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.

M. Jensen

Maureen Jensen
Chair and Chief Executive Officer

Mary Campione
Director, Financial Management & Reporting

June 4, 2019

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

Independent Auditor's Report

To the Ontario Securities Commission

Opinion

I have audited the financial statements of the Ontario Securities Commission (OSC), which comprise the statement of financial position as at March 31, 2019, and the statements of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OSC as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Toronto, Ontario
June 4, 2019

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

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Statement of Financial Position

(in Canadian dollars)

As at March 31, 2019	Note(s)	2019	2018
ASSETS			
Current			
Cash		$ 74,005,444	$ 58,917,413
Trade and other receivables	4, 5	3,547,647	3,652,751
Prepayments		2,001,847	2,380,100
Total current		**$ 79,554,938**	**$ 64,950,264**
Non-current			
Funds held pursuant to designated settlements and orders	3(e), 6	$ 84,379,977	$ 42,095,231
Funds restricted for CSA Systems operations and redevelopment	2, 7, 18	143,053,977	137,825,393
Reserve funds	8	20,000,000	20,000,000
Property, plant & equipment	9	8,224,013	10,110,971
Intangible assets	10	5,019,671	1,337,579
Total non-current		**$ 260,677,638**	**$ 211,369,174**
Total assets		**$ 340,232,576**	**$ 276,319,438**
LIABILITIES			
Current			
Trade and other payables	11	$ 20,838,870	$ 16,507,584
Total current		**$ 20,838,870**	**$ 16,507,584**
Non-current			
Pension liabilities	13(b)	$ 4,443,754	$ 4,104,618
Funds held pursuant to designated settlements and orders	3(e), 6	84,379,977	42,095,231
Funds restricted for CSA Systems operations and redevelopment	2, 7, 18	143,053,977	137,825,393
Total non-current		**$ 231,877,708**	**$ 184,025,242**
Total liabilities		**$ 252,716,578**	**$ 200,532,826**
SURPLUS			
General		$ 67,515,998	$ 55,786,612
Reserve	8, 14	20,000,000	20,000,000
Operating surplus		**$ 87,515,998**	**$ 75,786,612**
Total liabilities and surplus		**$ 340,232,576**	**$ 276,319,438**

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

On behalf of the board of the commission.

M. Jensen

Maureen Jensen
Chair

Garnet Fenn

Garnet Fenn
Chair, Audit and Finance Committee

Statement of Comprehensive Income
(in Canadian dollars)

For the year ended March 31, 2019	Note(s)		2019		2018
REVENUE					
Fees	3(d), 15	$	128,110,332	$	124,230,016
Miscellaneous			156,124		77,066
Interest income			1,086,172		511,625
		$	**129,352,628**	**$**	**124,818,707**
EXPENSES					
Salaries and benefits	16	$	90,394,112	$	84,477,723
Administrative	17		9,536,691		8,447,603
Occupancy			7,734,948		8,082,581
Professional services			9,576,112		6,584,053
Depreciation	9		2,703,147		2,959,698
Amortization	10		1,159,087		946,899
Other			547,231		882,803
		$	**121,651,328**	**$**	**112,381,360**
Recoveries of insurance proceeds net of loss on asset disposals	9		(471,358)		(521,938)
Recoveries of enforcement costs	3(h)		(2,563,215)		(853,902)
Recoveries of investor education costs	3(h), 20		(1,129,508)		(1,475,045)
		$	**117,487,247**	**$**	**109,530,475**
Excess of revenue over expenses		**$**	**11,865,381**	**$**	**15,288,232**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit and loss:					
Remeasurements of defined benefit pension plans	13 (b)	$	(135,995)	$	(114,192)
Other comprehensive loss		**$**	**(135,995)**	**$**	**(114,192)**
Total comprehensive income		**$**	**11,729,386**	**$**	**15,174,040**

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

Statement of Changes in Surplus
(in Canadian dollars)

