ANNUAL REPORT 2014

INTEGRITY
PROTECTION
COLLABORATION
ACCOUNTABILITY

OSC ONTARIO SECURITIES COMMISSION

Contents

OSC Vision

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

OSC Mandate

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

OSC Organizational Goals

1. Deliver strong investor protection

2. Deliver responsive regulation

3. Deliver effective enforcement and compliance

4. Support and promote financial stability

5. Run a modern, accountable and efficient organization

OSC Values

Professional

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

People

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

Ethical

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

Chair's Message

The purpose of the capital markets is to allocate capital in the real economy to improve social welfare. The increased complexity and interconnectedness of today's markets, driven by financial innovation and globalization, can sometimes cause market participants and regulators to lose sight of this dimension of the markets' role. Capital markets can only maintain their integrity if they contribute to social welfare by reducing the cost of capital for companies, providing investors with fair and transparent opportunities to invest and reducing risks to increasing the stability of the financial system. People, not algorithms, models or platforms, must be the driving force in shaping the evolution of our markets and how they produce mutually beneficial outcomes for the firms and individuals who interact as buyers, sellers or intermediaries.

Investors' trust and confidence are the foundation of robust, sustainable markets that stimulate opportunities for capital raising and economic growth. Securities regulators and market participants both provide services to investors and must adapt and respond to their changing needs. Investor confidence has been fragile since the financial crisis and regulators have worked together to strengthen the overall market environment by focusing on fundamental issues such as investor protection and mitigating risks to the financial system. New policy approaches are being considered to reflect today's market structures, industry developments and investor behaviour. The OSC and other securities regulators must continue to adapt to the challenges to market integrity and investor confidence by being more strategic, working smarter and becoming more aware of the regulatory impacts of policy decisions.

Consultations and outreach with stakeholders give us valuable insights into how investors and market participants are adapting to the shifting market environment. Investors are dealing with challenges around saving for retirement, intergenerational wealth transfers and building their investment knowledge. They have higher expectations for both advisors and regulators as they deal with a proliferating array of sophisticated investment products and service options. Market participants must adapt to changing client expectations as well as new technology, business models and compliance obligations. The securities industry has a major role to play in building the trust of investors and must apply innovation in a way that benefits the system as a whole.

Regulators must also adapt, particularly in how we serve the public interest. Current market realities are challenging regulators to look at our mandates in a broader social context. This includes considering behavioral factors such as investor decision-making and business cultures, looking more at the overall financial system and also evaluating whether our regulatory tools are sufficient to promote confidence and trust in markets.

Progress against strategic priorities

At the OSC, we are doing our part to regulate more strategically and effectively. Much has been achieved against our Strategic Plan, including more direct engagement with investors, an improved approach to risk management and our enhanced research and analysis capabilities to support policy development. We also solidified the OSC's role in the International Organization of Securities Commissions (IOSCO) and other forums. We are influencing the setting of international standards which is essential to helping Ontario compete in attracting international capital flows and also vital to delivering effective compliance and enforcement programs.

One important example of our international work has been our contribution to the strengthening of global risk management in securities markets. Canada is meeting its G20 commitments to make over-the-counter (OTC) derivatives markets far more transparent, subject to more harmonized standards and less prone to counter-party risk. The OSC is also collaborating with other regulators to minimize regulatory gaps and differences among jurisdictions to facilitate the free flow of capital, and to promote enhanced cross-border coordination and reliance.

Two years into our Strategic Plan, I believe it is time to target our strategy on achieving concrete outcomes on several important fronts. Staff will re-examine the regulation of public equity markets and fixed-income markets to ensure the overall regulatory framework is balanced and reflects consistent principles. Similarly, the OSC will continue its review of market structure issues, including the Order Protection Rule, and assess the need for regulatory responses in other areas such as high frequency trading. We will work with members of the Canadian Securities Administrators (CSA) to examine mutual fund fee structures and whether to introduce a best interest standard for advisors and dealers. The CSA also needs to consider issues associated with advisors and dealers refusing to accept the findings and recommendations of the Ombudsman for Banking Services and Investments (OBSI).

Collective interests, shared responsibility

All of the OSC's initiatives are rooted in the overriding priorities to protect investors and foster high quality markets that promote integrity and confidence. This Annual Report highlights many of our accomplishments, but there is much more to do. The OSC shares a responsibility with its regulatory partners and market participants to foster markets that can improve access to capital for companies, offer attractive opportunities for investors, protect investors from abuses and generate growth in the economy. Working together with a sense of collective interests and shared responsibility is an investment in social welfare that can benefit society at large.

At the same time, Ontario remains committed to launching the proposed Cooperative Capital Markets Regulatory System in Canada in 2015. The OSC will be an active participant in establishing the new organization and ensuring it hits the ground running. One of our top priorities is to ensure a smooth transition from the current regulatory structure to the new one. I want to assure all of our stakeholders that the OSC is committed to maintaining an engaged and effective regulatory presence throughout the transition.

On that note, I want to thank the members of the Commission, Vice-Chairs James Turner and Mary Condon, Executive Director Maureen Jensen, management and staff of the OSC for their continuing leadership and dedication as securities regulators. All of you are making outstanding contributions on behalf of the investors, market participants and capital markets of Ontario.

Howard I. Wetston, Q.C.

Chair and Chief Executive Officer

Message from the Lead Director

The Ontario Securities Commission serves Ontario by regulating capital markets that offer opportunities and provide protections to investors, enable issuers to raise capital cost-efficiently and contribute to the health of the provincial economy. The Commission fulfils its responsibilities by administering the rules for participating in the markets, enforcing compliance with provincial securities law and operating as a model of transparency, accountability and efficiency to stakeholders. Collectively, Members of the Commission serve as a securities regulator and as a Board of Directors. Our regulatory role includes overseeing the OSC's work to develop and enforce the rules governing Ontario's securities industry and the adjudication of administrative proceedings before the tribunal. As a Board, we are responsible for the overall stewardship of the OSC, including its financial and operational affairs. Both roles support the higher goal of protecting investors, fostering fair and efficient capital markets and promoting the public's confidence in those markets. As Lead Director, I am proud to work with a group of Commissioners who bring such dedication and skill to the job of serving the best interests of Ontario's investors, market participants and capital markets.

An engaged securities regulator

In our regulatory role, engaging with our stakeholders helps us to address a range of complex issues and challenges. For example, we co-moderated roundtables on a statutory best-interest standard for advisors, mutual fund fees, the representation of women on boards and the proxy voting infrastructure. We were at the table to hear directly from investors, market participants and other stakeholders about their concerns, questions and feedback on the policy proposals we have under consideration.

Commissioners were also enthusiastic in their support for staff who delivered excellent events for the OSC in the Community Program, the SME Institute and other outreach programs. Furthermore, Chair Howard Wetston continued his leadership on both the domestic and international stages, particularly through contributions to strategy development and policy initiatives with the Canadian Securities Administrators (CSA) and as a Vice-Chair of the International Organization of Securities Commissions (IOSCO).

Our consultations with investors and market participants in Ontario, regulatory partners across Canada and international regulators and agencies play a key role in shaping harmonized and streamlined regulation that provides protection to investors, fosters competitive capital markets and promotes public confidence. Elevated engagement with stakeholders produced valuable feedback and analysis that informed our policy development, compliance oversight and operational activities.

An active and effective Board

Current economic conditions pose many challenges for registrants and issuers and this reality underlines the priority for the OSC to perform its duties efficiently, given the need to mitigate any regulatory burden on market participants. Members of the Board's three committees brought their varied experience, skills and perspectives to the rigorous oversight of the operations of the organization, with assistance from management and the Chief Internal Auditor. The committees had extensive involvement in overseeing the fiscal management, governance practices and human resources policies. The Board also oversaw the implementation of a risk management framework that is helping staff to identify and mitigate risk more effectively. The framework implemented a consistent approach across the OSC to manage risks to the achievement of the organization's mandate and goals, with quarterly reporting to the Board.

As a Board, we support management's efforts to reduce, where possible, regulatory costs for market participants, such as the expedited process for one-time relief on participation fees for certain small registrants and reporting issuers. This relief was appropriate because it responded to the challenges faced by some smaller market participants in current market conditions while allowing us to continue the OSC's important work. We also support management's strategic approach to refocus resources to priority areas while assessing other activities where resources can be reduced or work performed more productively. We understand that stakeholders expect the OSC to maximize its services through efficient resource allocation, and that our regulatory requirements and operations need to be sensitive to the realities of today's capital markets.

An efficient adjudicative tribunal

In our role as independent adjudicators, the Part-time Members and Vice-Chairs are working with the Office of the Secretary to continue making improvements to the adjudicative hearing and decision-making processes. We are moving forward with work on an e-filing system, e-hearings and the new Electronic Case Management System (ECMS), with a focus on incorporating feedback from the Enforcement Branch and stakeholders, including the members of the OSC Securities Proceedings Advisory Committee. Staff are also gathering stakeholder feedback on the support documentation for e-filing and e-hearings, including amendments to the Commission's Rules of Procedure and protocols for both e-filings and e-hearings. In addition, hearing rooms are being equipped with the necessary infrastructure to support the ECMS and e-hearings. As a result, the tribunal will be able to start conducting electronic hearings in fiscal 2014-15.

This ongoing effort to improve the adjudicative case management process is vital, given the tribunal's caseload. In 2013-14, a total of 40 proceedings, involving 111 respondents, were concluded before the tribunal, which is consistent with the level of adjudicative activity of recent years. Adjudicative panels sat for a total of 339 days in 2013-14, a 13% increase over the previous fiscal year (see Adjudicative Activities table on page 71). Much of the increase was due to the additional time required for hearings on temporary cease trade orders and settlement hearings, including settlement conferences. The additional time spent on settlement hearings resulted in the more timely and efficient resolution of matters without having to proceed to a full hearing.

Serving the best interests of Ontarians

On behalf of the Part-time Members of the Commission, I want to express my confidence in the OSC's direction, effectiveness and efficiency. The strategic guidance of the executive team, the strong leadership of management and the superb dedication of staff are serving the OSC well as it performs its regulatory duties in a challenging capital markets environment. I extend my thanks and appreciation to all of the Commissioners, management and staff for their hard work, professionalism and accessibility in serving our stakeholders.

C. Wesley M. Scott

Lead Director
Ontario Securities Commission

The Commission

The OSC is a self-funded Crown corporation that is accountable to the Ontario Legislature through the Minister of Finance. The Commission has a memorandum of understanding (MOU) with the Minister which describes the respective roles and responsibilities of the Minister and of the Chair and Board of Directors of the Commission. The MOU also sets out the accountability relationship between the Commission and the Minister.
The Chair and Vice-Chairs are full-time Members of the Commission and the remaining Commissioners are Part-time Members who devote as much time as necessary to perform their duties. Under the *Securities Act* (Ontario), the Chair is both the Chair of the Board and Chief Executive Officer of the OSC.
The Lead Director is a Part-time Member, elected by the other Part-time Commissioners, whose role is to assist them and the Chair in the effective operation of the Board and its Committees.

Executive Director's Letter

On behalf of the staff of the OSC, it is my privilege to report to you on the work we have undertaken to achieve the right regulatory outcomes for investors, market participants and markets in Ontario. During the past year, staff have been responsible for delivering on the OSC's vision and strategic direction set by our Chair, Howard Wetston, and the Commission. We know what we have to do to be an effective regulator and our focus is on delivering regulatory outcomes that promote market integrity, investor protection, engaged collaboration and public accountability.

Promoting integrity

The OSC faces a growing number of challenges arising from ongoing changes in market structure, new investment products, advances in technology and evolving international regulatory standards. We work hard to understand the impact of those changes by engaging with stakeholders, regulators and other agencies to ensure that our regulatory framework is responsive to the reality of today's global capital markets and continues to foster market integrity. For example, we analyzed the risks associated with changes in electronic trading in Canada and are working with other regulators to address the evolving governance expectations for financial benchmarks and the needed reforms to the regulation of over-the-counter (OTC) derivatives markets.

Providing protection to investors

Investor protection is a core part of our mandate. We are focused on delivering investor-focused policy changes, robust enforcement and compliance oversight in cases of investor harm, delivering helpful investor education and determining our priorities through outreach. This focus has supported our scrutiny of registrant compliance with suitability obligations, our examinations of a best-interest standard for dealers and advisors and the evaluation of mutual fund fee structures and the impact of these on investor outcomes. We created the Joint Serious Offences Team (JSOT) to target fraud and adopted new enforcement tools to bolster our enforcement effectiveness. We expanded our engagement with issuers and registrants with proactive guidance and outreach to help them comply with their regulatory requirements. OSC staff also hit the road to engage with retail investors through OSC in the Community.

Commitment to collaboration

Over the past year we worked hard to gather a diversity of perspectives on important issues and I want to thank all stakeholders who helped us take the conversation to a whole new level. You engaged with us in an open dialogue and offered great ideas and constructive criticism, which is helping us to better understand the impact of our policy and operational decisions. Several major initiatives, encompassing OSC policy and regulatory functions, were shaped by stakeholder input and marketplace developments in 2013-14, including:

- Expanding public market exemptions into Ontario to make capital-raising more efficient;
- Adding a registration requirement for crowdfunding portals;
- Proposing no-contest settlement agreements to improve our enforcement effectiveness;
- Proposing amendments to the Trade Repositories and Derivatives Data Reporting Rule to alleviate certain reporting burdens; and
- Expanding the women on boards initiative to include disclosure on term limits.

Other initiatives such as proposals related to mutual fund fees and a best-interest standard for advisors and dealers have certainly moved forward as a result of stakeholder engagement, and we are committed to making further progress on these policy projects in the near future.

Accountability to stakeholders

We understand that these are challenging economic times for many registrants and issuers. They continue to deal with intense competition, volatile financial markets and uneven growth in the global economy. We also know that the challenges posed by evolving market structures and new regulatory requirements are difficult for all stakeholders and regulatory efficiency is necessary.

We are looking for ways to reduce the regulatory burden in both time and compliance costs and we continue to work towards ways to improve our efficiency. We offered targeted fee relief to small issuers and registrants who were impacted by our fee model. We continue to seek opportunities to avoid undue burdens on industry and to remain fiscally prudent as an organization. The OSC fee rule is being re-examined earlier than initially planned to ensure it remains appropriate. Staff are applying more rigour in their analysis and assessment of the estimated impacts, costs and benefits of proposed changes to regulations before they are finalizing any policy changes. We are also using technology to enhance our efficiency by allowing market participants to submit all filings online directly to the OSC.

Dedicated OSC team

I want to thank Chair Howard Wetston, Vice-Chairs Jim Turner and Mary Condon, and the Part-time Members of the Commission for their leadership and for sharing their wisdom and advice. I congratulate the Executive Management Team for mobilizing around the OSC's goals and responding with thoughtful policy and regulatory options, focused enforcement and compliance programs and lively engagement with all stakeholders. As a management team, I believe we have made the right changes to how we work to achieve the OSC's goals and priorities and our commitment to being more open, consultative and understanding has made the OSC more responsive.

Finally, I want to say thank you to every member of staff for doing a great job on behalf of the people who invest, work, raise capital and provide services in Ontario's capital markets. I congratulate you on your many regulatory and operational accomplishments over the past year and want to say what a pleasure it is to work with you. The fact that the OSC was honoured for the second year as one of the Top Employers in the Greater Toronto Area speaks volumes about the character of our team. Through a steadfast focus on market integrity, investor protection, engaged collaboration and public accountability, we remain committed to delivering effective and responsive regulation for Ontario's investors and market participants.

