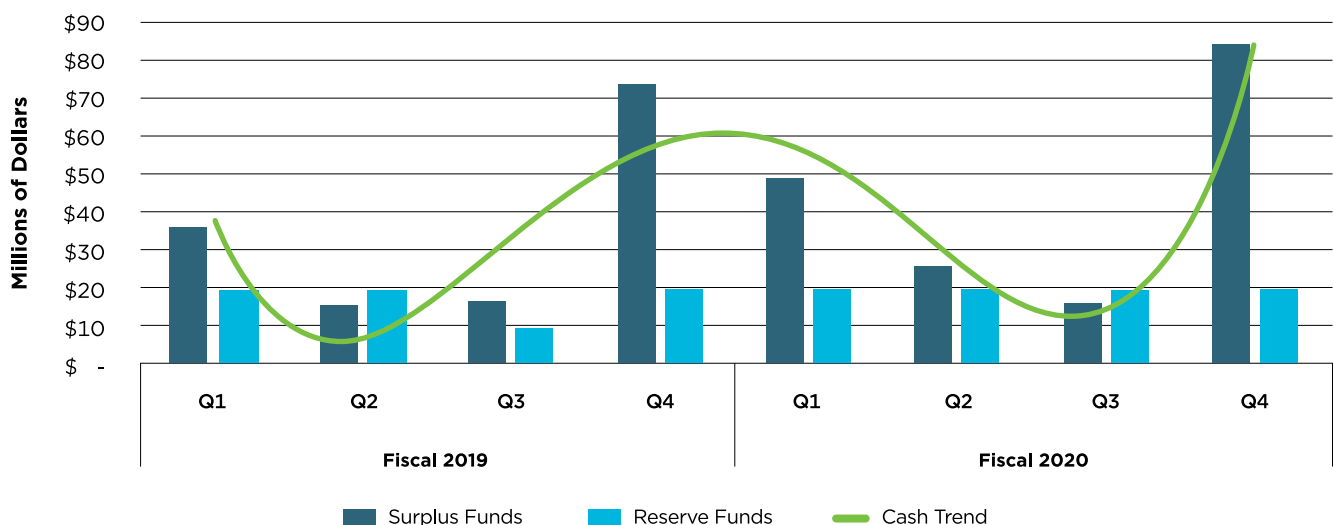
Historically, approximately 73% of our revenues are received in the last quarter, between January 1 and March 31 of each fiscal year, while expenses are incurred relatively evenly over the year. Funds received in the last quarter primarily represent annual participation fees used to fund most of our operating expenses during the following year. As depicted in the graph, this timing difference results in a significant decline in our cash balances between the second quarter to the beginning of the fourth quarter, reflecting their lowest points between the second and third quarter each year.

Approximately 84% of the OSC's revenues are from participation fees, which are derived from a tiered structure which will fluctuate depending on capital market activities. The OSC prudently manages liquidity risk from

seasonal cash deficits and capital market downturns by utilizing three critical levers in the following order: cash, a \$20.0 million general operating reserve and a \$52.0 million revolving line of credit. As approved by our Board, we aim to maintain combined cash and reserve funds of approximately six months of operating expenditures. These financial management strategies are necessary to minimize the disruption during downturns for the OSC to continue carrying out its mandate effectively, and for market participants by reducing the need to raise fees during capital market downturns.

The OSC uses multi-year forward-looking forecasts to project and maintain cash to meet ongoing operational needs and significant capital requirements.

At March 31, 2020, the OSC had current assets of \$91.8 million (\$79.6 million in 2019) and current liabilities of \$22.2 million (\$20.8 million in 2019) for a current ratio of 4.1:1 (3.8:1 in 2019). The increase in the current ratio is primarily due to excess of revenue over expenses recognized in 2020.



Cash Flows

In 2020, no reserve fund assets were used (\$10.0 million in 2019), and the revolving line of credit was not used (\$0 in 2019). The agreement for the current line of credit expires on June 30, 2020, and the OSC has subsequently extended the line of credit until June 30, 2022 as approved by the Minister of Finance. The line of credit is a critical tool to fund seasonal deficits during future periods of projected deficiency of revenues over expenses. There are no financial covenant requirements on the line of credit.