For the year ended March 31, 2019	Note(s)		2019		2018
Operating surplus, beginning of year		$	75,786,612	$	60,612,572
Total comprehensive income			11,729,386		15,174,040
Operating surplus, end of year		**$**	**87,515,998**	**$**	**75,786,612**
Represented by:					
General		$	67,515,998	$	55,786,612
Reserve	8, 14		20,000,000		20,000,000
		$	**87,515,998**	**$**	**75,786,612**

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

Statement of Cash Flows

(in Canadian dollars)

For the year ended March 31, 2019	Note(s)		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess of revenue over expenses		$	11,865,381	$	15,288,232
Adjusted for:					
Interest received			1,024,619		450,107
Interest income			(1,086,172)		(511,625)
Pension liabilities			203,141		150,498
Loss on disposal of property, plant & equipment	9		—		531,763
Depreciation	9		2,703,147		2,959,698
Amortization	10		1,159,087		946,899
		$	**15,869,203**	**$**	**19,815,572**
Changes in non-cash working capital:					
Trade and other receivables		$	166,657	$	1,203,823
Prepayments			378,253		(852,524)
Trade and other payables			2,873,483		(1,371,436)
		$	**3,418,393**	**$**	**(1,020,137)**
Net cash flows from operating activities		**$**	**19,287,596**	**$**	**18,795,435**
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of intangible assets	10	$	(3,791,731)	$	(533,315)
Purchase of property, plant & equipment	9		(407,834)		(1,689,710)
Net cash used in investing activities		**$**	**(4,199,565)**	**$**	**(2,223,025)**
Net increase in cash position		$	15,088,031	$	16,572,410
Cash, beginning of year			**58,917,413**		**42,345,003**
Cash, end of year		**$**	**74,005,444**	**$**	**58,917,413**
SUPPLEMENTAL CASH FLOW INFORMATION					
Property, plant & equipment and intangible assets funded by trade and other payables		**$**	**1,457,803**	**$**	**1,161,210**

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

Notes to the Financial Statements

1. Reporting Entity

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

2. Basis of Presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are as at March 31, 2019 and for the year then ended and includes comparatives. These financial statements were authorized for issue by the Board of Directors on June 4, 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain pension liabilities that are measured net of actuarial gains and losses, as explained in Note 3(f). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Functional and presentation currency

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

(d) Use of judgements and sources of estimation uncertainty

(i) Judgements

The preparation of financial statements in accordance with IFRS requires that management make judgements 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 judgements in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the financial statements.

Revenue Recognition

The OSC exercised significant judgement in determining whether participation fees and other certain fees are within the scope of IFRS 15. Since these fees do not arise from contracts with customers as envisioned in IFRS 15, the OSC has exercised judgement in deciding to apply IFRS 15, by analogy, to such fees.

Significant judgement is required to determine the nature and extent of the OSC's performance obligations arising from participation fees and determining the timing of the transfer of control – at a point in time or over time. OSC recognizes revenue when (or as) the organization satisfies a performance obligation by transferring the promised service to the market participant. This transfer happens when the market participant obtains control of the service.

Recoveries of investor education costs

Beginning April 1, 2015, the OSC began recovering costs that are in accordance with subparagraph 3.4(2)(b)(ii) of the Securities Act (Ontario) which was amended on June 20, 2012 to expand the purposes for which enforcement monies may be designated to include "for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets" ("investor education costs"). The OSC developed guidelines to assist in determining which costs would be in accordance with subparagraph 3.4(2)(b)(ii). The OSC exercised judgement in evaluating the types of costs incurred which would be in accordance with these guidelines. See Note 20 for a summary of costs recovered.

Funds restricted for Canadian Securities Administrators (CSA) Systems operations and redevelopment (Funds Restricted for CSA Systems)

The OSC was appointed to administer the financial management processes of the CSA Systems net assets and act as custodian over any surplus funds. The use of the CSA Systems surplus funds is governed by the four Principal Administrators (PAs), each having one vote on the CSA Systems matters. The four PAs are the OSC, British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC) and l'Autorité des marchés financiers (AMF). During the fiscal 2018 period, the OSC changed the application of its accounting policy for CSA Systems from the recognition of *"Net assets held for CSA Systems redevelopment"* to *"Funds restricted for CSA Systems operations and redevelopment"*. This change was made to provide users of OSC's financial statements with more relevant information as it recognizes only the elements for which the OSC holds and manages for CSA Systems (cash and investments with a corresponding liability for those assets).