Maureen Jensen

Executive Director and Chief Administrative Officer

Key Accomplishments against OSC Goals

Goal 1: Deliver Strong Investor Protection

OSC in the Community

OSC in the Community has strengthened the relationship between the OSC and investors across the province. The program enables investors to consult directly with the OSC, ask questions and express concerns. In turn, hearing one-on-one from investors informs OSC staff as they develop policy, provide investor education and strengthen compliance and enforcement programs.

The OSC visited 10 cities and talked with hundreds of investors in 2013-14. Staff also met with numerous civic and business leaders, including three mayors and representatives of eight police services and 10 chambers of commerce or economic development agencies. They also met with four cabinet ministers of the Ontario government, including the Attorney General and Ministers of Consumer Services and Seniors Affairs, to raise awareness about OSC in the Community and assist the OSC in reaching its key audiences.

Staff from the OSC's Office of the Investor and all of the regulatory Branches, including Enforcement and Investment Funds, participated, as did representatives of the Investor Education Fund (IEF), an OSC initiative. Highlights of the feedback from Ontarians have been published in "OSC Investor Voice", a new online publication about the OSC's conversations with investors. OSC in the Community will visit more towns and cities in 2014-15.

"The OSC is touring cities across Ontario, educating investors on fraud prevention and financial literacy and raising the profile and understanding of the OSC as a whole… These initiatives build relationships with local community groups, law enforcement agencies and small businesses. They help to enhance education and financial literacy, and they combat fraud at all levels."

Ontario Finance Minister Charles Sousa speaking to the Ontario Legislature on March 18, 2014.

91% of people who responded to attendee surveys for OSC in the Community in 2013-14 agreed the events covered valuable information that would help them.

"I think [OSC in the Community] is excellent," said Betty Lindsey, 90. "This is a great thing to listen to, and a good way to protect seniors."

From an article in the *St. Catharines Standard*, Feb. 5, 2014

The "OSC Investor News" newsletter was re-launched in 2013-14. Seventeen articles were published on the OSC website to explain proposed regulatory initiatives and offer tips to help investors become better informed. A link to the newsletter can be found on the websites of the Mutual Fund Dealers Association, the Investment Industry Regulatory Organization of Canada and the OSC's Investor Education Fund.

Helping investors protect themselves through education and research

The IEF is Canada's most popular investor education resource, providing online resources, research and other programs. In 2013-14, the IEF website, getsmarteraboutmoney.ca, had almost two million visits and it increased online user interactions by over 100%. The IEF also published two research surveys:

1. The Canadian Money State of Mind Risk Survey 2014:
   A national study that looked at how Canadians handle – or don't handle – risk, emotion, financial loss and decision-making when it comes to their investments.

2. Parental interest in financial literacy education survey:
   An online study that found that nine out of 10 parents in Ontario think learning how to manage money is an important skill for their teens to have, but only four out of 10 parents believe their children will be able to do this after high school.

Research, whether through independent projects or in conjunction with other organizations, helps the OSC to better understand investors and respond to the growing demand for unbiased investor education. Formal research also complements the input and analysis provided by the Investor Advisory Panel, an independent advisory panel to the OSC that solicits and represents the views of investors on policy-making initiatives.

ManageYourWealth.ca @ManageYurWealth

@OSC_News and @smarter_money this is a site that ALL advisors should consider pointing their clients to.

7:43 AM - 29 Jan 2014

Protecting investors through international co-operation

The OSC has taken an international leadership position to support financial education services that help investors become more informed and better protected. OSC Chair Howard Wetston heads the new Committee 8 on Retail Investors (C8) of the International Organization of Securities Commissions (IOSCO). C8 was formed in June 2013 to conduct IOSCO's policy work on investor education and financial literacy and also advise the IOSCO Board on emerging retail investor protection matters.

OSC staff led the development of the C8 strategic framework that sets out IOSCO's role in investor education and financial literacy, a strategy for program development and proposed work streams. C8's work will include developing innovative approaches to investor education and financial literacy programming, and providing opportunities for co-operative approaches among jurisdictions.

Encouraging investors to check registration

The OSC warns the public about suspicious activity in the capital markets to prevent investors from experiencing potential harm. In 2013-14 the OSC issued six Investor Alerts and added 42 individuals and companies to its Investor Warning List. Alerts are sent to the media, published on the OSC website and posted to its Twitter account (@OSC_News). Warnings are used to explain why investors should not invest with an individual or firm, including, for example, people who are not registered to sell securities in Ontario.

Any company or individual offering investments in Ontario must be registered with the OSC. A registrant's registration record will indicate if a regulator has imposed restrictions on the firm or individual. The CSA's online national registration search contains the names of all registrants, both individuals and firms, who are registered with securities regulators in Ontario and all of the other provinces and territories. Investors should always check for the registration of any person or company that offers an investment opportunity.

Toronto Police Service Detective Gail Regan @ReganFCU

@OSC_News advises always do a background check before you invest. Check registration at http://www.osc.gov.on.ca or call 1-877-785-1555

3:59 PM - 26 Feb 2014

Enhanced disclosure to investors about their investments

While research suggests that a majority of retail investors see value in having a financial advisor, they also want to see improved content and presentation of information in their investment statements. To that end, new disclosure requirements for registrants to provide investors with clear and meaningful information about their investments are now being implemented across Canada.

A uniform standard to disclose this information will be applied to all firms registered to deal in securities or act as portfolio managers:

- Starting July 15, 2014, investors will be provided with pre-trade disclosure of charges and disclosure of compensation from debt securities transactions in trade confirmations;
- Starting July 15, 2015, enhanced client statements will provide position cost information and market value calculated in accordance with a prescribed methodology; and
- Starting July 15, 2016, clients will be provided with an annual report on charges and other compensation paid to their advisors and an annual investment performance report.

By enhancing disclosure requirements for information about the cost and performance of client investments, the CSA is helping retail investors to better assess the value of the professional advice they receive.

Helping investors make more informed investment decisions

On March 26, 2014, the CSA published proposed rule amendments that would require a *Fund Facts* document to be delivered to investors before they buy a mutual fund. This marked the start of the final stage of the implementation of the CSA's point-of-sale disclosure regime for mutual funds. Under the proposals, investment dealers and advisors would be required to give their clients a *Fund Facts*, a basic fact-sheet about mutual funds, before they purchase a fund. *Fund Facts* highlights important information for investors, including the risks, past performance and costs of investing in a mutual fund. The objective is to ensure investors receive key information in a simple, accessible and comparable format at a time – before the point of purchase – that is relevant to their investment decisions.

The CSA has taken a phased approach in implementing the pre-sale delivery of *Fund Facts*. The first stage came into force in January 2011 and required *Fund Facts* to be made available to investors online or upon request. Beginning June 13, 2014, stage two requires delivery of the *Fund Facts* instead of a simplified prospectus to satisfy prospectus delivery requirements. As part of the final steps in stage three, the CSA expects to publish for comment a summary document for exchange-traded funds (ETFs) which is similar to *Fund Facts* and also introduce a secondary market delivery requirement.

"The principle that guided [the CSA] is to provide investors with key information in a format that is simple, accessible and comparable, and to provide it at a time that is meaningful to them – that will help inform their investment decision."

OSC Investment Funds and Structured Products Branch Director Rhonda Goldberg, in an article about Fund Facts in *The Globe and Mail*, March 27, 2014

Examining the client-advisor relationship

The OSC made it a priority in 2013-14 to re-evaluate how advisors work with their clients. The ongoing consideration of an explicit best interest standard for dealers and advisors and the evaluation of mutual fund fee structures in Canada have led to extensive consultations with investors and market participants.

After the CSA published for comment in October 2012 a consultation paper about a statutory best interest standard, the OSC hosted three stakeholder roundtables in June-July 2013 to explore issues and themes that had emerged. These issues included the need for clear identification of conflicts of interest and how advisors are compensated, and whether the current regulatory framework for advisors adequately protects investors.

Several messages and themes from investors and industry were similar to those that emerged from the CSA's consultations on mutual fund fees. Securities regulators are examining the mutual fund fee structure in Canada to identify any potential investor protection or fairness issues, and to determine whether any regulatory responses are required. An OSC roundtable on June 7, 2013, heard from stakeholders on topics such as the role embedded compensation plays in access to advice for small retail investors and the scope of the services received for trailing commissions.

The CSA commissioned third-party research to evaluate the extent, if any, to which sales and trailing commissions influence fund sales and whether the use of fee-based versus commission-based compensation changes the nature of advice and investment outcomes over the long term. The research will provide CSA members with important information in determining whether a policy response is needed.

Resolving disputes for investors

The fair treatment of customer complaints against registered dealers and advisors is an important component of Canada's investor-protection regime. On December 19, 2013, CSA members mandated all registered dealers and advisors to use the Ombudsman for Banking Services and Investments (OBSI) as the common dispute resolution service (DRS), except in Québec where the mediation regime administered by the Autorité des marchés financiers continues to apply. OBSI is an independent and impartial DRS and its services are free to consumers.

Mandating OBSI as the common service provider is intended to address interests of both investors and registrants. Investors receive enhanced clarity about the DRS provider and know that there is a place to go with an unresolved complaint. For registrants, the CSA has set out consistent expectations as to how they should handle client complaints. Overall, securities regulators are creating a level playing field for the handling of customer complaints in an independent, expert and timely manner.

See the Appendix on page 67 for information about Ontario's markets and the OSC's adjudicative and enforcement activities.

Key Accomplishments against OSC Goals

Goal 2: Deliver Responsive Regulation

Improving capital formation in Ontario

Amid the changing reality of how companies raise capital and increasing investor demand for greater choice in investment opportunities, the OSC is considering balanced approaches to cost-effective access to capital in both the public and private markets. For example, on March 20, 2014, the OSC proposed new ways to facilitate capital-raising through the following exemptions:

1. An offering memorandum exemption that would allow businesses to raise capital based on a comprehensive disclosure document.
2. A family, friends and business associates exemption intended to enable start-ups and early stage businesses to raise capital within personal networks of business principals.
3. An existing security holder exemption that would allow public companies listed on the TSX, TSX Venture Exchange or Canadian Securities Exchange to raise capital from existing security holders.
4. A crowdfunding exemption that would allow businesses, including start-ups, to raise capital through an online platform registered with securities regulators.

These proposals would transform Ontario's capital-raising framework by providing businesses with greater access to capital and expanded opportunities for investors, while maintaining appropriate safeguards. Moreover, facilitating the ability of small- and medium-sized enterprises (SMEs) to raise capital supports economic growth in Ontario and enhances competitiveness, particularly in emerging sectors. In developing the proposals, OSC staff coordinated their efforts to achieve substantial harmonization with the exemptions currently available in other Canadian jurisdictions.

The four proposals were published following consultations with a broad range of stakeholders through a series of one-on-one meetings and town halls, consideration of written comments received on earlier proposals and an online survey to gauge the views of retail investors on investing in start-ups and SMEs.

"I believe that a powerful combination of regulatory reforms, technological tools and market initiatives are about to bring important changes to our markets… This is an exciting time to be involved in private markets, whether as a buyer, seller, intermediaryor regulator."

OSC Chair Howard Wetston in remarks to the Private Capital Markets Association in Toronto on June 2, 2014

Representation of women on boards and in senior management

In 2013-14, the OSC identified the relatively low level of representation of women on boards and in senior management of public companies as a legitimate corporate governance issue. After extensive consultations with stakeholders, the OSC published on January 16, 2014, proposals for comment which would require TSX-listed issuers (and other non-venture issuers) that are reporting issuers in Ontario to provide disclosure regarding the representation of women on their boards and in senior management. The proposals represent a flexible, "comply or explain" model whereby companies can develop internal policies that work best for them, rather than forcing a one-size-fits-all approach. The proposals would require annual disclosure regarding the representation of women, including:

- The board's or nominating committee's consideration of the representation of women in the director identification and selection process;
- The issuer's consideration of the representation of women in executive officer positions when making appointments;
- Director term limits; and
- Targets regarding the representation of women on the board and in executive officer positions.

The proposals reflect the recommendations in OSC Report 58-402 *Report to Minister of Finance and Minister Responsible for Women's Issues - Disclosure Requirements Regarding Women on Boards and in Senior Management,* which was delivered to the Government of Ontario on December 18, 2013.

By helping TSX-listed issuers tap into a pool of talent that is under-represented on boards and in senior management, these proposals are intended to encourage more effective boards of directors and better corporate decision-making within public companies. The enhanced transparency that would be created by the disclosure is also intended to assist investors when making investment and voting decisions.

"It's very clear we, as an agency, are a great believer in gender diversity. We are certainly benefitting from it. This is a personal opinion, but I see no reason why public boards would not benefit from it."

Chair Howard Wetston speaking about the OSC's women on boards proposals to the *Toronto Star*, January 17, 2014

"On February 19, 2013, Catalyst issued the 2012 *Catalyst Census:* ***Financial Post 500 Women Senior Officers and Top Earners.*** It provided statistics to gauge women's advancement into leadership and highlighted:

- Although nearly one-third of companies have **25%** or more women senior officers, nearly another one-third continue to have no women senior officers. In particular, **35.9%** of public companies had no women senior officers in 2012."

From OSC Staff Consultation Paper 58-401 Disclosure Requirements Regarding Women on Boards and in Senior Management

Shareholder engagement and activism

Shareholder democracy refers to efforts by shareholders to make boards of companies more accountable through strengthened shareholder voting rights and exercising those rights more effectively. In 2013-14, the OSC was involved in a number of initiatives designed to promote shareholder democracy in the governance of public companies:

- The OSC supported the TSX's new requirement that each director of a TSX-listed issuer, other than of a "majority-controlled issuer", be elected by a majority of the votes cast, other than at contested meetings.
- The OSC, with the CSA, proposed reforms to strengthen the role of shareholders and the board in responding to hostile take-over bids by allowing shareholders to make a collective decision on whether to adopt defensive measures in response to a hostile bid. Consistent with the underlying policy objectives of Canada's take-over bid regime, the proposed reforms respect the right of shareholders to tender into the bid without undue interference from the board.
- The CSA proposed guidelines for proxy advisors to improve the process for voting recommendations, such that issuers and investors have confidence that proxy advisors are making recommendations impartially, transparently and with integrity.

In addition, the OSC is assessing the integrity of the proxy voting system. In August 2013, the CSA published a discussion paper on the topic, and the OSC held a stakeholder roundtable in January 2014 to discuss the themes and ideas raised in the paper. The OSC is collaborating with market participants to gather relevant data on how the voting system works with the goal of implementing practical solutions to address concerns.

"We think that a fair and efficient capital market and market confidence requires a proxy voting infrastructure that's accurate, and by accurate we mean that every vote counts and no vote counts more than once."

OSC Vice-Chair Mary Condon from the CSA Roundtable Discussion on Consultation Paper 54-401 *Review of the Proxy Voting Infrastructure*, held on January 29, 2014

Modernizing regulation for changing markets

The rapid evolution of global capital markets requires the OSC to proactively evaluate market regulations so that they continue to support fair, efficient and orderly markets in Ontario. In 2013, OSC staff reviewed the risks associated with electronic trading in Canada to verify that robust mechanisms exist to manage the risks, foster market efficiency and protect investors. The review included an analysis of the tools and controls on electronic trading, plus a third-party assessment of whether there are any deficiencies in the current rule, National Instrument 23-103 *Electronic Trading*. An independent consultant was retained to interview market participants to gather information on electronic trading practices, procedures and controls, the sufficiency of existing regulation and how to best mitigate electronic trading risks.