In 2020, cash flows from operating activities produced an inflow of \$15.4 million (\$19.3 million in 2019). In 2020, cash flows used in investing activities amounted to \$3.2 million (\$4.2 million in 2019). Cash flows used in financing activities amounted to \$2.0 million (\$0 in 2019).

Financial Instruments

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

The OSC acts as a custodian of funds held pursuant to designated settlements and orders, and funds restricted for CSA Systems operations and redevelopment. Both are recorded at fair value. Funds restricted for CSA Systems operations and redevelopment includes investments of \$148.7 million. The OSC is not exposed to significant interest rate, currency or liquidity risks from these investments because they are short-term in nature, redeemable and all balances are denominated in Canadian dollars. For a complete analysis of the risks relating to these financial instruments, see Note 4 of the financial statements.

Trade and other receivables, trade and other payables (including accrued liabilities) are recorded at amortized cost, which approximates fair value given their short-term maturities. For more information on trade and other receivables, see Note 5 of the financial statements. For more information on trade and other payables (including accrued liabilities), see Note 11 of the financial statements.

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

Financial Position

(Thousands of dollars)	2020 Actual	2019 Actual	Variance		
			\$	%	
ASSETS					
Current					
Cash	\$ 84,220	\$ 74,005	\$ 10,215	13.8%	
Trade and other receivables	3,624	3,548	76	2.1%	
Prepayments	3,968	2,002	1,966	98.2%	
Non-Current					
Funds held pursuant to designated settlements and orders *	\$ 118,394	\$ 84,380	\$ 34,014	40.3%	
Funds restricted for CSA Systems operations and redevelopment **	148,730	143,054	5,676	4.0%	
Reserve funds	20,000	20,000	—	0.0%	
Lease receivable	3,404	—	3,404	100.0%	
Right of use assets	51,620	—	51,620	100.0%	
Property, plant & equipment	6,000	8,224	(2,224)	-27.0%	
Intangible assets	6,955	5,020	1,935	38.5%	
LIABILITIES					
Current					
Trade and other payables	\$ 20,022	\$ 20,839	\$ (817)	-3.9%	
Lease liabilities	2,138	—	2,138	100.0%	
Non-Current					
Lease liabilities	\$ 54,112	\$ —	\$ 54,112	100.0%	
Pension liabilities	4,439	4,444	(5)	-0.1%	
Funds held pursuant to designated settlements and orders *	118,394	84,380	34,014	40.3%	
Funds restricted for CSA Systems operations and redevelopment **	148,730	143,054	5,676	4.0%	

* Represents funds recognized from orders and settlements restricted for use in accordance with section 3.4(2)(b) of the Securities Act.

** Represents funds collected and managed by the CSA to operate and redevelop national systems.

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

Assets

Cash

2020		\$ 84.2 M
2019		\$ 74.0 M

Cash increased by \$10.2 million (13.8%) in 2020 primarily as a result of excess of revenues over expenses recorded in 2020.

Prepayments

2020		\$ 4.0 M
2019		\$ 2.0 M

Prepayments increased by \$2.0 million (98.2%) in 2020 primarily as a result of renewing various information technology maintenance contracts in the last quarter of 2020.

Funds Held Pursuant to Designated Settlements and Orders

2020		\$ 118.4 M
2019		\$ 84.4 M

(i) Background on Monetary Sanctions

If someone contravenes Ontario securities law or commodity futures law, the OSC can bring an enforcement proceeding against them. Some of these cases are heard by a panel of Commissioners who act as independent adjudicators. Hearing panels have the power to impose sanctions, including ordering someone that has not complied with Ontario securities law or commodity futures law to pay an administrative penalty or to disgorge to the Commission any amounts obtained as a result of the non-compliance. Hearing panels may also approve voluntary payments to the Commission under settlement agreements.

Monetary sanctions reflect what the hearing panel believes is appropriate in the circumstances, regardless of a respondent's ability to pay. Monetary sanctions are also intended to deter others from contravening securities laws.