Based on an evaluation of the contractual terms and conditions related to the arrangement, OSC management has exercised judgement to determine that participants in the capital markets, rather than the OSC (or other CSA members, including the Investment Industry Regulatory Organization of Canada (IIROC) in the case of NRD until October 13, 2013), obtain the benefit or rewards from the restricted funds or any future development of the CSA Systems. The OSC does not control or have significant influence over how the restricted funds are managed in performing its custodial role for the CSA Systems.

The OSC exercised judgement to determine that the Funds restricted for CSA Systems administered by the OSC on behalf of CSA Systems are best represented by the presentation of an asset and a corresponding liability. The change in the application of the accounting policy resulted in a reduction in the asset and corresponding liability of $25.1 million in 2018.

See Note 7 for more information, including summary financial information related to CSA Systems operations and redevelopment.

(ii) Sources of estimation uncertainty

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

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

Supplemental pension plan

Supplemental pension plan liabilities represent the estimated present value of the OSC's obligation for future payments on March 31, 2019. The OSC utilizes an independent actuarial expert to determine the present value of the defined benefit obligation of the Supplemental pension plan and related impact to the Statement of comprehensive income and Other comprehensive income (OCI).

In some cases, this determination will involve management's best estimates and information from other accredited sources. A change in one or more of these assumptions could have a material impact on the OSC's financial statements.

The significant actuarial assumptions used to determine the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used are outlined in Note 13(b).

Designated settlements and orders and Recoveries of enforcement costs

Funds held pursuant to designated settlements and orders and Recoveries of enforcement costs are recorded when settlements are approved or orders are made by the Commission, unless management determines that collecting the settlement and order is significantly doubtful, in which case it is recognized when payment is received. Estimation is required to determine the collectible amount of monetary sanctions, orders and Recoveries of enforcement costs.

Management considers the ability of the respondent to pay the sanction amount, the ability to locate the respondent and whether the respondent owns any assets. A change in any of these factors could have a material impact on the OSC's financial statements. Assets and liabilities will change based on estimated designated settlements and order amounts deemed to be collectible. Expenses may change based on Recoveries of enforcement costs. For more information on Designated settlements and orders, see Note 6.

Allowance for credit losses

The determination of the OSC's expected credit losses for trade receivables depends on several highly related variables and is subject to estimation uncertainty. In determining expected credit losses, the OSC considers historical data, existing market conditions, and forward-looking information to determine, among other things, expected loss rates. The OSC must rely on estimates and exercise judgement regarding circumstances that may cause future assessments of expected credit losses to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. See Note 21 for discussion related to accounting standards, interpretations and amendments that became effective in the year.

(a) Financial Instruments

IFRS 9 *Financial Instruments* was adopted on April 1, 2018.

Trade receivables and borrowings issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the OSC becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition. The measurement of financial instruments in subsequent periods and the recognition of changes in the fair value depend on the category in which they are classified.

Classification of financial assets depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset is subsequently measured at amortized cost if both of the following conditions are met.

a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Currently, OSC's financial assets held meet the conditions for subsequent measurement at amortized cost. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income. Premiums, discounts and transaction costs are amortized over the term of the instrument on an effective yield basis as an adjustment to interest income. Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to receive the cash flows of the financial asset are transferred. A financial liability is derecognized when it is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. As mentioned, the OSC adopted IFRS 9 on April 1, 2018 and has elected not to restate comparative figures. The OSC did not identify any adjustments to the carrying amounts of financial instruments at the date of transition. The table below illustrates the changes to the classification of the OSC's financial assets under IFRS 9 and IAS 39 at the date of initial application of IFRS 9:

	Original category under IAS 39	Original measurement under IAS 39	New measurement category under IFRS 9
Financial Assets			
Cash	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds restricted for CSA Systems operations and redevelopment	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Reserve funds	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds held pursuant to designated settlements and orders - Cash	Held-for-trading	Fair value through excess of revenues over expenses	Amortized Cost
Funds held pursuant to designated settlements and orders - Receivables	Loans and receivables	Amortized Cost	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost	Amortized Cost
Financial Liabilities			
Trade and other payables	Other liabilities	Amortized Cost	Amortized Cost
Line of credit	Other liabilities	Amortized Cost	Amortized Cost
Funds held pursuant to designated settlements	Other liabilities	Amortized Cost	Amortized Cost
Funds restricted for CSA Systems operations and redevelopment	Other liabilities	Amortized Cost	Amortized Cost

The OSC recognizes an allowance for expected credit losses for all financial assets not held at fair value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the OSC expects to receive, discounted at an approximation of the original effective interest rate.

In relation to trade receivables, the OSC measures expected credit losses for trade receivables by setting up a provision based on aging at year end through the application of a provision matrix. The provision matrix is based on historical observed default rates over the expected life of the trade receivables, adjusted for forward looking estimates.

The carrying amount of the trade receivables is reduced through the use of an allowance account and the expected credit loss is recognized in the Statement of Comprehensive Income.

The gross carrying amount of a trade receivable is written off to the extent there is no reasonable prospect of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, insolvency of the debtor and the exhaustion of reasonable collection efforts.

(b) Property, plant & equipment

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

The cost of the Property, plant & equipment, less any residual value, is depreciated and recognized in excess of revenues over expenses on a straight-line basis over the estimated useful life of the asset, as follows:

Computer hardware and related applications	3 years
Network servers and cabling	5 years
Office furniture and equipment	5 to 10 years
Leasehold improvements	Lesser of lease term[1] and useful life of asset

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

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

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

During the fiscal 2019 period it was determined that the presentation of property, plant and equipment would be changed on a restated basis to remove intangible assets and include them in a separate category. This change was made due to the increasing materiality of intangible assets and to provide reliable and more relevant information to the users of financial statements.

(c) Intangible Assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately or internally generated. The OSC's intangible assets consist primarily of software enhancement and development and purchased software.

Development costs that are directly attributable to internally developed software are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use it;
- there is an ability to use the software;

1 The lease term is the non-cancellable period for which the OSC has contracted to lease the asset together with any renewal options that are reasonably certain to be exercised.

- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditures attributable to the software during its development can be reliably measured.

For internally generated intangible assets, cost includes all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Subsequent expenditures on a specific intangible asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including maintenance, is recognized in profit or loss as incurred. Research expenditures and certain development expenditures that do not meet the criteria for capitalization above are recognized as an expense as incurred.

For purchased software, the cost of separately acquired intangible assets include its purchase price and directly attributable costs of preparing the asset for its intended use.

For software enhancement and development, amortization of an intangible asset begins when development is complete, and the asset is available for use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and accumulated impairment losses. Amortization expense is included in the Statement of Comprehensive Income. Intangible assets are amortized using the straight-line method over the following periods:

Software enhancement and development	10 years
Purchased software	3 years

Amortization methods, useful lives and residual values are reviewed at the end of each fiscal year and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired. If any impairment is indicated, the intangible asset's recoverable amount is estimated. The recoverable amount is the higher of an intangible asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the intangible asset's carrying amount exceeds its recoverable amount. An impairment loss is recognized on the Statement of Comprehensive Income in the period in which the impairment is identified.

Impairment losses recognized previously are assessed and reversed if the circumstances leading to the impairment are no longer present. Reversal of any impairment loss will not exceed the carrying amount of the intangible asset that would have been determined had no impairment loss been recognized for the asset in prior periods.

(d) Revenue recognition

Effective April 1, 2018, the OSC adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") on a modified retrospective basis with no restatement of the comparative period.