Some of the recommendations from the review were addressed in the CSA's proposed revisions to its marketplace rules, which were published for comment in April 2014. Staff are reviewing other recommendations in the context of how to enhance the broader regulatory framework for marketplaces.

Staff are also leading the CSA's review of the Order Protection Rule (OPR), intended to promote market confidence and reward investors by requiring better-priced orders to be filled before inferior-priced orders. Since the rule was introduced in 2011, stakeholders have raised concerns related to efficiency and transaction costs in an OPR environment. As a result, the CSA has been examining the benefits of the rule and its impact on the markets, in consultation with stakeholders. On May 15, 2014, the CSA published proposals for comment which address certain costs and inefficiencies related to the application of OPR, as well as concerns related to trading fees and market data fees. Under the proposals, orders would be protected where displayed on a marketplace that has met certain criteria, and interim trading fee caps would be introduced.

$2.5 trillion: Total market capitalization of the TSX and TSX-V at March 31/14.

1,223 Ontario-based companies were listed on the TSX at March 31/14, representing 34% of the 3,624 total listings.

405 Ontario-based companies were listed on the TSX-V at March 31/14, representing 19% of the 2,109 total listings. Source: TMX

See the Appendix on page 67 for information about Ontario's markets and the OSC's adjudicative and enforcement activities.

Key Accomplishments against OSC Goals

Goal 3: Deliver Effective Enforcement and Compliance

Targeting fraud through the Joint Serious Offences Team

The OSC launched its Joint Serious Offences Team (JSOT) in May 2013 to elevate efforts to target fraud and other egregious types of misconduct. JSOT is an enforcement partnership between the OSC, the RCMP Financial Crime program and the Ontario Provincial Police Anti-Rackets Branch. JSOT combines the law-enforcement skills of police with the OSC's expertise in forensic accounting and capital markets to investigate and prosecute serious violations of the law using provisions of the *Securities Act* (Ontario) and *Criminal Code*. Staff work with police agencies and the Ministry of the Attorney General to bring more cases before the courts and send a strong deterrence message to those who might harm the public.

Between May 13, 2013, when JSOT was launched, and March 31, 2014, OSC staff started 14 investigations in partnership with police agencies. Staff also commenced four quasi-criminal proceedings before the Ontario Court of Justice and, in partnership with police and the Crown, laid criminal charges in another three matters.

"We're making the OSC as effective, active and visible as possible by taking more cases before the Ontario Court of Justice, targeting fraudulent activity and recidivists, going after people who don't comply with Commission orders, expanding our enforcement tools, tailoring enforcement to fight different misconduct, and strengthening our partnership with the Ministry of the Attorney General."

OSC Enforcement Director Tom Atkinson in remarks to OSC Dialogue on October 8, 2013

OSC News @OSC_News

Tom Atkinson at #OSCDialogue says deterrence is critical part of OSC #enforcement strategy - getting tougher on those who harm #investors

10:30 AM - 8 Oct 2013

The RCMP and OPP both entered into separate memoranda of understanding with the OSC's JSOT and seconded officers to the team. OSC Enforcement also works closely and co-operates with other police services throughout Ontario. This co-operation ranges from joint investigations on a case-by-case basis to sharing information and intelligence about illegal market activity that may be of mutual interest. JSOT staff also informally assist law enforcement partners with their knowledge and skills in the areas of forensic accounting and securities law, which is often helpful to a successful criminal investigation.

In 2013-14, Enforcement Branch staff secured a total of 39 months in jail sentences against three defendants convicted in the Ontario Court of Justice for securities-related offences.

Committed to strong and effective enforcement

Administrative proceedings before the Commission are effective in holding market participants accountable for breaches of the *Securities Act* and/or conduct that is contrary to the public interest. The Enforcement Branch targets a wide range of alleged misconduct through administrative proceedings, during which staff can seek protective orders and appropriate sanctions. A total of 40 proceedings, involving 111 respondents, were concluded before the Commission in 2013-14. Among the sanctions ordered, the Commission banned 53 people from being a director or officer of an issuer for various lengths of time, placed registration restrictions on 69 respondents and ordered more than $61.6 million in administrative penalties, disgorgement orders and settlement amounts.

For more information on the collection of monetary sanctions see pages 35-36 of the Management's Discussion and Analysis.

New tools to strengthen enforcement

Following consultations with the Commission and stakeholders, Enforcement staff announced on March 11, 2014, that they were proceeding with new tools to strengthen the presence and effectiveness of the OSC's enforcement program, including a program to facilitate the settlement of appropriate enforcement cases in circumstances where the respondent does not make formal admissions and a clarified process for self-reporting under staff's credit for co-operation program.

The objective of these new tools is to allow staff, where appropriate, to resolve enforcement matters more quickly and effectively, which would lead to better outcomes for investors, market participants and the markets as a whole. Using the tools, staff expect to seek a higher volume of protective orders earlier, and aim to achieve sanctions closer to the time of the misconduct. The new tools should also free up staff resources to take more enforcement actions and focus more on investigating serious financial crime.

In 2013-14, the OSC increasingly applied technology to pursue and investigate complex enforcement files, including the use of advanced Optical Character Recognition software capable of recognizing almost 200 different languages.

Supporting international enforcement co-operation

Misconduct in the global capital markets increasingly crosses borders, underscoring the importance of the OSC's co-operative relationships with other regulators to deter and target cross-border misconduct. In 2013-14, the OSC received a total of 78 requests for enforcement assistance from Canadian and international regulatory partners, including the U.S. Securities and Exchange Commission (SEC), up from 60 in 2012-13. In addition, Enforcement staff made a total of 43 requests for information to domestic and international partners. In certain cases, these relationships resulted in concluded proceedings against people who breached securities law and/or acted contrary to the public interest. For example:

- The OSC conducted a parallel illegal insider trading investigation with the SEC to address the trading activities of a Toronto investment banker. The individual was eventually sanctioned by both the OSC and SEC.
- The OSC acknowledged the assistance of the Arizona Corporation Commission in its investigation with the RCMP into an individual, who, under an approved settlement agreement, admitted to securities fraud involving more than 80 people in Canada and the U.S.

Domestic and international enforcement assistance in 2014

78 assistance requests received

43 assistance requests sent

12,428 database searches for external agencies

101 Number of IOSCO members that signed the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, the instrument used by securities regulators around the world to combat cross-border fraud and misconduct.

Compliance expectations for issuers and registrants

The OSC expects strong compliance by registrants and reporting issuers and articulates expectations through a comprehensive program of guidance and outreach.

On May 31, 2013, the OSC published the findings of a targeted review of 87 portfolio managers and exempt market dealers (EMDs) to assess their compliance with important requirements, specifically know-your-client (KYC), know-your-product (KYP) and suitability obligations. In particular, the report articulated compliance expectations around a number of deficiencies identified through the sweep, including those related to the sale of exempt securities to non-accredited investors and inadequate processes for the collection, documentation and maintenance of KYC information.

In another example, OSC Staff Notice 51-722 *Report on a Review of Mining Industry Issuers' MD&A and Guidance*, published in February 2014, aimed to help small mining issuers better communicate with investors with guidance around providing clear, specific and relevant information about their financial conditions and future prospects. The guidance was developed in response to a review of over 100 mining issuers with a market capitalization of less than $100 million.

In addition, OSC Staff Notice 81-720 Report on *Staff's Continuous Disclosure Review of Sales Communications by Investment Funds* provided guidance to investment funds about advertising and marketing materials of publicly offered investment funds. Two key objectives of the reviews were to raise the awareness of market participants that staff monitor the advertising and marketing materials of publicly offered investment funds on an ongoing basis, and to provide guidance that supplements existing rules and staff publications.

Issuers and Registrants in Ontario

[As at March 31, 2014]

Public companies 1,359

Investment fund issuers 3,814

Registered firms 1,298

Registered individuals 66,210

Outreach to promote compliance

The OSC expanded its direct outreach to market participants in 2013-14 to promote compliance with relevant regulatory requirements. Staff hosted free education sessions, webinars and other events to help registrants, issuers and other market participants to better understand their obligations and enhance communications between the OSC and market participants. Nine Registrant Outreach sessions were held, on topics geared toward investment fund managers, portfolio managers and exempt market dealers. Three seminars were added to the OSC SME Institute calendar, after a successful launch in 2012-13. The educational sessions on mineral disclosure, continuous disclosure and capital-raising were designed to help smaller issuers in different industries with cost-effective regulatory compliance and meet challenges related to capital-raising and market access.

More than 1,400 attendees participated in OSC Registrant Outreach events and webinars in 2013-14.

85% of attendees who responded to a survey for the OSC Registrant Outreach seminar "Getting through an OSC compliance review" in October 2013 rated the session as either "excellent"or "very good".

Active and targeted oversight

Articulating expectations through outreach and guidance support the objective of fostering a culture of compliance; however, the OSC also supports compliance through active and targeted reviews. Examples of activity related to targeted reviews in 2013-14 include:

- A sweep of newly registered portfolio managers in Ontario to review each firm's compliance system, financial condition and processes for portfolio management, trading and marketing.
- A review of the fees and expenses disclosure practices of a sample of investment funds, as part of a broader review of fee disclosure, in particular, how fund managers address conflicts of interest and whether sufficient disclosure is provided to investors in prospectuses, financial statements and the Management Reports of Fund Performance (MRFP).
- A review of the allocation of overhead expenses between fund managers and their funds, in particular, how fund managers address conflicts of interest and whether sufficient disclosure is provided to investors in prospectuses, financial statements and the MRFP.
- Staff reviewed 50 technical reports filed by Ontario mining issuers to assess whether they complied with recent revisions to National Instrument 43-101 *Standards of Disclosure for Mineral Projects.*

- A review of non-GAAP and additional GAAP disclosure filed by 50 reporting issuers to assess whether they met staff disclosure expectations as outlined in CSA Staff Notice 52-306 *Non-GAAP Financial Measures and Additional GAAP Measures.*

Targeted compliance reviews allow for a timely response by staff to industry-wide concerns or issues, and create opportunities to work with market participants to enhance compliance practices and policies. If significant compliance issues are identified, staff will take appropriate regulatory action.

Taking action against non-compliance and misconduct

When issuers fail to comply with periodic and timely disclosure requirements, refilings and restatements are required. In 2013-14, as a result of staff reviews, 27 refilings or restatements of issuer documents were made. The refilings or restatements related to a wide range of documents and topics, including:

- Revised annual financial statements and MD&A or MRFP to include a going concern note or other matter;
- Addendum to an information circular to highlight the removal of an individual proposed to be nominated for election as a director; and
- Incorrect management expense ratios.

Under the *Securities Act* (Ontario), issuers and registrants have the right to a meeting with a Director before a decision whether to impose a compliance-related sanction is made. The "opportunity to be heard" meeting is an expedited process that allows an issuer and/or registrant to respond to staff recommendations against them. Issues raised through the Director's Decision process included conflicts of interest and the failure to discharge KYC and suitability obligations. A total of 10 Director's decisions, involving 15 registrants and issuers, were issued in 2013-14. The decisions included permanent registration suspensions for five registrants, temporary suspensions for six registrants and terms and conditions on one registration.

27 refilings or restatements of issuer documents were made in 2013-14, as a result of OSC continuous disclosure reviews.

See the Appendix on page 67 for information about adjudicative and enforcement activities.

Key Accomplishments against OSC Goals

Goal 4: Support and Promote Financial Stability

Bringing transparency to OTC derivatives markets

In 2009, G20 leaders committed to strengthen regulatory oversight of OTC derivatives markets as part of the global effort to promote stability in financial markets. OSC staff play an active role in helping Canada meet its G20 commitments, working at the domestic and international levels to improve regulatory oversight of over-the-counter (OTC) derivatives markets, including bringing greater transparency and harmonizing standards.

An important step in the reform of Canada's OTC derivatives markets occurred on November 14, 2013, when the OSC published the first set of derivatives rules. OSC Rule 91-506 *Derivatives: Product Determination* and OSC Rule 91-507 *Trade Repositories and Derivatives Data Reporting* are intended to bring greater transparency to the OTC derivatives market and set the stage for future rules. The rules define the contracts or instruments to be reported to a trade repository, establish requirements for the operation of trade repositories and set out requirements for transaction data reporting.

The reporting of derivatives transactions to trade repositories will give the OSC access to data that will enhance its market surveillance and shed light on the nature and key characteristics of Canada's derivatives market. This information will assist the OSC in developing a robust derivatives oversight regime to better monitor systemic issues and in drafting additional derivatives rules in a more effective manner.

The five largest chartered Canadian banks headquartered in Ontario are the most significant Canadian OTC derivatives market participants. These banks held roughly $20 trillion notional in OTC derivatives as of 2013 and many of those derivatives transactions involve non-Canadian counterparties.

Adopting global standards for Ontario clearing agencies

On December 18, 2013, the OSC proposed adopting global standards for financial market infrastructures in Ontario, including clearing agencies that serve both securities and derivatives markets. The proposed rule, OSC Rule 24-503 *Clearing Agency Requirements*, sets out ongoing requirements for recognized clearing agencies and formalizes a framework for the OSC's recognition or exemption of all clearing agencies seeking to carry on business in the province. OSC staff contributed to the development of the international standards to support the stability and resilience of financial markets.

Under the OSC proposal, recognized clearing agencies would be required to meet strengthened global standards, representing the next milestone for the OSC in meeting G20 commitments for OTC derivatives reform. Aligning standards for clearing agencies in Ontario with international standards will strengthen the ability for regulated entities to withstand financial shocks and strengthen the resiliency of Ontario's capital markets.

In addition, the CSA published for comment on January 16, 2014, a proposed rule that is intended to enhance the resilience of derivatives clearing agencies while strengthening investor protection. CSA Staff Notice 91-304 *Model Provincial Rule Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* proposed a rule that would require customer clearing services for OTC derivatives transactions to provide investors with a high level of protection. The rule requirements relate to the segregation and use of customer collateral, as well as record keeping and disclosure about collateral held.

Fostering confidence in the global financial markets

Through its leadership in IOSCO, the OSC promotes the convergence of stronger international market-conduct standards for the benefit of investors, market participants and Ontario's markets. OSC executives and staff are contributing to the global reform agenda in several areas, including:

- As a Vice-Chair of IOSCO, Chair Howard Wetston is promoting and advancing a standard-setting agenda to deal with critical issues such as creating an international strategy to support investor education and restoring confidence in how financial benchmarks are administered (see below).
- Mr. Wetston is also co-leading a new IOSCO Task Force on Long-Term Financing which is examining how securities regulators can facilitate development of sustainable long-term financing via the capital markets.

- The OSC helped established new IOSCO principles for financial market infrastructures which set out international standards for payment, clearing and settlement systems, including central counterparties.
- The OSC is working with IOSCO's Task Force on Cross-Border Regulation as it develops approaches to help IOSCO members regulate securities markets activities that cross borders.
  The OSC is also an active member of the OTC Derivatives Regulators Group (ODRG), an international group that is working to address cross-border issues such as the efficient oversight of international branches or affiliates of derivatives market participants and possible approaches to the application of substituted compliance for organized trading platforms.

Co-operation that supports international compliance

International MOUs facilitate the supervision of market participants and the monitoring of their compliance with securities law in cross-border business operations. The OSC announced on July 25, 2013, that it signed supervisory MOUs with financial regulators of member states of the European Union and European Economic Area regarding the supervision of alternative investment fund managers. The MOUs, which involve 29 countries, create a framework for mutual assistance in the oversight of portfolio managers, investment fund managers and certain other market participants. Several other supervisory MOUs were established in 2013-14 between the OSC and foreign agencies, including the:

- U.S. Commodity Futures Trading Commission (CFTC);
- U.K. Financial Conduct Authority;
- Bank of England; and
- Superintendencia de Valores y Seguros of Chile.