Hearing panels do not have the power to order someone to compensate or make restitution to an aggrieved person or company. However, under the terms of a settlement agreement, a person or company may agree to directly compensate affected persons. Any such payments do not pass through the Commission's bank account but are included in the Commission's enforcement statistics.

(ii) Designated Funds

A hearing panel may designate funds payable to the Commission under orders and settlement agreements ("designated funds") to be allocated in accordance with section 3.4(2)(b) of the Securities Act. Once designated funds have been received, the Commission, acting as a Board and guided by the purposes set out in the Act section 1.1, later exercises its discretion to allocate or use these funds in accordance with section 3.4(2) of the Act and OSC Policy 15-601 Whistleblower Program (the "Whistleblower Program"). The Act permits designated funds to be allocated to or for the benefit of third parties or to be used by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets. The Whistleblower Program allows for awards to individuals who voluntarily submit information to Commission staff regarding a breach of Ontario securities law if it is determined that the information was of meaningful assistance to Commission staff in investigating the matter and obtaining a decision of the Commission that results in a final order imposing monetary sanctions and/or the making of a voluntary payment of \$1,000,000 or more.

Third party recipients of these funds have included harmed investors, whistleblowers and certain investor related activities, such as providing funding to the Canadian Foundation for the Advancement of Investor Rights.

(Thousands of dollars)	2020	2019
Total monetary sanctions assessed during the year	\$ 42,304	\$ 137,437
Total amount paid or payable to investors	7,467	12,128
Total amount recovered by the OSC for investor education	1,235	1,146
Total amount paid to whistleblowers	525	7,499

In 2020, \$42.3 million in orders were assessed (\$137.4 million in 2019). Included in the \$42.3 million are orders, if applicable, for which the respondents agree to make payments directly to harmed investors. There were \$1.0 million in such orders in the current year (\$11.0 million in 2019). While this amount is considered for our enforcement sanctions statistics, as part of the total monetary sanctions assessed during the year, it does not form part of the funds held pursuant to designated settlements and orders balance as the amounts owing are paid from respondents to investors directly and not by the OSC. Of the \$42.3 million in orders assessed in 2020, the OSC recognized \$40.1 million in funds held pursuant to designated settlements and orders, reflective of orders deemed collectible in 2020 (\$46.4 million in 2019).

Total amounts paid or payable to harmed investors, by the OSC or respondents directly, were \$7.5 million (\$12.1 million in 2019). In 2020, total amounts for the recovery of OSC investor education costs approved by the Board amounted to \$1.2 million (\$1.1 million in 2019).

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to a proceeding where these amounts total \$1 million or more. The maximum amount of the award has been set at \$1.5 million where monetary sanctions and/or voluntary payments are not collected and \$5 million where these amounts have been collected. Whistleblowers will be paid out of funds held pursuant to designated settlements and orders. In 2020, the OSC paid \$0.5 million to whistleblowers (\$7.5 million in 2019). Whistleblower payments are inherently uncertain and not susceptible to a trend.

As at March 31, 2020, the accumulated balance of designated funds was \$118.4 million (\$84.4 million in 2019). Of this amount, \$117.0 million was held in cash (\$82.0 million in 2019) and \$1.4 million was deemed as being receivable (\$2.4 million in 2019). After considering funds set aside for possible allocation to harmed investors, \$75.5 million (\$21.7 million in 2019) of the funds on hand are available for distribution less funds earmarked for whistleblower payments and recoveries of investor education costs. The increase in funds on hand for distribution in 2020 is mainly due to the large dollar settlement of orders in 2020.

For more information on funds held pursuant to designated settlements and orders, see Note 6 of the financial statements.

Collecting Monetary Sanctions

While the OSC actively works to collect outstanding sanction amounts, material differences between sanction assessments and collections have persisted since we began imposing monetary sanctions. Historically, collection rates from market participants have been much higher than from respondents sanctioned on matters related to fraud – where assets are typically non-existent or inaccessible. Collections of monetary sanctions are substantially higher than in previous years as a result of settlements being reached in most of the proceedings.