IFRS 15 sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. The standard replaces all historical standards and related interpretations on revenue. The application of IFRS 15 did not have a material effect on the OSC's financial statements.

Participation fees

Participation fees are recognized when the OSC has permitted (or not restricted) access to the market participant to the Ontario capital markets. Typically, this occurs at a point-in-time when both the access is granted (or not restricted) and the associated fees are received.

These fees represent the payment for the right to participate in the Ontario capital markets. 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 provision of access. Once the access is provided (or not restricted), the OSC has the right to the stipulated participation fees, there is no obligation to refund the fees, the market participant has the legal right to access and participate in the capital market including the risks and rewards associated with such participation and there are no unfulfilled conditions on behalf of the OSC to the participant.

Activity fees

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

Late filing fees

Late fees may apply if certain documents that are required to be filed under Ontario Securities law are not filed on time. Additional fees may be charged for payments made past the required due date. Revenue from late fees is recognized when the respective document is filed or the corresponding outstanding fee is paid. In addition, the transaction price is measured as the amount of the fee.

(e) Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders are made by the Commission, unless management determines that collecting the settlement amount is significantly doubtful, in which case they are recognized when payment is received. Due to the restricted use of Funds held pursuant to designated settlements and orders, a corresponding Non-current liability that equals the related Non-current asset is reflected in the Statement of financial position.

(f) Employee benefits

Ontario Public Service Pension Plan (OPSPP)

The OSC provides pension benefits to its full-time employees through participation in the OPSPP. The Province of Ontario is the sole sponsor of the OPSPP. This plan is accounted for as a defined contribution plan because sufficient information is not provided to the OSC or otherwise available for the OSC to apply defined benefit plan accounting to this pension plan.

The plan sponsor is responsible for ensuring that the pension funds are financially viable. Any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. The OSC is not exposed to any liability to the plan for other entities' obligations under the terms and conditions of the plan. There is no deficit or surplus in the plan that could affect the amount of future contributions for the OSC.

In addition, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the OSC from the plan. Payments made to the plan are recognized as an expense when employees have rendered the service entitling them to the contributions. For more information on the OPSPP, see Note 13(a).

Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for its current and former Chairs and Vice-Chairs as described in Note 13(b). These plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of the target benefits provided depends on the member's length of service and their salary in the final years prior to retirement. In some plans, the target benefits are indexed with inflation. The target benefits are then offset by the benefits payable from the OPSPP (registered and supplemental plans), which are linked to inflation.

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

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

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income, as described in Note 19(b).

Termination benefits

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

Short-term benefits

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

(g) Leases

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

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

(h) Recoveries

Recoveries of enforcement costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order is issued by the OSC, unless management determines that collecting the settlement amount is significantly doubtful, in which case, recovery is recognized when payment is received.

Recoveries of investor education costs

Recoveries of investor education costs are recorded as offsets to total expenses on a quarterly basis based on the eligible expenses recorded in the quarter.

(i) Provisions

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

4. Financial Instruments Risks

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

Currency risk

The OSC's exposure to currency risk is minimal due to the low number of transactions denominated in currencies other than Canadian dollars.

Interest rate risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Funds restricted for CSA Systems operations and redevelopment and Reserve funds are held by Schedule 1 financial institutions (and credit unions in British Columbia with respect to Funds restricted for CSA Systems operations and redevelopment). The bank balances earn interest at a rate of 1.85% below the prime rate. The average rate of interest earned on bank balances for the year was 1.89% (2018 – 1.22%).