The increasing interconnectedness of the global markets requires securities regulators to share information and coordinate policy responses that are international in scope. By promoting international efforts to promote efficient markets around the world, the OSC is also supporting markets in Ontario.

Effective oversight of financial benchmarks

The OSC is contributing to the global effort by regulators to address the problems of the governance of benchmarks and their susceptibility to manipulation. The OSC participated in the drafting of the IOSCO Principles for Financial Benchmarks, published in July 2013, which were developed in light of investigations and enforcement actions regarding attempted manipulation of major benchmarks, including the London Interbank Offered Rate (LIBOR). The OSC and other oversight bodies will co-operate on developing an appropriate regulatory regime for benchmarks in Canada, consistent with international standards to protect investors and deter market manipulation.

Promoting cybersecurity

Robust cybersecurity measures are an important element of the controls of issuers, registrants and regulated entities in ensuring the reliability of operations and the protection of confidential information. As capital markets evolve and technical infrastructure becomes more complex, the OSC is actively responding to cybersecurity risks on the global level through its involvement in IOSCO and other agencies, and at the domestic level with the CSA. On September 26, 2013, the OSC and other members of the CSA published CSA Staff Notice 11-236 *Cyber Security* to emphasize to Canadian issuers, registrants and other regulated entities the importance of managing the risks of a cyber-threat. CSA members urged them to take the appropriate protective and security measures necessary to safeguard themselves and their clients and stakeholders. The OSC will continue to examine these measures and related controls in its reviews of issuer disclosure and in its oversight of registrants and regulated entities in Ontario.

Over half of exchanges surveyed **(53%)** reported suffering an attack in 2012: One finding of **"Cyber-crime, securities markets and systemic risk",** a joint staff working paper of IOSCO and the World Federation of Exchanges, published in July 2013. Most of the attacks were disruptive, rather than those executed for financial gain.

See the Appendix on page 67 for information about Ontario's markets and the OSC's adjudicative and enforcement activities.

Key Accomplishments against OSC Goals

Goal 5: Run a Modern, Accountable and Efficient Organization

Commitment to organizational effectiveness

The OSC strives to be efficient and effective in delivering on its mandate. Guided by the OSC Strategic Plan, management and staff continue to reposition the organization as a more proactive and agile securities regulator that fosters the integrity of capital markets in Ontario. The OSC is strengthening its core functions, including compliance and enforcement, and adjusting how it works to develop the capacity to deliver the right regulation for investors, market participants and markets.

Management and staff continue to enhance their procedures, practices and systems as part of a commitment to robust processes and high-quality execution, including:

- Implementing a consistent organizational approach for managing risks to the OSC's mandate and goals, with quarterly reporting to the Board.
- Continuing to increase the research and analytical input on policy priorities, while also taking investor perspectives into consideration.
- Conducting regulatory impact analyses under a consistent framework prior to initiating any proposed policy projects.
- Improving the use of technology to gather and analyze data and other information, including information required for compliance and adjudicative matters.

In October 2013, the **OSC surveyed all of the members of its 10 Advisory Committees** to gauge their views on how well the OSC is doing in meeting its goals and to provide suggestions for areas where the OSC can improve:

- **74%** of survey respondents were "very satisfied" or "satisfied" with OSC's overall performance
- The top three areas for improvement were: "more coordination between regulators" **(48%)**, "increase staff with industry experience" **(38%)** and "better website information" **(35%)**

A commitment to serving stakeholders

In fulfilling its regulatory functions and responsibilities, the OSC is committed to being responsive to investors, registrants, issuers and other entities it regulates. Part of this commitment entails being transparent and accountable about the OSC's service delivery standards. To that end, in May 2014 the OSC published a new Service Commitment that explains:

- What the public can expect when dealing with the OSC;
- Target timelines for questions, records requests, and dealing with reviews of offering documents, applications and other filings; and
- How the public can help the OSC respond to requests in a timely manner.

The Service Commitment also sets out the standards for the protection of personal information and privacy, and timelines for the OSC to respond to complaints from the public. The OSC will report its performance against its commitment on an annual basis.

Over 200: Number of languages in which phone and email inquiries can be submitted to the OSC Inquiries and Contact Centre.

Fee relief for certain small market participants

In February 2014, the OSC provided one-time relief on participation fees for certain small registered firms and reporting issuers. The targeted approach provided a measure of relief to certain stakeholders facing economic difficulties while still allowing the OSC to perform its important regulatory work. Staff are currently re-examining the OSC's fee rule, earlier than initially planned, to ensure it remains appropriate. The results of the fee rule review are expected to be announced in the fall of 2014 and proposed amendments will be published for comment.

Leveraging technology to enhance efficiencies

Starting in February 2014, market participants must now use online access through streamlined web-based processes to submit documents, applications and other filings to the OSC. Generally, the new requirements for online filings include documents associated with forms, notices and other materials required under Ontario's securities rules that are not covered already by the CSA's national electronic filing systems. For market participants in Ontario, mandatory electronic filing helps streamline the submission process. It is also intended to improve the OSC's data analysis, compliance and enforcement capabilities, and reduce the effort and time required to process and analyze thousands of documents. For example, in a given year the OSC may process more than 6,000 Reports of Exempt Distribution.

Protecting data and confidential information

The OSC has a duty of care with respect to the secure handling of confidential and personal information in its custody, regardless of where it is or the format in which it is stored. In fulfilling its duty, the OSC has invested in its employees, information technology network and data storage infrastructure to continuously improve its information security capabilities. In 2013-14, staff reviewed all existing policies and procedures for the secure handling of confidential data and examined whether enhancements were needed to protect private data. Expectations about the critical need to secure confidential and personal data were articulated to all staff and policies on the use of this information continue to be embedded in the OSC's Code of Conduct. In addition, enhancements were made to network security, encryption for devices used in external reviews and investigations, and detection monitoring.

CSA National Systems

Many market participants interface with the OSC either directly or indirectly through the national technology systems of the CSA. To streamline the costs of those systems, the CSA entered into a new service arrangement that it expects will allow it to achieve savings that it can pass on to market participants. The CSA successfully transitioned the hosting, operation and maintenance of the System for Electronic Document Analysis and Retrieval (SEDAR), the System for Electronic Disclosure by Insiders (SEDI) and the National Registration Database (NRD) to CGI Information Systems and Management Consultants Inc. in January 2014.

See the Management's Discussion and Analysis on page 25 for more about OSC operations.

Management and staff continued to maintain a positive environment where employees feel respected, fulfilled and engaged. This effort to continually improve as an organization was recognized when, for the second year in a row, the OSC was chosen as a **Top Employer of the Greater Toronto Area for 2014**. Throughout the year staff were also active in the community as giving and engaged corporate citizens, consistent with the professional, people and ethical values (see page 1) of the organization. For example, in 2013, staff made generous contributions to the United Way Toronto campaign and Ride for Heart Corporate Challenge of the Heart & Stroke Foundation and were active in the Global Corporate Challenge.

Management's Discussion and Analysis

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the OSC's financial performance for the 2014 fiscal year ended March 31, 2014. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out the OSC's plans and budget for the year ahead.

This MD&A should be read in conjunction with the OSC's 2014 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance and ability to meet its objectives.

Important information about this MD&A

- The information in this MD&A is prepared as of June 3, 2014.
- The terms "we", "us", "our" and "OSC" refer to the Ontario Securities Commission.
- This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on the OSC's current views of future events and financial performance. Key risks and uncertainties are discussed in the Risks and risk management section of this MD&A. However, some risks and uncertainties are beyond the control of the OSC and are difficult to predict. Actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
- The words "believe", "plan", "intend", "estimate", "expect", "anticipate" and similar expressions, as well as future conditional verbs, such as "will", "should", "would" and "could" often identify forward-looking statements.
- The words "plan" and "budget" are synonymous in this MD&A and are used interchangeably. Both describe the planned budget revenue and expenses for the fiscal year.
- Unless otherwise specified, references to a year refer to the OSC's fiscal year ended March 31.
- Notes to the financial statements refer to the OSC's 2014 Notes to the Financial Statements.

- All financial information related to 2013 and 2014 has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, **Note 2** *Basis of presentation*, **Note 3** *Significant accounting policies* and **Note 20** *Accounting pronouncements*.
- Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
- Due to rounding, some analysis of components may not sum to the analysis for the grouped components.

About the OSC

A summary of our role, mandate and goals

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

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

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

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

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

Cooperative capital markets regulator

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

Mandate

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

Vision

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

Goals

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

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

Operating results

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

As a self-funded Crown corporation, the OSC operates on a cost-recovery basis. In prior years, we accumulated a general operating surplus, which we plan to eliminate by March 31, 2016 through planned operating deficits, and investments in information technology (IT) and related Property, plant & equipment.

In 2014, our general operating surplus increased slightly by $1.2 million as a result of extensive cost reductions relative to our 2014 plan. Some of these reductions were permanent in nature, while others will be realized in 2015. Despite adding to the surplus in 2014, we are on track to reduce the general operating surplus as planned by 2016.

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

Selected three-year annual information

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

General surplus	$6,540	$5,308	$13,123
Property, plant & equipment	$6,940	$7,775	$1,877

About our fees

- **Participation fees** are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. Participation fees are based on a reference fiscal year, where future participation fees are indexed to a prior fiscal year's results. Fees are calculated using an increasing tiered structure based on average market capitalization for issuers and revenues for registrants. The timing of participation fee revenue affects our cash flow. For more information, see the Liquidity and financial position section.

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

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

Revenue

Fee increases resulted in higher total revenue of $98.7 million in 2014, up $11.4 million (13.1%) from total revenue of $87.3 million in 2013. Higher revenue is attributed to the higher fee rates under the new fee rules, which came into effect in April 2013. However, total revenue for the year was under plan by $2.5 million (2.5%), with lower regulatory fee revenue in most categories. Participation fees account for 45% of the variance, while activity fees and late fees account for 21% and 29% of the variance, respectively. This is a result of a softer than expected market.

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

	% of 2014 Revenue	% of 2013 Revenue
Participation fees	84.6%	86.6%
Activity fees	13.4%	11.1%
Late fees	2.0%	2.3%
Total	**100.0%**	**100.0%**

Our fee structure

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

We charge two types of regulatory fees: participation fees and activity fees. Under the current fee rules, participation fees increase 11.6% per year for reporting issuers and 4.7% per year for registrants. These increases are to better align revenue generated by each group with their participation in Ontario's capital markets and costs incurred by the OSC for each group. Activity fees were revised to reflect the costs associated with providing the related services. There were no changes to late fees for issuers and registrants.

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

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

Participation fees

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

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

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

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

Activity fees

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

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

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

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

Late fees

	2013	2014	2015
Plan	$2.7 M	**$2.7 M**	$2.0 M
Actual	$2.0 M	**$2.0 M**	–

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

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

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

Expenses

In 2014, our total expenses were $97.7 million, up $1.6 million (1.7%) from $96.1 million in 2013 (excluding Recoveries of enforcement costs). Total expenses for the year were under plan by $6.9 million (6.6%) (before enforcement cost recoveries) as a result of cost cutting and deferral initiatives to align expenses with revenue. Targeted underspending in Salaries and benefits accounted for 34% of the variance, while 32% related to underspending in Professional services. Other areas of underspending included Administrative expenses (19%) and Depreciation (8%).

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

	% of 2014 Expenses	% of 2013 Expenses
Salaries and benefits	**76.3%**	75.2%
Occupancy	**8.2%**	7.7%
Administrative	**7.9%**	7.9%
Professional services	**4.6%**	6.0%
Depreciation	**2.5%**	2.6%
Other	**0.5%**	0.6%
Total	**100.0%**	**100.0%**

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

Salaries and benefits

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

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

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

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

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

Occupancy

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

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

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

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

Administrative

	2013	2014	2015
Plan	$8.0 M	**$8.5 M**	$8.5 M
Actual	$7.6 M	**$7.8 M**	–

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

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

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

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

Professional services

	2013	2014	2015
Plan	$6.5 M	**$6.7 M**	$4.7 M
Actual	$5.8 M	**$4.4 M**	–

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

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

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

CSA shared costs

As a member of the CSA, the OSC pays a portion of the costs to operate the CSA's office and joint CSA projects. In 2014, total CSA spending on shared projects was $1.9 million ($1.9 million in 2013). The OSC contributed $0.7 million ($0.7 million in 2013). CSA shared costs expenses incurred by the OSC are included in professional services expenses.

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

Depreciation

	2013	2014	2015
Plan	$2.7 M	**$3.1 M**	$2.8 M
Actual	$2.5 M	**$2.5 M**	–

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

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

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

Liquidity and financial position

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

Liquidity

	2013	2014
Cash	$11.2 M	**$9.5 M**

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

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

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

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

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

Cash flows

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

Approximately 73% of our revenues are received in the last quarter of each fiscal year, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in negative cash balances from the second quarter to the end of December of each year. The OSC currently uses two key tools to manage temporary negative cash positions: a $20 million general operating reserve and a $35 million revolving line of credit. Subsequent to March 31, 2014, approval was received to replace the $35 million revolving line of credit with a $52 million revolving line of credit. See **Note 13** of the financial statements for details.

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

Financial instruments

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

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

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

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

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

Financial position

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

Trade and other receivables

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

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

Prepayments

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

	2013	2014
Funds held pursuant to designated settlements and orders	$19.8 M	**$18.6 M**

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

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

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

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

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

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

Collecting monetary sanctions

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

We continue to look for ways to improve our collections rates, including reviewing the experiences of other public and private sector organizations to identify methods that can be used by the OSC. For example, in 2014, the OSC entered into an arrangement with the Canada Revenue Agency in relation to its Refund Set-Off program, where tax refunds otherwise payable can be withheld and diverted to the OSC to offset outstanding sanction amounts.

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

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

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

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

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

Net assets held for CSA Systems redevelopment

(formerly Funds held for CSA Systems redevelopment)

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

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

Prior arrangement with CDS

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

Current arrangement with CGI

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

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

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

	2013	2014
Net assets held for CSA Systems redevelopment	$94.8 M	**$115.7 M**

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

Designated Principal Administrator – Operations

Under the new operating agreement among the PAs, the OSC has been appointed the Designated Principal Administrator – Operations (DPA). As DPA, the OSC oversees the custody and financial management of the system fees collected relating to CSA Systems use by market participants.

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

CSA IT Systems Project Office

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

Net assets

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

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

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

Reserve fund assets

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

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

Property, plant & equipment

	2013	2014
Property, plant & equipment	$9.3 M	**$13.7 M**

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

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

Trade and other payables

	2013	2014
Trade and other payables	$17.1 M	**$18.3 M**

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

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

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

Pension liabilities

	2013	2014
Pension liabilities	$2.7 M	**$3.1 M**

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

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

2015 Strategy

Our plans and budget for fiscal year 2015

Statement of Priorities

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

The Statement of Priorities is our cornerstone accountability document.

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

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

2015 Budget

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

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

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

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

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

2015 Plan

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

For details on 2015 planned budget amounts for significant revenue and expense line items, see the Revenue and Expenses sections of this MD&A.

Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements

Preparing financial statements consistent with IFRS requires management judgments, estimates and assumptions that affect reported amounts of assets and liabilities for the date of the financial statements, as well as reported amounts of the revenues and expenses for the periods.