The enforcement collections rate more than doubled in 2020 as a result of the increase in settlements as compared with contested hearings. The collection rate will vary from year to year depending upon the nature of the cases brought by the Enforcement Branch.

We have been successful in finding ways to improve our collections rates by actively pursuing collections using internal and external resources. In 2018, an external collections firm was retained under a contingency arrangement to provide legal services to collect unpaid monetary sanctions. The firm has been successful in commencing legal actions and pursuing legal remedies resulting in the payment of amounts owing to the Commission.

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

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

Fund held pursuant to designated settlements and orders

(Thousands of dollars)

2019	Assessed*	Collected	% Collected
Settlements	\$ 48,484	\$ 45,430	93.7%
Contested hearings	77,982	9	0.0%
Total	\$ 126,466	\$ 45,438	35.9%
2020	Assessed*	Collected	% Collected
Settlements	\$ 39,963	\$ 39,063	97.7%
Contested hearings	1,345	—	0.0%
Total	\$ 41,308	\$ 39,063	94.6%

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

Funds Restricted for CSA Systems Operations and Redevelopment

2020		\$ 148.7 M
2019		\$ 143.1 M

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

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

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

In June 2016, the PAs signed an agreement with CGI to replace the core CSA National Systems with one system to support existing and future requirements for the benefit of

market participants. Redevelopment began in a multi-year phased approach beginning in 2018. The PAs have certain rights to terminate the agreement, with and without cause, as set out in the agreement. For more information on CSA National Systems contractual arrangements and financial results, see Note 7 and Note 18 of the financial statements.

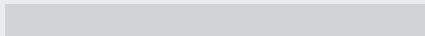
For more information on the judgement exercised with respect to the appropriate accounting treatment of these surplus funds, see Note 2(d) of the financial statements.

Reserve Funds

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

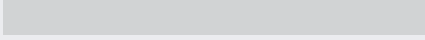
For more information on reserve fund assets, see Note 8 of the financial statements.

Lease Receivable

2020		\$ 3.4 M
2019		\$ 0.0 M

A sublease with the Government of Canada was recognized as a finance lease in accordance with IFRS 16, adopted in 2020. Accordingly, the OSC recognized a lease receivable with an offsetting reduction to the right of use assets.

Right of Use Assets

2020		\$ 51.6 M
2019		\$ 0.0 M

Right of use assets have been established in 2020 as a result of the adoption of IFRS 16. The \$51.6 million balance for right of use assets is primarily driven from the recognition of the lease agreement for rent of office space representing \$51.1 million. Other right of use assets includes lease agreements for printer equipment. For more information on right of use assets, see Note 12 of the financial statements.

Property, Plant & Equipment

2020		\$ 6.0 M
2019		\$ 8.2 M

Property, plant & equipment decreased by \$2.2 million (27.0%) in 2020 due to higher depreciation on assets compared to purchases during the year. For more information on property, plant & equipment, see Note 9 of the financial statements.

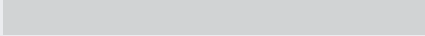
Intangible Assets

2020		\$ 7.0 M
2019		\$ 5.0 M

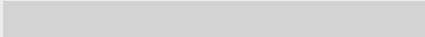
Intangible assets increased by \$2.0 million (38.6%) in 2020 due to spending on the development of an integrated data-focused case management system. For more information on intangible assets, see Note 10 of the financial statements.

Liabilities

Current Lease Liabilities

2020		\$ 2.1 M
2019		\$ 0.0 M

Non-current Lease Liabilities

2020		\$ 54.1 M
2019		\$ 0.0 M

Lease liabilities have been established in 2020 as a result of the adoption of IFRS 16. The \$2.1 million current balance and \$54.1 million non-current balance represents the recognition of the lease agreement for premise and office equipment leases. For more information on IFRS 16 Leases, see Note 12 of the financial statements.

2021 Strategy

Our plans and budget for fiscal year 2021

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

The Statement of Priorities is our cornerstone accountability document.