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 funds	$ 42,496	$ (42,496)
Cash balance	87,980	(87,980)
	$ 130,476	**$ (130,476)**

Credit risk

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

Schedule 1 financial institutions hold approximately 83% of the OSC's financial assets including those held for Funds restricted for CSA Systems operations and redevelopment and another 17% are held in two credit unions in British Columbia (for cash components of Funds restricted for CSA Systems operations and redevelopment exclusively). The remaining balance of financial assets are accounts receivable. The Credit Union Deposit Insurance Corporation (CUDIC), a statutory corporation, guarantees the deposits of the British Columbia credit unions, as set out in the *Financial Institutions Act* of British Columbia. All other deposits are guaranteed to a maximum of $100,000 by Canada Deposit Insurance Corporation. Given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

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

Other receivables in aggregate are material, with most debtors owing individually and in aggregate immaterial amounts, and a small number of debtors owing larger amounts, which are material in aggregate or individually, and are receivable from:

- Funds restricted for CSA Systems operations and redevelopment, to recover staff and space costs and other charges incurred,
- Funds held for designated settlements and orders, to recover investor education costs,
- Government of Canada for recovering Harmonized Sales Tax paid during the year, and
- Government of Canada to recover costs for OSC space under a sublease.

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

The OSC maintains an allowance for credit losses. Therefore, the carrying amount of Trade and other receivables generally represents the maximum credit exposure. Collection efforts continue for Trade and other receivables balances, including those that are captured in the allowance for credit loss.

The aging of Trade and other receivables is as follows:

	Note	March 31, 2019	March 31, 2018
Current		$ 2,857,137	$ 3,114,653
Past due 31 to 60 days		238,831	202,548
Past due 61 to 90 days		73,744	16,208
Past due greater than 90 days (net)		377,935	319,342
Total Trade and other receivables	**5**	**$ 3,547,647**	**$ 3,652,751**

Past due greater than 90 days detail	Note	March 31, 2019	March 31, 2018
Past due greater than 90 days (gross)		$ 590,169	$ 563,344
Allowance for credit losses	5	(212,234)	(244,002)
		$ 377,935	**$ 319,342**

Reconciliation of allowance for credit losses is as follows:

	Note	March 31, 2019	March 31, 2018
Opening balance		$ 244,002	$ 173,003
Current year provision		344,296	422,723
Written-off during the year		(376,064)	(351,724)
Closing balance	**5**	**$ 212,234**	**$ 244,002**

In 2019, after reviewing the collectability of the Trade and other receivables, it was determined that there was $376,064 of uncollectable amounts and they were written off, resulting in a reduction to the allowance for credit losses and a corresponding reduction of Trade and other receivables for the same amount. The amount written off was charged to bad debt expense in prior years. The current year provision of $344,296 was charged to bad debt expense in fiscal 2019.

Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has sufficient cash, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2019, the OSC had a cash balance of $74.0 million and reserve fund assets of $20.0 million to settle current liabilities of $20.8 million.

The OSC has a $52.0 million credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC did not utilize the credit facility (2018 - $0).

The overall exposure to liquidity risk remains unchanged from 2018.

Supplemental pension plan risks

The OSC's overall exposure to supplemental pension plan risks is low due to the plan being a supplemental plan and the limited number of plan members entitled to plan benefits. For more information, see Note 13(b).

5. Trade and Other Receivables

	Notes	March 31, 2019	March 31, 2018
Trade receivables		$ 621,850	$ 726,748
Other receivables		1,952,107	2,440,437
Allowance for credit losses	4	(212,234)	(244,002)
		$ 2,361,723	**$ 2,923,183**
Interest receivable		167,301	105,748
Amount recoverable from investor education costs	20	400,438	363,644
HST recoverable		618,185	260,176
Total Trade and other receivables	**4**	**$ 3,547,647**	**$ 3,652,751**

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 in accordance with section 3.4(2)(b) of the *Securities Act* (Ontario). These funds are eligible to be allocated to the OSC for the purpose of educating investors, or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets, including such designated internal costs as approved by the Board.

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to an administrative proceeding where these amounts total $1 million or more. The maximum amount of the award has been set at $1.5 million where monetary sanctions and/or voluntary payments are not collected and $5 million where these amounts have been collected. Whistleblowers will be paid out of funds held pursuant to designated settlements and orders. To date, $7.5 million has been paid to three whistleblowers on separate matters.