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

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

Judgment was used to determine the appropriate accounting treatment for the IEF and the Net assets held for CSA Systems redevelopment.

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

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

Risks and risk management

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

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

Strategic risks

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

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

Strategic Risk Inventory

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

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

Business risks

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

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

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

Systems risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs extensive security and vulnerability assessments to highlight potential areas of risk. The results of these assessments are reported to the Audit and Finance Committee and are used to improve security of the OSC systems.

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

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

Business continuity

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

Financial risk

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

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

Legal risk

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

Internal audit

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

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

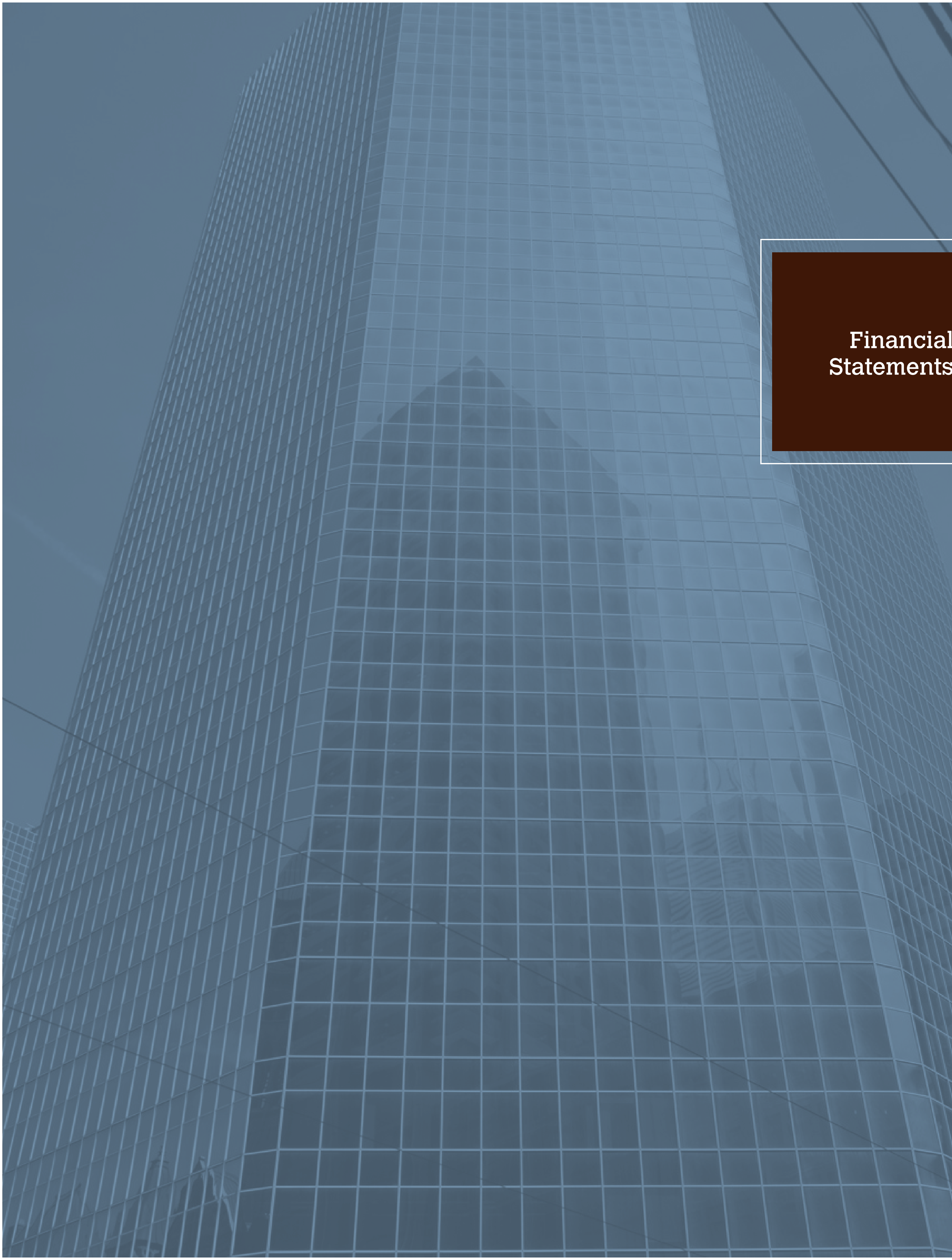
Internal control over financial reporting (ICFR)

A summary of our ICFR program results

During the year, the OSC's ICFR processes were reviewed and documentation updated where necessary. Operating effectiveness was tested using the framework and criteria established in "Internal Control – Integrated Framework (1992 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2014. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

In the current year, new verification of participation fee revenue internal controls were implemented to address a control improvement identified in 2013. There have been no other changes that occurred during the most recent year ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director, Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

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



Financial Statements

Management's Responsibility and Certification

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

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

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

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

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

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

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

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer
June 3, 2014

H.R. Goss
Director, Corporate Services

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the statement of financial position as at March 31, 2014, and the statement of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2014 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bonnie Lysyk, MBA, CPA, CA, LPA

Auditor General

June 3, 2014
Toronto, Ontario

Statement of financial position

In Canadian dollars

	Notes	March 31, 2014	March 31, 2013
Assets			
Current			
Cash		$9,518,603	$11,175,984
Trade and other receivables	5	3,503,209	3,566,243
Prepayments		1,292,995	1,129,765
Total current		**$14,314,807**	**$15,871,992**
Non-current			
Funds held pursuant to designated settlements and orders	6	18,573,291	19,756,165
Net assets held for CSA Systems redevelopment	7, 17	115,685,590	94,810,759
Reserve fund assets	8	20,000,000	20,000,000
Property, plant & equipment	9	13,675,681	9,257,175
Total non-current		**$167,934,562**	**$143,824,099**
Total assets		**$182,249,369**	**$159,696,091**
Total liabilities and surplus		**$182,249,369**	**$159,696,091**

	Notes	March 31, 2014	March 31, 2013
Liabilities			
Current			
Trade and other payables	10	$18,332,125	$17,090,122
Total current		**$18,332,125**	**$17,090,122**
Non-current			
Pension liabilities	12(b)	3,118,630	2,731,527
Funds held pursuant to designated settlements and orders	6	18,573,291	19,756,165
Net assets held for CSA Systems redevelopment	7, 17	115,685,590	94,810,759
Total non-current		**$137,377,511**	**$117,298,451**
Total liabilities		**$155,709,636**	**$134,388,573**

Surplus			
Operating			
General		$6,539,733	$5,307,518
Reserve	8, 13	20,000,000	20,000,000
		$26,539,733	**$25,307,518**
Total liabilities and surplus		**$182,249,369**	**$159,696,091**

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

On Behalf of the Board of the Commission

Howard I. Wetston, Q.C.
Chair

Sinan O. Akdeniz
Chair, Audit and Finance Committee

Statement of comprehensive income

In Canadian dollars

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
Revenue			
Fees	14	$98,441,276	$86,930,037
Interest income		127,797	236,708
Miscellaneous		108,047	111,136
		$98,677,120	**$87,277,881**
Expenses			
Salaries and benefits	15	$74,471,187	$72,222,006
Occupancy		7,996,668	7,434,056
Administrative	16	7,760,794	7,606,472
Professional services		4,446,393	5,767,182
Depreciation	9	2,480,939	2,461,213
Other		506,546	560,669
		$97,662,527	$96,051,598
Recoveries of enforcement costs	3(c)	$(507,879)	$(1,244,931)
		$97,154,648	**$94,806,667**
Excess/(Deficiency) of revenue over expenses		**$1,522,472**	**$(7,528,786)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension plans		$(290,257)	$(287,066)
Other comprehensive income/(loss)		**$(290,257)**	**$(287,066)**
Total comprehensive income/(loss)		**$1,232,215**	**$(7,815,852)**

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

Statement of changes in surplus

In Canadian dollars

	Notes	March 31, 2014	March 31, 2013
Operating surplus, beginning of year		$25,307,518	$33,123,370
Total comprehensive income/(loss)		1,232,215	(7,815,852)
Operating surplus, end of year		**$26,539,733**	**$25,307,518**
Represented by:			
General		$6,539,733	$5,307,518
Reserve	8, 13	20,000,000	20,000,000
		$26,539,733	**$25,307,518**

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

Statement of cash flows

In Canadian dollars

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
Cash flows from/(used in) operating activities			
Excess/(Deficiency) of revenue over expenses		**$1,522,472**	$(7,528,786)
Adjusted for:			
Interest received		**$134,799**	$248,495
Interest income		**(127,797)**	(236,708)
Interest expense on line of credit		**130,305**	24,012
Pension liabilities		**96,846**	66,854
Loss on disposal of Property, plant & equipment	9	**40,214**	931
Depreciation	9	**2,480,939**	2,461,213
		$4,277,778	$(4,963,989)
Changes in non-cash working capital			
Trade and other receivables		**$56,032**	$(878,520)
Prepayments		**(163,230)**	(103,922)
Trade and other payables		**1,242,003**	1,861,945
		$1,134,805	$879,503
Net cash flows from/(used in) operating activities		**$5,412,583**	**$(4,084,486)**
Cash flows used in investing activities			
Purchase of Property, plant & equipment	9	**$(6,939,659)**	$(7,775,590)
Net cash flows used in investing activities		**$(6,939,659)**	**$(7,775,590)**
Cash flows used in financing activities			
Repayment of obligation under finance leases		–	$(1,631)

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
Interest paid on line of credit		$(130,305)	(24,012)
Net cash flows used in financing activities		$(130,305)	**$(25,643)**
Net decrease in cash		**$(1,657,381)**	**$(11,885,719)**
Cash position, beginning of year		**11,175,984**	**23,061,703**
Cash position, end of year		**$9,518,603**	**$11,175,984**

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

Notes to the financial statements

1. Reporting entity

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

2. Basis of presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements for the year ended March 31, 2014 (including comparatives) were authorized for issue by the Board of Directors on June 3, 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments and sources of estimation uncertainty

(i) Judgments

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

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

Investor Education Fund (IEF or the Fund)

The IEF is a non-profit organization funded by settlements and fines from enforcement proceedings of the OSC. There are a number of areas where judgment is exercised to establish whether the Fund needs to be consolidated with the OSC. Key areas of judgment include control, legal relationship, contractual terms, board and management representation, power to govern, benefits and materiality. OSC management has exercised judgment in these areas to determine that consolidation of the Fund with the OSC results would not be appropriate because investors in the capital market, rather than the OSC, obtain the benefit or variable returns from the activities of the IEF. Further details related to the IEF are set out in **Note 19**.

Net assets held for Canadian Securities Administrators (CSA) Systems redevelopment (CSA net assets or surplus funds)

There are a number of areas where judgment is exercised to establish whether this arrangement and related net asset amounts are presented as a financial asset, an equity accounted investment, joint arrangement or consolidated with OSC operations. In making this determination, OSC management considered the requirements of recently effective IFRS pronouncements that could apply to this arrangement, in particular, IFRS 10, *Consolidated Financial Statements,* IFRS 11, *Joint Arrangements,* and IFRS 12, *Disclosure of Interests in Other Entities,* as well as IAS 28, *Investments in Associates and Joint Ventures.*

The OSC has been appointed to administer the financial management processes of the surplus funds and their use, and to receive, hold and manage any surplus funds. Despite the OSC acting as custodian of these surplus funds, based on an evaluation of the contractual terms and conditions related to the arrangement, OSC management has determined that participants in the capital market, rather than the OSC (or other CSA members, including the Investment Industry Regulatory Organization of Canada (IIROC) in the case of NRD until October 13, 2013) obtain the benefit or rewards from holding the surplus funds, or any future development of the CSA Systems. OSC management has determined that the OSC does not have control over the surplus funds, as the OSC is not exposed to and does not have rights to variable returns from the surplus funds. The surplus funds are therefore not consolidated with the OSC's results.

In addition, OSC management exercised judgment to determine that the OSC does not have joint control of the surplus funds because the significant relevant activities relating to the surplus funds do not require unanimous consent of all parties that control the arrangement collectively.

OSC management exercised judgment to determine that the surplus funds represent a financial asset and a corresponding liability rather than an equity accounted investment. In making this determination, OSC management considered the surplus funds' restricted future use, and that the surplus funds will provide future benefits to market participants. There has been no substantive change in the arrangement and continuity of the previous presentation of the funds held for CSA Systems redevelopment, with related note disclosure, is appropriate. A change in presentation of the surplus funds in the OSC financial statements could impair the comparability of the financial statements without providing information that is more relevant to the users of the financial statements.

Further details, including summary financial information related to the Net assets held for CSA Systems redevelopment, are set out in **Note 7**.

(ii) Sources of estimation uncertainty

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

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

Supplemental pension plan

Supplemental Pension Plan liabilities represent the estimated present value of the OSC's obligation for future payments on March 31, 2014. The OSC relies on an independent actuarial expert to determine the present value of the defined benefit obligation of the supplemental pension plan and related impact to the Statement of comprehensive income, and Other comprehensive income (OCI). In some cases, this determination will involve management's best estimates and other information from other accredited sources. A change in one or more of these assumptions can possibly have a material impact on the OSC's financial statements. The significant actuarial assumptions used in determination of the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used is outlined in **Note 12(b)**.

Designated settlements and orders and Recoveries of enforcement costs

Designated settlements and orders and Recoveries of enforcement costs are recognized net of amounts deemed uncollectible when it is expected that the amount related to the sanction imposed on respondents is collectible. Estimation is required to determine the amount of designated settlements to recognize and orders that will be collected and the estimated Recoveries of enforcement costs. Key areas considered include the ability of the respondent to pay the sanction amount, the ability to locate the respondent and whether the respondent owns any assets. A change in any of the above areas can have a material impact on the OSC's financial statements. Assets and liabilities will change related to estimated designated settlements and order amounts deemed to be collectible. Expenses may change related to the Recoveries of enforcement costs. Further details of designated settlements and orders are set out in **Note 6**.

(e) Comparative figures

Certain comparative figures have been adjusted to conform to current IFRS presentation and disclosure requirements. These adjustments are not material to the Statement of financial position or Statement of comprehensive income and are primarily the result of retrospective application of IAS 19 (refer to **Notes 12** and **20** for further details).

3. Significant accounting policies

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

(a) Financial instruments

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

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, and other liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets carried at fair value through profit or loss, which are measured initially at fair value.

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

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

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

Loans and receivables

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

Financial assets at fair value through profit or loss

Cash, Funds held pursuant to designated settlements and orders, funds included in the Net assets held for the CSA Systems redevelopment and Reserve fund assets are classified as held-for-trading and recorded balances approximate their fair value.

Other liabilities

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

(b) Property, plant & equipment

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

Depreciation is recognized in profit and loss and calculated on a straight-line basis over the estimated useful life of the asset less its residual value, as follows:

Computer hardware and related applications	Network servers and cabling*	Office furniture and equipment	Leasehold improvements
3 years	5 years	5 to 10 years	Over remaining term of the lease plus one option period

* This change in accounting estimate for the expected useful lives of network servers and cabling (which was included with Computer hardware and related applications, with an estimated useful life of 3 years) is the result of new information in the 2014 financial year. No depreciation for the year was recorded for Network servers and cabling as their acquisition took place at year end.

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

Computer hardware and related applications held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

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

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

(c) Revenue recognition

Fees are recognized when services are rendered, which is normally upon receipt.