On April 30, 2020, the OSC published OSC Notice 11-780 *OSC Statement of Priorities* (SoP) for a 30-day comment period until June 1, 2020.

Considering the unprecedented environment and significant challenges affecting stakeholders given the outbreak of COVID-19 and the related financial market uncertainty, the OSC decided not to consult on a more detailed 2020-2021 SoP. Instead, the OSC Business Plan for fiscal 2021 was informed by the 2020 SoP, outlined below, and the initiatives as outlined in the *Reducing Regulatory Burden in Ontario's Capital Markets* report. The OSC anticipates adjusting and re-aligning priorities throughout the year to accommodate changes due to the impact of the COVID-19 pandemic, as well as the outcomes of the Ontario Government's Capital Markets Modernization Taskforce.

The Commission will consider stakeholder feedback on existing OSC priorities, as well as suggestions on potential priorities or areas for consideration for fiscal 2021.

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and be supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The Statement of Priorities sets out the OSC's key priorities to meet these challenges.

Statement of Priorities

Promote confidence in Ontario's capital markets

- Implement Client Focused Reforms
- Continue CSA Policy Consultations on Mutual Fund Deferred Sales Charges and Order Execution Only Embedded Commissions
- Improve the Retail Investor Experience and Protection
- Continue to Expand Systemic Risk Oversight
- Bring Timely and Impactful Enforcement Actions
- Enhance Economically-Focused Rule-Making
- Initiate Consultation to Consider the Current Self-Regulatory Organization (SRO) Framework
- Support Transition to the Cooperative Capital Markets Regulatory System (CCMR)

Reduce regulatory burden

- Complete Actions Identified in OSC Burden Reduction Plan

Facilitate financial innovation

- Develop Multi-Year Plan for the Office of Economic Growth and Innovation
- Engage with Fintech and Support Innovation in Capital Markets

Strengthen our organizational foundation

- Continue Redevelopment of CSA National Systems
- Modernize OSC Technology Platform
- Ensure Competitiveness and Clear Service Standards
- Improve Efficiency and Regulatory Responsiveness through Internal Innovation

2021 Budget

The 2021 budget presented below was finalized prior to the outbreak of COVID-19, reflecting a 5.1% increase in costs from the 2020 budget and 9.8% from the 2020 actual results. The primary drivers of the increase are due to the following:

- Annualized cost of permanent positions hired to deliver on the Ontario Government's Five-Point Plan, consisting of the following elements:
 - The OSC's burden reduction task force
 - Establishing the Office of Economic Growth and Innovation
 - Improving the investor experience and protection
 - Ensuring economically focused rule-making
 - Ensuring competitiveness and clear services standards
- Higher administrative costs, primarily from higher Information Technology costs. As the organization continues to invest in technology to support a more data driven OSC, more applications and infrastructure are moving to the cloud. The move to the cloud is expected to shift costs away from the traditional capital spend model towards administrative costs.

- Higher depreciation and amortization, primarily attributed to capital spending on the following multi-year projects: The Data Management Program to build out new systems with improved data management, data governance and reporting analytics; and facilities rehabilitation to optimize space utilization and accessibility.

Participation fees account for 84% of our revenues, which are directly impacted by capital market conditions. If capital market downturns persist throughout 2021, it is expected that revenues will also decline. As we navigate uncharted territories resulting from COVID-19, we are committed to maintaining fiscal responsibility, remaining flexible during uncertain times and taking appropriate action on spending as new information emerges. As a result, while we make progress on certain key priorities, other investments, including various capital programmes, are expected to be deferred to preserve financial liquidity during these uncertain times.

(Thousands of dollars)		2020 Actual		2021 Budget	Variance Favourable/(Unfavourable)	
					\$	%
Revenues	\$	134,396	\$	130,312	\$ (4,084)	-3.0%
Expenses		123,087		135,143	(12,056)	-9.8%
Excess (deficiency) revenue over expenses	\$	11,309	\$	(4,831)	\$ (16,140)	
Capital expenditures	\$	3,839	\$	9,915	\$ (6,076)	-158.3%

Critical Accounting Estimates and Pronouncements

Judgements, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with International Financial Reporting Standards (IFRS) requires that management makes judgements, estimates and assumptions that affect reported amounts of assets and liabilities for the date of the financial statements, as well as reported amounts of the revenues and expenses for the periods.