Participation fees

Participation fees are recognized when received. Prior to receipt of the fee, the probability that the economic benefits associated with the transaction will flow to the OSC is unknown. Additionally, reliable measurement of participation fees for new market participants is not possible because the market capitalization of issuers or the specified Ontario revenue of registrants, on which their participation fees are based, is undeterminable prior to receipt. These fees represent the payment for the right to participate in the Ontario capital markets, and the OSC has no specific obligations throughout the year to any individual market participant. As such, the OSC's performance consists of a single act, which is the payment of the fee. Once the fee is paid, there is no obligation to refund the fees and there are no other unfulfilled conditions on behalf of the OSC. Therefore, participation fees are deemed to be earned upon receipt.

Activity fees

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

Late filing fees

Late filing fees in respect of insider trading reports are recognized weekly and include fees related to all insider trading reports filed late in the preceding seven-day period.

Recoveries of enforcement costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order is issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case, recovery is recognized when cash is received.

(d) Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders are made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case, they are recognized when cash is received.

(e) Employee benefits

Ontario's Public Service Pension Plan

The OSC provides pension benefits to its full-time employees through participation in Ontario's Public Service Pension Plan (OPSPP), which is a multi-employer defined benefit pension plan. The Province of Ontario is the sole sponsor of the OPSPP. This plan is accounted for as a defined contribution plan, as sufficient information is not provided to the OSC, or otherwise available for the OSC to apply defined benefit plan accounting to this pension plan. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. The OSC is not exposed to any liability to the plan for other entities' obligations under the terms and conditions of the multi-employer plan. There is no deficit or surplus in the plan that could affect the amount of future contributions for the OSC. Furthermore, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the OSC from the plan. Payments made to the plan are recognized as an expense when employees have rendered service entitling them to the contributions. Refer to **Note 12(a)** for further details on the OPSPP.

Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in **Note 12(b).** The plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of the target benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In some plans, the target benefits are indexed with inflation. The target benefits are then offset by the benefits payable from the OPSPP (registered and supplemental plans), which is linked to inflation.

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

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

Other post-employment obligations

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

Termination benefits

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

Short-term benefits

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

(f) Leases

Leases of Property, plant & equipment are classified as finance leases when the OSC obtains substantially all the risks and rewards of ownership of the underlying assets. At the inception of the lease, the OSC records an asset together with a corresponding long-term liability at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset. Thereafter, the asset is amortized over the shorter of its useful life and the lease term. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

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

(g) Provisions

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

4. Financial instruments risks

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

Currency risk

The OSC's exposure to currency risk is minimal as only a small number of transactions are in currencies other than Canadian dollars.

Interest rate risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Net assets held for CSA Systems redevelopment (cash components) and Reserve fund assets are held by Schedule 1 banks. The bank balances earn interest at a rate of 1.85% below the prime rate, and the average rate of interest earned for the year was 1.15% (2013 – 1.22%). The Reserve fund earned interest at an average rate of 1.15% (2013 – 1.23%).

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

Impact on operating surplus

	25 basis points increase in rates	25 basis points decrease in rates
Reserve fund assets	$9,474	$(9,474)
Cash balance	16,115	(16,115)
	$25,589	**$(25,589)**

Credit risk

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

Schedule 1 financial institutions hold approximately 94% of the OSC's financial assets. However, given the nature of this counterparty, it is management's opinion that exposure to concentration of credit risk is minimal. Additionally, the investment policy for Cash, Reserve fund assets and for Funds held pursuant to designated settlements and orders limits amounts held on deposit in any one of the Schedule 1 banks to $30,000,000 for each category.

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

Other receivables in aggregate are material, with a number of debtors owing individually and in aggregate immaterial amounts, and a small number of debtors owing larger amounts, which are material in aggregate but not individually, and are receivable from:

- Government of Canada for recovering Harmonized Sales Tax (HST) paid during the year,

- Net assets held for CSA Systems redevelopment, which the OSC oversees, to recover staff costs and other charges incurred,
- The IEF for seconded staff and other charges incurred, and
- The Canadian Securities Transition Office (CSTO) for seconded staff.

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

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

The aging of Trade and other receivables is as follows:

	March 31, 2014	March 31, 2013
Current	$2,310,349	$2,004,358
Past due 31 to 60 days	575,207	970,252
Past due 61 to 90 days	312,354	328,970
Past due greater than 90 days	1,445,598	1,333,007
	$4,643,508	**$4,636,587**

Reconciliation of allowance for doubtful accounts is as follows:

	Notes	March 31, 2014	March 31, 2013
Opening balance		$1,070,344	$958,834
Current year provision		164,215	140,540
Written-off during the year		(94,260)	(29,030)
Closing balance	**5**	**$1,140,299**	**$1,070,344**

Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has a sufficient cash balance, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2014, the OSC had a cash balance of $9.5 million and reserve fund assets of $20 million to settle current liabilities of $18.3 million.

The OSC has a $35 million credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC utilized the credit facility to a maximum of $24 million. As at March 31, 2014, there is no amount outstanding on the credit facility.

The overall exposure to the above noted risk remains unchanged from 2013.

Supplemental pension plan risks

The OSC's overall exposure to supplemental pension plan risks is low due to the plan being a supplemental plan and the limited number of plan members entitled to plan benefits. Refer to **Note 12(b)** for further details.

5. Trade and other receivables

	Notes	March 31, 2014	March 31, 2013
Trade receivables		$1,040,114	$1,202,251
Other receivables		$1,979,836	$2,031,326
Allowance for doubtful accounts	4	(1,140,299)	(1,070,344)
		$1,879,651	**$2,163,233**
Interest receivable		24,638	30,936
Due from IEF	19	330,018	502,635
HST recoverable		1,268,902	869,439
		$3,503,209	**$3,566,243**

6. Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. As a result of an amendment to the *Securities Act* (Ontario) effective June 2012, the Commission may also use these funds 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 accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The OSC will allocate these funds as it determines appropriate in its discretion. This will include allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2014, the accumulated balance is determined as follows:

	Notes	March 31, 2014	March 31, 2013
Opening balance		$19,756,165	$47,194,738
Assessed during the year		61,675,609	80,174,712
Less:			
Amounts to be paid directly to investors		–	(4,019,124)
Adjustments to present value		(11,909)	(21,051)
Orders deemed uncollectible		(57,911,552)	(71,249,950)
Amount recorded from assessments in year		3,752,148	4,884,587
Amounts collected in advance of an order		100,000	–
Adjustments to amounts assessed in prior years		31,720	195,172
Total settlements and orders recorded		**$3,883,868**	**$5,079,759**

	Notes	March 31, 2014	March 31, 2013
Add: interest		$165,271	$514,283
Less: payments			
IEF	19	(3,295,000)	(3,900,000)
ABCP		–	(28,632,615)
Others		(1,937,013)	(500,000)
Closing balance		**$18,573,291**	**$19,756,165**

Represented by:		
Cash	$13,854,489	$14,607,579
Receivable	4,718,802	5,148,586
	$18,573,291	**$19,756,165**

The $3,883,868 (2013 – $5,079,759) identified as total settlements and orders recorded reflects the portion of $61,675,609 (2013 – $80,174,712) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes $31,720 (2013 – $195,172) in adjustments from orders recorded in prior years and $100,000 (2013 – $0) collected from a respondent in advance of an order being issued.

The adjustments to amounts assessed in prior years include portions of orders from prior years that are on payment plans that were recorded in fiscal 2014, plus the amount that had been previously deemed uncollectible where payment was received in fiscal 2013, less the amount that is now deemed as uncollectible, or will be distributed directly, but had been deemed as collectible in prior periods. As at March 31, 2014, $4,718,802 (2013 – $5,148,586) was considered receivable because these amounts are expected to be collected.

The OSC collected a total of $1,768,769 (2013 – $3,218,134) of the designated settlements and orders assessed during the year resulting in an average collection rate of 2.87% (2013 – 4.01%).

As authorized by the Board, the OSC made the following payments from the designated funds: $3,295,000 to the IEF (2013 – $3,900,000), $1,437,013 (2013 – $28,632,615) to be distributed to the eligible investors in two different enforcement matters and $500,000 (2013 – $500,000) to FAIR Canada representing the final payment of a two-year funding commitment.

7. Net assets held for CSA Systems redevelopment (surplus funds)

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

The OSC has been appointed the Designated Principal Administrator – Operations (DPA). As DPA, the OSC oversees the custody and financial management of the system fees collected relating to the CSA Systems use by market participants. The Net assets held for CSA Systems redevelopment include surplus funds accumulated from CSA Systems operations received, held and managed by the DPA on behalf of the PAs, and IIROC (in the case of NRD system fee surplus funds accumulated to October 13, 2013). The use of these surplus funds is restricted by various agreements between the PAs.

Prior to January 13, 2014 CDS Inc. (CDS) operated the CSA Systems on behalf of the PAs under agreements dated as of August 1, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. CDS forwarded the annual operating surpluses associated with CSA Systems fees collected, net of operating costs, to the OSC as custodian of the surplus funds. Direction to CDS for the CSA Systems operation was provided by representatives from the PAs, through unanimous vote. These surplus funds were held and managed by the OSC as custodian in accordance with agreements among the PAs. The surplus funds are held in segregated bank accounts with a Schedule 1 financial institution and earn interest at the monthly average bank prime rate less 1.85%.

Effective January 13, 2014, CGI Information Systems and Management Consultants Inc. (CGI) became the service provider to host and maintain the CSA Systems, as a result of a competitive request for proposal process. Under the new agreements, CGI will forward the gross system fees collected from users of the CSA Systems to the DPA as they are received and will invoice the DPA for these services. The DPA will administer payments to CGI for services provided, as they become due from the surplus funds. A Governance Committee comprised of members of the four PAs was established through an agreement signed on April 2, 2013, creating a governance framework for management and oversight, including that of CGI. The agreement outlines how user fees will be collected and deployed, and addresses allocation and payment of liabilities that may arise.

As of January 13, 2014, use of the surplus funds within the terms of the various agreements requires the approval of members of the Governance Committee. Majority approval is required for all permissible uses of the surplus funds as outlined within the various agreements, with the exception of: (a) any financial commitments in excess of the lesser of (i) $5 million and (ii) 15% of the accumulated surplus at such date; (b) significant changes to the design of the systems; and (c) any changes to System Fees, which all require unanimous approval of the PAs. In the case of NRD, IIROC is a party to the applicable agreement, and its approval is required for any use of the surplus funds that deviates from the contractually agreed uses. IIROC approval is not required for NRD funds accumulated after October 13, 2013 for any purpose, nor is it required for use of non-NRD funds accumulated.

The CSA plans to redevelop the CSA Systems in a multi-year phased approach. Funding for this redevelopment program will come from the accumulated surplus funds.

The results of the Net assets held for CSA Systems redevelopment are presented below. Due to the transition of CSA System operations from CDS to CGI in the current year and the introduction of the OSC as DPA, the prior year results relating to the Net assets held for CSA Systems redevelopment are not comparable, and therefore have not been included.

Financial position

	As at March 31, 2014
Assets	
Current	
Cash	$112,105,853
Trade and other receivables	2,983,766
Prepayments	1,250,268
Total current	**$116,339,887**
Intangible asset	708,333
Total assets	**$117,048,220**

Liabilities	
Current	
Trade and other payables	$1,362,630
Total current	**$1,362,630**
Total liabilities	**$1,362,630**

Financial position

	As at March 31, 2014
Surplus	
Opening surplus	$94,810,759
Excess of revenue over expenses	20,874,831
Closing surplus	**$115,685,590**
Total liabilities and surplus	**$117,048,220**

Results of operations

	Year ended March 31, 2014
Revenue	
NRD system fees	$28,510,359
SEDAR system fees	21,515,082
Data distribution services fees	344,805
Interest income	1,130,292
Total revenue	**$51,500,538**
Expenses	
Professional services	$27,962,272
Depreciation	41,667
Other	2,621,768
Total expenses	**$30,625,707**
Excess of revenue over expenses	**$20,874,831**

Cash flows

	Year ended March 31, 2014
Cash flows from operating activities	
Excess of revenue over expenditures	$20,874,831
Adjusted for:	
Interest income received	1,111,025
Interest income	(1,130,292)
Depreciation	41,667
	$20,897,231
Changes in non-cash working capital	
Trade and other receivables	$(2,765,281)
Prepayments	(1,250,268)
Trade and other payables	1,362,630
	$(2,652,919)
Net cash flows from operating activities	**$18,244,312**
Cash flows used in investing activities	
Purchase of intangible asset	$(750,000)
Net cash flows used in investing activities	**$(750,000)**
Cash flows used in financing activities	
Net cash flows used in financing activities	–
Net increase in cash position	**$17,494,312**
Cash position, beginning of period	**94,611,541**
Cash position, end of period	**$112,105,853**

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

8. Reserve fund assets

As part of the approval of its self-funded status, the OSC was allowed to establish a $20 million reserve to be used as an operating contingency against revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The March 31, 2014 accumulated reserve fund assets are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%.

9. Property, plant & equipment

2014	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Networks and servers	Leasehold improvements	Total
Gross carrying amount							
Balance as at April 1, 2013	$4,531,620	$581,252	$18,695,699	$309,964	–	$5,594,364	$29,712,899
Additions	266,263	2,619	402,897	–	$2,513,937	3,753,943	6,939,659
Disposals	(101,244)	–	(302,995)	–	–	–	(404,239)
Balance at March 31, 2014	**$4,696,639**	**$583,871**	**$18,795,601**	**$309,964**	**$2,513,937**	**$9,348,307**	**$36,248,319**
Depreciation							
Balance as at April 1, 2013	$(3,984,278)	$(449,591)	$(15,552,446)	$(309,964)	–	$(159,445)	$(20,455,724)
Depreciation for the year	(239,959)	(14,816)	(1,317,866)	–	–	(908,298)	(2,480,939)
Disposals	88,385	–	275,640	–	–	–	364,025
Balance at March 31, 2014	**$(4,135,852)**	**$(464,407)**	**$(16,594,672)**	**$(309,964)**	**$0**	**$(1,067,743)**	**$(22,572,638)**
Carrying amount at March 31, 2014	**$560,787**	**$119,464**	**$2,200,929**	**$0**	**$2,513,937**	**$8,280,564**	**$13,675,681**

2013	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Networks and servers	Leasehold improvements	Total
Gross carrying amount							
Balance as at April 1, 2012	$4,163,752	$581,182	$16,897,843	$395,828	–	$10,028,079	$32,066,684
Additions	368,883	70	1,812,274	–	–	5,594,363	7,775,590
Disposals	(1,015)	–	(14,417)	(85,864)	–	(10,028,078)	(10,129,374)
Balance at March 31, 2013	**$4,531,620**	**$581,252**	**$18,695,700**	**$309,964**	**$0**	**$5,594,364**	**$29,712,899**
Depreciation							
Balance as at April 1, 2012	$(3,814,510)	$(430,666)	$(14,304,544)	$(224,368)	–	$(9,348,867)	$(28,122,955)
Depreciation for the year	(170,783)	(18,925)	(1,261,370)	(171,460)	–	(838,675)	(2,461,213)
Disposals	1,015	–	$13,468	85,864	–	10,028,097	10,128,444
Balance at March 31, 2013	**$(3,984,278)**	**$(449,591)**	**$(15,552,446)**	**$(309,964)**	**$0**	**$(159,445)**	**$(20,455,724)**
Carrying amount at March 31, 2013	**$547,342**	**$131,661**	**$3,143,254**	**$0**	**$0**	**$5,434,919**	**$9,257,175**

10. Trade and other payables

	March 31, 2014	March 31, 2013
Trade payables	$3,699,262	$1,263,691
Payroll accruals	12,148,952	12,009,019
Other accrued expenses	2,483,911	3,817,412
	$18,332,125	$17,090,122

11. Lease commitments

Operating leases

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

	March 31, 2014	March 31, 2013
Less than one year	$7,484,445	$7,859,555
Between one and five years	18,007,672	26,762,021
More than five years	–	–
	$25,492,117	$34,621,576

Lease expense recognized during the period was $7,695,633 (2013 – $7,198,182). This amount consists of minimum lease payments. A small portion of the OSC's office space is subleased to the IEF and the CSA IT Systems Project Office, which is recorded as Miscellaneous revenue. Sublease payments of $216,122 are expected to be received during the next year.

The lease on OSC premises began August 30, 2012 for a term of five years, expiring on August 31, 2017. The OSC has two consecutive options to extend the term beyond August 31, 2017, each for a period of five years. The OSC expects to exercise the first option. The OSC's operating lease agreements do not contain any contingent rent clauses.

12. Pension plans

(a) Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the OPSPP. The OSC's contribution to the OPSPP for the year ended March 31, 2014 was $4,565,594 (2013 – $4,384,576), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for the next fiscal year are $4,750,000.

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

(b) Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for the OSC's current and former Chairs and Vice-Chairs. These supplemental pension plans have no plan assets. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions. The supplemental defined benefit pension plans are non-registered plans. The benefit payments are made by the OSC as they become due. Responsibility for governance of the plans lies with the OSC. The OSC has an Audit and Finance Committee, and a Human Resources and Compensation Committee to assist in the management of the plans. The OSC has also appointed experienced, independent professional actuarial experts to provide a valuation of the pension obligation for the supplemental plans in accordance with the standards of practice established by the Canadian Institute of Actuaries.

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

The supplemental pension plan exposes the OSC to the following risks:

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

There were no plan amendments, curtailments or settlements during the period. The duration of all plans combined is approximately 11.4 years.

The defined benefit obligation continuity schedule after retrospective application of IAS 19, as amended, is as follows:

	March 31, 2014	March 31, 2013	April 1, 2012
Defined benefit obligation, beginning of year	$2,731,527	$2,377,607	$2,021,766
Current service cost	147,095	124,936	83,329
Interest cost	99,622	87,582	101,563
Benefit payments	(149,871)	(145,664)	(147,767)
Actuarial loss on obligation	290,257	287,066	318,716
Defined benefit obligation, end of year	**$3,118,630**	**$2,731,527**	**$2,377,607**

Actuarial assumptions

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

	March 31, 2014	March 31, 2013
Discount rate	4.10%	3.75%
Inflation	2.50%	2.50%
Expected rate of salary increase	0%	0%
CPP YMPE increase	3.00%	3.00%
Increase in CRA limit	$2,700.00	$2,696.67

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

Sensitivity analysis

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

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

	March 31, 2014
Discount rate increased by 0.5% (obligation will decrease by)	**5.4%**
Discount rate decreased by 0.5% (obligation will increase by)	**5.9%**
Life expectancy increased by 1 year (obligation will increase by)	**2.3%**
Life expectancy decreased by 1 year (obligation will decrease by)	**2.4%**
Inflation rate increased by 0.5% (obligation will decrease by)	**2.6%**
Inflation rate decreased by 0.5% (obligation will increase by)	**3.0%**

Retrospective application

The revised amount included in the Statement of financial position arising from retrospective application of IAS 19, as amended, to its supplemental benefit plans is as follows:

	March 31, 2014	**March 31, 2013**	**April 1, 2012**
Unfunded defined benefit obligation liability attributable to OSC stakeholders prior to change in accounting policy	**$2,206,017**	$2,197,427	$2,016,341
Increase in supplemental pension plans liability	**912,613**	534,100	361,266
Unfunded defined benefit obligation liability attributable to OSC stakeholders after change in accounting policy	**$3,118,630**	**$2,731,527**	**$2,377,607**

The revised amounts recognized in the Statement of comprehensive income, including OCI, arising from retrospective application of IAS 19, as amended, to the supplemental benefit plans are as follows:

	March 31, 2013	March 31, 2012
Excess of revenue over expenses prior to change in accounting policy	$(7,643,018)	$(4,387,040)
Decrease in supplemental pension plan expense	114,232	25,977
Excess of revenue over expenses after change in accounting policy	**$(7,528,786)**	**$(4,361,063)**

Total comprehensive income prior to change in accounting policy	$(7,643,018)	$(4,387,040)
Decrease in supplemental pension plan expense	114,232	25,977
Remeasurement loss on defined benefit plans	(287,066)	(318,716)
Total comprehensive income after change in accounting policy	**$(7,815,852)**	**$(4,679,779)**

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2014 was $246,717 (2013 – $212,518). The OSC expects to incur $143,100 (2013 – $144,000) in benefit payments from the supplemental pension plan during next fiscal year.

13. Capital management

The OSC has established a $20 million reserve fund, as described in **Note 8**, which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses. The OSC's overall strategy remains unchanged from 2013.

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

The OSC has a $35 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. Subsequent to March 31, 2014, the OSC received approval from the Minister to replace the $35 million credit facility with a $52 million credit facility, which becomes effective July 1, 2014.

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

14. Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities, and are intended to serve as a proxy for the market participants' use of the Ontario capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Late fees represent fees applied to market participants for untimely filing of required documents and/or payment of their participation and activity fees. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs or direct refunds.

The Commission revised its participation fees and activity fees effective April 1, 2013, with participation fees being subsequently adjusted at the beginning of fiscal 2015. The effective date of the next fee rule is expected to be April 1, 2015.

Fees received are as follows:

	March 31, 2014	March 31, 2013
Participation fees	$83,267,321	$75,310,296
Activity fees	13,208,161	9,615,841
Late filing fees	1,965,794	2,003,900
	$98,441,276	**$86,930,037**

15. Salaries and benefits

	March 31, 2014	March 31, 2013
Salaries	$62,042,890	$59,778,078
Benefits	6,736,097	6,288,066
Pension expense	4,786,283	4,551,096
Severance/termination payments	905,917	1,604,766
	$74,471,187	**$72,222,006**

16. Administrative

	March 31, 2014	March 31, 2013
Commission expense	$1,872,675	$1,953,225
Communications & publications	1,725,924	1,469,219
Maintenance & support	2,043,621	1,996,279
Supplies	802,870	797,585
Other expenses	674,019	709,650
Training	641,685	680,514
	$7,760,794	**$7,606,472**

17. Contingent liabilities and contractual commitments

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

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

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

	March 31, 2014	**March 31, 2013**
Total accumulated funds	**$112,105,853**	$94,611,541
Available for:		
SEDAR and SEDI	**$52,074,315**	$48,940,037
NRD	**59,898,313**	45,671,504
Data distribution services	**133,225**	–
	$112,105,853	**$94,611,541**

(b) The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions cannot be measured with sufficient reliability at this time. However, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

18. Related party transactions

(a) Net assets held for CSA Systems redevelopment

In the course of normal operations, the OSC entered into transactions with the Net assets held for CSA Systems redevelopment. Refer to **Note 7** for further details.

(b) IEF

In the course of normal operations, the OSC entered into transactions with the IEF. Refer to **Note 19** for further details.

(c) The Province of Ontario

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

(i) The *Securities Act* (Ontario) states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in **Note 14** and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.

(ii) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income.

(d) Compensation to key management personnel

Key management of the OSC are members of the Board of Directors, Chair, Vice-Chairs and Executive Director.

Key management personnel remuneration includes the following expenses:

	March 31, 2014	March 31, 2013
Short-term employee benefits	$3,683,102	$3,458,567
Post-employment benefits	302,740	406,642
Total compensation	**$3,985,842**	**$3,865,209**

19. Investor Education Fund

The IEF was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by a separate Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors, and to support research and develop programs and partnerships which promote investor and financial education in schools and among adult learners.

The OSC is the sole voting member of the Fund. However, the OSC has determined, based on an evaluation of the terms and conditions of the arrangement, that investors in the capital market, rather than the OSC, obtain the benefit or rewards from the activities of the IEF. As such, the OSC does not control the Fund, and the Fund has not been consolidated in the OSC's financial statements as discussed in **Note 2(d)**. The Fund is exempt from income taxes.

Financial statements of the Fund are available on request. During the year, the OSC entered into transactions with the Fund as follows:

(i) The OSC paid $3,295,000 to the Fund (2013 – $3,900,000). These payments were from Funds held pursuant to designated settlements and orders as described in **Note 6**.

(ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost. For the period ended March 31, 2014, the OSC incurred costs totalling $1,088,307 (2013 – $1,000,975) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $330,018 is owing to the OSC (2013 – $502,635).

(iii) Subsequent to year end, the Commission approved funding totalling $2,720,000 for the IEF for the 2015 fiscal year.

20. Accounting pronouncements

Effective in the year

A number of new IFRS standards, interpretations and amendments effective for the first time for periods beginning on (or after) April 1, 2013, have been considered or adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment is detailed below.

IFRS 10, *Consolidated financial statements*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* to replace IAS 27, *Consolidated and Separate Financial Statements* and SIC 12, *Consolidation – Special Purpose Entities*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Determination of control now includes elements of power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. Refer to the Judgments section of **Note 2(d)** for further details.

IFRS11, *Joint arrangements*

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* to replace IAS 31, *Interests in Joint Ventures*. The standard outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly). Refer to the Judgments section of **Note 2(d)** for further details.

IFRS 12, *Disclosure of interests in other entities*

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Refer to the Judgments section of **Note 2(d)** for further details.

IFRS 13, *Fair value measurement*

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

IFRS 13 was adopted by the OSC for the fiscal year ended March 31, 2014. There was no material adjustment as a result of adoption. Refer to **Note 3** for further details.

IAS 19, *Employee benefits*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. This amendment eliminated the use of the "corridor" approach and mandates that all remeasurements of the net defined benefit liability or assets be recognized immediately in OCI. It also enhances the disclosure requirements, requiring more information to be disclosed about the characteristics of defined benefit plans and the risk that an entity is exposed to through participation in those plans.

Net interest cost is now calculated by multiplying the discount rate (used to measure the net defined benefit obligation) by the net liability. Changes in the fair value of plan assets and defined benefit obligations are segmented into three components: service costs, net interest on the net defined benefit liabilities and remeasurements of the net defined benefit liabilities. This amendment also clarifies when an entity should recognize a liability and an expense for termination benefits.

The amendments to IAS 19 were retrospectively adopted by the OSC for the fiscal year ended March 31, 2014. There was no material adjustment as a result of adoption and retrospective application was not necessary. Refer to **Note 2(d)**, **Note 3** and **Note 12** for further details.

New and revised in issue, but not yet effective

The following new IFRS standards, interpretations and amendments, which have been issued but are not yet effective for the year ended March 31, 2014, have not been applied in preparing these financial statements. These pronouncements are not expected to have a material impact on the financial statements of the OSC upon adoption.

IFRS 9, *Financial instruments*

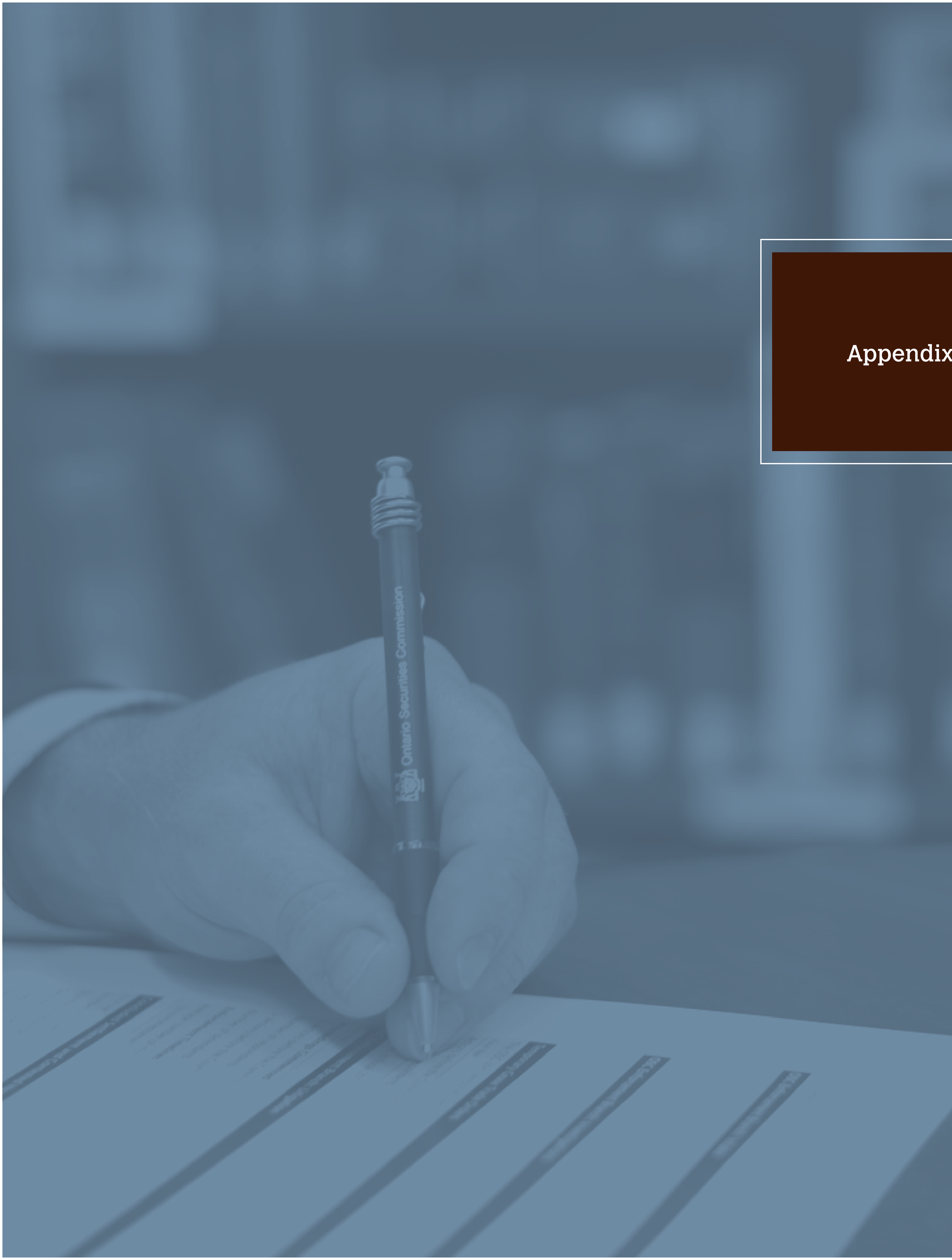
IFRS 9, *Financial instruments* as issued in November 2009 and later expanded and amended will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 replaces the multiple classifications for financial assets in IAS 39 with two measurement categories, amortized cost and fair value, which are based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In November 2013, the IASB issued a revised version of IFRS 9, *Financial Instruments*, which introduces a new chapter on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The revised standard permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within the consolidated statements of income.

The amendments to IFRS 9 remove the mandatory effective date of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard permits early application.

IFRIC 21, *Levies*

In May 2013, the IFRS Interpretation Committee issued IFRIC 21, *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Earlier application is permitted.