These judgements, estimates and assumptions are considered "critical" if:

- They require assumptions about highly uncertain matters when made, or
- We could reasonably have used different judgements, estimates or assumptions in the period, or
- Related changes are likely to occur between periods that would materially affect our financial condition or results of our operations.

Judgement was used to determine the appropriate accounting treatment for the recoveries of investor education costs, lease obligations, and funds restricted for CSA Systems operations and redevelopment.

Sources of estimation uncertainty primarily consisted of the supplemental pension plan, defined benefit obligation pension liabilities, lease obligations, funds held pursuant to designated settlements and orders, and recoveries of enforcement costs.

For more information on judgements and sources of estimation uncertainty that impact the OSC, see Note 2(d) of the financial statements.

Accounting Pronouncements

Refer to Note 21 of the audited financial statements for new and revised in issue, but not yet effective.

Risks and Risk Management

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

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

Strategic Risks

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

Enterprise Risk Inventory

Information gathered through the risk management process is captured in the OSC's Enterprise Risk Inventory. This includes a view of the enterprise level risks and risks at the branch level regarding day-to-day operations that affect our ability to do our work.

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

Business Risks

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

controls and processes, other necessary actions and compliance measures are undertaken.

A Code of Conduct and governance practice has been established by the Board of Directors (details available at www.osc.gov.on.ca) which outlines key compliance requirements and accountabilities for all employees.

Internal Audit

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

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

Systems Risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation.

The OSC relies on CSA Systems, which are operated by CGI, to collect most of its fee revenue and permit regulatory filings by market participants. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416-Type II) that reviews and evaluates the internal controls design and effectiveness of the CSA Systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually. The most recent test was performed in January 2020, concluding CSA Systems used to collect fees recovered successfully.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See Note 18 of the financial statements for more information. No material change is expected in the volume of fees collected through these systems.

Security Risk

The OSC has implemented security controls to safeguard the preservation of confidentiality, integrity, availability, accountability and assurance of information the OSC is collecting, generating and processing as part of normal business operations.

Following industry best practices, the OSC has developed and implemented a comprehensive Information Security Program aligned with National Institute of Standards and Technology (NIST) Cybersecurity framework. The program implements a comprehensive security governance framework with established set of policies, standards and procedures. The policies are supported by technical controls and operational processes designed to identify, detect, protect, respond and recover from information security incidents. Security risks are tracked and monitored as part of the OSC Risk management framework. The OSC maintains cybersecurity insurance.

The OSC recognizes that the risk of a breach to its systems and networks cannot be eliminated. A significant breach could produce adverse effects within the financial markets and negatively affect the OSC's reputation.

Business Continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. The BCP is continually reviewed and refined and includes strategies to effectively address various market disruption scenarios. The OSC effectively executed its business continuity plan in response to the COVID-19 pandemic to continue the delivery of core operations.

Financial Risk

The OSC has implemented financial risk mitigation measures to maintain financial health to deliver its mandate. The risk of capital market volatility on OSC revenues is mitigated by relying on various levers, consisting of cash, reserve funds and the line of credit. The OSC's primary credit risk is its concentration of 85% of its financial assets with two Schedule 1 financial institutions. For a complete analysis of the risks relating to financial instruments, see Note 4 of the financial statements.

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

Legal Risk

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

Internal Control Over Financial Reporting (ICFR)

A summary of our ICFR program results.

During the year, the OSC's ICFR processes were reviewed and updated where necessary. Design and operating effectiveness were tested, using the framework and criteria established in "Internal Control – Integrated Framework (2013 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under supervision and with the participation of management, of the effectiveness of the OSC's ICFR processes as at March 31, 2020. Based on this evaluation, the OSC has concluded that the ICFR processes were designed and operating effectively, to reduce the risk of material misstatement to an acceptably low level, and that there are no material weaknesses.