Appendix

Appendix

Issuers and Registrants

	2011-12	2012-13	2013-14
Public companies in Ontario	1,362	1,372	**1,359***
Investment fund issuers in Ontario	3,594	3,715	**3,814**
Registered firms in Ontario	1,290	1,301	**1,298**
Registered individuals in Ontario	65,975	65,899	**66,210**

*Total number of reporting issuers with Ontario as principal regulator as at March 31, 2014 (does not include issuers cease traded prior to January 1, 2008).

Assistance for Market Participants in 2013-14

11,687 Total contacts from market participants to the OSC Inquiries & Contact Centre

Most common areas of contact with market participants

	2013-14
Registration requirements and related information	56%
System for Electronic Disclosure by Insiders (SEDI) filing, reports, etc.	14%
Information about issuers obligations	13%
Fees	9%
Checking registration	2%
Hearings, proceedings, enforcement orders	2%
Exemptions, exempt distributions	2%
Insider requirements	1%
Other	2%

Assistance for Investors in 2013-14

6,035 Total contacts from investors to the OSC Inquiries & Contact Centre

Most common areas of contact with investors

	2013-14
Trading without registration and/or prospectus and/or exemption	19%
Information about public companies and investment offerings	11%
Information about hearings, proceedings and orders	10%
Checking advisor registration, prospectus or exemption	10%
Inadequate or misleading disclosure	10%
Registrant misconduct, registrant-related (OSC) rules	8%
Registrant services-related issues	7%
Educational materials, resources for retail investors	4%
Abusive trading or market manipulation	3%
Shareholder rights, director/officer responsibilities, corporate law	3%
How, where to complain	2%
Illegal insider trading	2%
Takeover and issuer bids, related party transactions	1%
Other	10%

Marketplaces Operating in Ontario

As of March 31, 2014, the following securities marketplaces operated in Ontario for the trading of equities, debt and/or derivatives:

TMX Group Inc. and TSX Inc.

Canadian Securities Exchange

Alpha Exchange Inc.

TSX Venture Exchange

Bourse de Montréal Inc.

ICE Futures Canada

ICE Futures Europe

ICE Futures US

Natural Gas Exchange Inc.

Bloomberg Tradebook Canada

Chi-X Canada

CX2 Canada

Instinet Canada Cross

Liquidnet Canada

MATCH Now

Omega ATS

Lynx ATS

TMX Select

CBID / CBID Institutional

CanDeal

MarketAxess

EquiLend Canada Corp.

CME Group Exchanges

Enforcement Activity and Concluded Hearings

OSC Enforcement Branch: Intake

Fiscal Year	2011-12	2012-13	2013-14
Number of matters assessed	210	238	**289**
Number transferred for investigation	21	18	**41**

OSC Enforcement Branch: Investigations

Fiscal Year	2011-12	2012-13	2013-14
Number of completed investigations	39	36	**42**
Number transferred for litigation	29	25	**24**

Temporary Orders

The OSC uses temporary cease trade orders (TCTOs) to halt trading activity during regulatory investigations.

Fiscal Year	2011-12	2012-13	2013-14
Number of TCTOs	10	9[1]	**3[2]**
Number of respondents (Parties to the proceedings)	45	25	**8**
Number of freeze directions obtained	1	2	**8**
Amount frozen	$45,540	$1,013,000	**$1,377,829**

[1]Includes four temporary orders imposing terms and conditions on registration only and one temporary order imposing both terms and conditions on registration and a temporary order.
[2]Includes one temporary order imposing terms and conditions on registration only.

OSC Enforcement Branch: Litigation

Fiscal Year	2011-12	2012-13	2013-14
Proceedings Commenced			
Actions before the Commission	24	21	**17**
Number of respondents	103	102	**35**
Actions before the Courts	5	5	**4**
Number of defendants	6	11	**6**
Actions – Criminal Code	n/a	n/a	**3**
Number of defendants	n/a	n/a	**3**
Enforcement Timelines			
Average number of months from intake to commencement of a proceeding	20.6	20.3	**15.9**

Concluded Settlement and Contested Hearings before the Commission

Fiscal Year	2011-12	2012-13	2013-14
Number of proceedings	39	42	**40**
Number of respondents	125	147	**111**
Sanctions include:			
Cease trade orders	110	139	**103**[3]
Exemptions removed	108	93	**99**
Director and Officer bans	81	60	**53**[4]
Registration restrictions	50	63	**69**
Administrative penalties, disgorgement orders, settlement amounts	$38,986,471	$80,174,712[5]	**$61,675,609**[6]
Costs ordered	$2,287,165	$3,725,219	**$2,611,402**

[3]Includes two undertakings.
[4]Includes one undertaking.
[5]Includes a disgorgement of $205,000 in 2012-13 and $550,000 in 2013-14 resulting from a reciprocal order in each fiscal year.
[6]Includes a disgorgement of $205,000 in 2012-13 and $550,000 in 2013-14 resulting from a reciprocal order in each fiscal year.

Reciprocal Orders

Fiscal Year	2011-12	2012-13	2013-14
Number of proceedings commenced	4	9	9
Respondents	12	19	14
Number of orders	3	8*	11
Respondents	12	14	21
Sanctions include:			
Cease trade orders	11	10	21
Exemptions removed	12	10	12
Director and Officer bans	4	9	14
Registration Restrictions	5	2	12

* Includes one reciprocal order on a temporary basis

Concluded Matters before the Ontario Court of Justice

Fiscal Year	2011-12	2012-13	2013-14
Number of matters	9	2	3
Total number of defendants	14	2	3

Three matters relating to three defendants were concluded before the Ontario Court of Justice in 2013–14. On August 13, 2013, Abraham Grossman was sentenced to six months in jail after pleading guilty to two counts of breaching cease trade orders and one count of unregistered trading contrary to the *Securities Act* (Ontario). His sentence was consecutive to a three-year sentence imposed on June 16, 2011, for previous securities violations. Terrence M. Bedford was sentenced on September 18, 2013, to two years after pleading guilty to one count of fraud contrary to the *Securities Act* (Ontario). On November 7, 2013, Howard Rash was sentenced to nine months in jail after pleading guilty to one count of fraud and one count of breaching a cease trade order contrary to the *Securities Act* (Ontario).

Adjudicative Activities of the Commission

	Number of sitting days per fiscal year*	
Type of adjudicative proceeding	**2012-13**	**2013-14**
Contested hearings on the merits (Includes sanctions hearings and hearings in writing)	138	**137.5**
Settlement hearings (Includes settlement conferences)	28.5	**41**
Hearings on temporary cease trade orders	28	**44**
Motions and other interlocutory matters	35	**43**
Applications Includes applications for review, applications relating to take over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), and section 127(10) (inter-jurisdictional enforcement) of the *Securities Act.*	23	**15.5**
All other matters (Includes pre-hearing conferences, appearances, etc.)	47.5	**58**
Total	**300**	**339**

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

Terms of Members of the Commission

As at March 31, 2014

	Appointed	Current term expires
Sinan O. Akdeniz	September/09	September/14
Catherine E. Bateman	March/13	March/15
James D. Carnwath	August/09	August/14
Mary G. Condon*	June/11	June/16
Sarah B. Kavanagh	June/11	May/16
Edward P. Kerwin	January/11	January/16
Vern Krishna	October/10	October/14
Deborah Leckman	February/13	February/15
Alan J. Lenczner	February/13	February/15
Christopher Portner	December/10	December/15
Judith N. Robertson	June/11	May/16
AnneMarie Ryan	February/13	February/15
C. Wesley M. Scott**	September/09	September/14
James E. A. Turner	February/07	February/15
Howard I. Wetston	November/10	November/15

* Mary G. Condon's term as a Vice-Chair ended in May 2014 and she was re-appointed as a Part-time Member of the Commission until June 2016.

** C. Wesley M. Scott is the Lead Director of the Commission.

The term of office for Vice-Chair Lawrence E. Ritchie expired in 2013-14 and the Commission extends its thanks and appreciation to him for his service and contributions. More information about the Members of the Commission is available on www.osc.gov.on.ca.

Board and Commission Committees

At March 31, 2014

Audit and Finance Committee

Sinan O. Akdeniz, Chair

Catherine E. Bateman

Sarah B. Kavanagh

Vern Krishna

Governance and Nominating Committee

Christopher Portner, Chair

James D. Carnwath

Sarah B. Kavanagh

Judith N. Robertson

AnneMarie Ryan

Howard I. Wetston Ex officio member

Human Resources and Compensation Committee

Judith N. Robertson, Chair

Sinan O. Akdeniz

Edward P. Kerwin

Deborah Leckman

Adjudicative Committee*

James D. Carnwath, Chair

Mary G. Condon

Edward P. Kerwin

Vern Krishna

Alan J. Lenczner

Christopher Portner

James E. A. Turner

John P. Stevenson Ex officio member

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

The mandates of the committees and of the Lead Director are available at www.osc.gov.on.ca.

In Appreciation of Members of OSC Advisory Committees

OSC advisory committees provide valuable input on securities regulation issues and industry trends. Committee members are chosen through a public process and are selected to ensure that each committee has a diverse and appropriate mix of expertise, experience and viewpoints. The OSC extends its thanks to all of the people who served on its advisory committees in 2013-14. For more information on each committee, please visit the OSC website (osc.gov.on.ca).

Investor Advisory Panel

(As of March 31, 2014)

Connie Craddock, Chair

Jane Ambachtsheer

Paul Bates

Harold Geller

Alan Goldhar

Ken Kivenko

Alison Knight

Ursula Menke

Continuous Disclosure Advisory Committee

(As of March 31, 2014)

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Judy Cotte	**RBC Global Asset Management**
Tom Enright	**Canadian Investor Relations Institute**
Eleanor Fritz	**TSX Group**
Marc Gold	**Thomson Reuters**
Andrew Grossman	**Ogilvy Renault LLP**
Paul Guthrie	**Royal Bank of Canada**

Kathryn Jenkins	**Fairmont Raffles Hotels International**
Gale Kelly	**KPMG LLP**
A. Dimitri Lascaris	**Siskinds LLP**
Yvette Lokker	**Canadian Investor Relations Institute**
Philip Maguire	**Glenidan Consultancy Ltd.**
Bruce Mann	**Rogers Communications Inc.**
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Anthony Scilipoti	**Veritas Investment Research**
Bassem A. Shakeel	**Magna International Inc.**
Debra Sisti	**RiskMetrics Group**
Bob Tait	**IAMGOLD Corporation**

Exempt Market Advisory Committee

(As of December 31, 2013)

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Julia Dublin	**Barrister and Solicitor**
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Andrea Johnson	**Fraser Milner Casgrain LLP**
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Janka Palkova	**Convention of Independent Financial Advisors**
David Palmer	**Probe Mines Limited**
Craig Skauge	**National Exempt Market Association**
Michael Smith	**Baker & Mckenzie LLP**
Glorianne Stromberg	**Consultant**
Bryce Tingle	**University of Calgary**
Martine Valcin	**TMX Group**

Investment Funds Product Advisory Committee

(As of March 31, 2014)

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Roland Austrup	**Integrated Managed Futures Corp.**
Adam Felesky	**Horizons Exchange Traded Funds (ETFs)**
Goshka Folda	**Investor Economics**
Kevin Gopaul	**BMO Asset Management**
Barry Gordon	**First Asset Capital Corp.**
Scott McBurney	**RBC Capital Markets**
Gary Ostoich	**Spartan Fund Management Inc. & Alternative Investment Management Association (AIMA) Canada**
Marian Passmore	**Canadian Foundation for Advancement of Investor Rights (FAIR Canada)**
Michael Shuh	**CIBC World Markets Inc.**
Oricia Smith	**Invesco Canada Ltd.**
Atul Tiwari	**Vanguard Investments Canada Inc.**

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(As of October, 31, 2013)

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Doug Clark	**ITG Canada**
Jenny Drake	**Connor, Clark & Lunn Investment Management**
Elizabeth King	
Craig Gaskin	**TD Asset Management**
Peter Haynes	**TD Securities**
Andrew Jappy	**Canaccord Genuity**
Thomas Kalafatis	**CIBC World Markets**
Lafleche Montreuil	**Desjardins Securities**
Ermanno Pascutto	**FAIR Canada**
Cindy Petlock	
Steve Plut	**Integrated Transaction Systems Ltd.**
Kevin Sampson	**TSX Markets**
Michael Thom	
Chris Sparrow	**Independent**

Mining Technical Advisory and Monitoring Committee

(As of March 31, 2014)

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Brian Abraham	**Dentons Canada LLP**
Luc Arsenault	**Autorite des marches financier**
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Lynda Bloom	**Analytical Solutions Ltd.**
George Cavey	**Orko Silver Corp.**
Michel Champagne	**Sidex s.e.c.**
Peter Dietrich	**Barrick Gold Corp.**
Catherine Gignac	**Analyst**
Greg Gosson	**AMEC Americas Limited**
Stefan Lopatka (Observer)	**TSX Venture Exchange**
Francis Manns (Observer)	**Toronto Stock Exchange**
Deborah McCombe	**Roscoe Postle Associates Inc.**
Joseph Ringwald	**Selwyn Resources Ltd.**

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(As of March 31, 2014)

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Julie Cordeiro	**Portfolio Management Association of Canada**
Kevin Cohen	**AUM Law Professional Corporation**
Matthew Campbell	**Bentall Kennedy (Canada) LP**
Stephen Jakob	**Osprey Capital Partners Inc.**
Peter Moulson	**CIBC Asset Management Inc.**
Ian Pember	**Hillsdale Investment Management Inc.**
Geoffrey Ritchie	**BMO Harris Investment Management Inc. and Private Capital Markets Association of Canada**
Prema Thiele	**Borden Ladner Gervais LLP**
Mary Throop	**Summerhill Capital Management Inc.**
Rossana Di Lieto	**Investment Industry Regulatory Organization of Canada**

Securities Advisory Committee

(As of March 31, 2014)

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Jeff Davis	**Ontario Teachers' Pension Plan**
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Ian Michael	**McCarthy Tétrault LLP**
Shahen Mirakian	**McMillan LLP**
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Sean Vanderpol	**Stikeman Elliott LLP**
Diana Wisner	**Bank of Montreal**

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(As of March 31, 2014)

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Nigel Campbell	**Blake Cassels & Graydon LLP**
Alexander Cobb	**Osler Hoskin & Harcourt LLP**
Emily Cole	**Miller Thomson LLP**
James Doris	**Davies, Ward, Phillips & Vineburg LLP**
James Douglas	**Borden Ladner Gervais LLP**
Linda Fuerst	**Lenczner Slaght Royce Smith Griffin LLP**
James Grout	**Thornton Grout Finnigan LLP**
Paul LeVay	**Stockwoods LLP**
Melissa MacKewn	**Crawley Meredith Brush MacKewn LLP**
Janice Wright	**Wright Temelini LLP**

Small and Medium Enterprises Committee

(As of December 31, 2013)

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Ian Bandeen	**National Angel Capital Organization**
Jim Borland	**Strait Gold Corporation**
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Satinder Chera	**Canadian Federation of Independent Business**
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Gregory Milavsky	**Canterbury Park Capital LP**
Rob Murphy	**Davies Ward Phillips & Vineberg LLP**
Rick Nathan	**Kensington Capital Partners Limited**
Ron Schwarz	**Investment Professional**
Pierre Soulard	**Norton Rose Canada**
Damien Steel	**OMERS Ventures**
Janet Stockton	**BDO**
David Wright	**Industrial Alliance Securities**

OSC ONTARIO SECURITIES COMMISSION

The OSC Inquiries & Contact Centre operates from
8:30 a.m. to 5:00 p.m. Eastern Time, Monday to Friday,
and can be reached on the Contact Us page of

www.osc.gov.on.ca

Ontario

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