The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The Board will allocate these funds as it determines appropriate at its discretion. This includes allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2019 the accumulated balance is determined as follows:

	Note	March 31, 2019	March 31, 2018
Opening balance		$ 42,095,231	$ 37,995,716
Assessed during the year		$ 137,436,573	$ 60,449,350
Less:			
Amounts paid or payable directly to investors		(10,970,518)	(48,396,642)
Orders deemed uncollectible		(80,072,434)	(5,955,936)
Amount recorded from assessments in year		**46,393,621**	**6,096,772**
Adjustments to amounts assessed in prior years		4,747,656	437,377
Total settlements and orders recorded		**51,141,277**	**6,534,149**
Add: Interest		1,118,016	505,032
Less: Payments to			
Whistleblowers		(7,499,000)	—
OSC for recovery of Investor education costs	20	(1,145,733)	(1,799,170)
External collections firm		(173,074)	(71,968)
Harmed investors		(1,156,740)	(1,068,528)
Closing balance		**$ 84,379,977**	**$ 42,095,231**
Represented by:			
Cash		$ 82,030,183	$ 40,850,699
Receivable		2,349,794	1,244,532
		$ 84,379,977	**$ 42,095,231**

The $51,141,277 (2018 – $6,534,149) identified as total settlements and orders recorded reflects the portion of $137,436,573 (2018 – $60,449,350) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes an increase of $4,747,656 (2018 – $437,377) in adjustments from orders assessed in prior years. These amounts include payments received in the current year for orders that were deemed uncollectable in prior years less orders that had been previously deemed as collectible that are now deemed as uncollectible in fiscal 2019. Included in the total assessed was $10,970,518 (2018 – $48,396,642) where the respondents were required to distribute monies directly to harmed investors, which are not captured in the OSC's accounting records.

The OSC collected a total of $44,193,750 (2018 – $5,681,000) of the designated settlements and orders assessed during the year, resulting in an average collection rate of 34.9% (2018 – 47.1%). As authorized by the Board, the OSC made payments from the designated funds totalling $9,974,547 (2018 – $2,939,666). Details on the recipients of these payments are included in the table above.

7. Funds Restricted for CSA Systems Operations and Redevelopment (Funds restricted for CSA Systems)

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

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

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

Use of the surplus funds within the terms of the various agreements requires the approval of members of the SGC. Majority approval is required for all permissible uses of the surplus funds as outlined within the various agreements, with the exception of the following, which all require unanimous approval of the PAs:

- any financial commitments in excess of the lesser of (i) $5.0 million and (ii) 15% of the accumulated surplus at such date,
- significant changes to the design of the systems, and
- any changes to system fees.

In the case of NRD, IIROC approval is required for any use of the surplus funds that deviates from the contractually agreed uses for funds accumulated prior to October 12, 2013.

The CSA is redeveloping the CSA Systems in a multi-year phased approach. Funding for the redevelopment is coming from the accumulated surplus funds.

The 2019 financial results of the CSA Systems operations and redevelopment are presented below. Assets include cash and investments of $143.1 million (2018 - $137.8 million) presented on the OSC's Statement of Financial Position. Assets also include intangible assets of $27.0 million (2018 - $18.4 million) primarily consisting of costs towards the redevelopment of the CSA National Systems.

Summarized Statement of Financial Position

As at March 31	**2019**	**2018**
Assets	$ 175,794,307	$ 164,523,346
Liabilities	$ 2,355,825	$ 1,587,219
Surplus	173,438,482	162,936,127
Liabilities and surplus	$ 175,794,307	$ 164,523,346

Summarized Statement of Comprehensive Income

For the year ended March 31	**2019**	**2018**
Revenue	$ 29,033,983	$ 27,317,404
Expenses	18,531,628	16,113,885
Excess of revenues over expenses	$ 10,502,355	$ 11,203,519

Summarized Statement of Cash Flows

For the year ended March 31	**2019**	**2018**
Net cash flows from operating activities	$ 12,900,353	$ 6,838,523
Net cash flows used in investing activities	(15,213,945)	(4,160,854)
Net (decrease)/increase in cash position	(2,313,592)	2,677,669
Cash, beginning of year	22,563,863	19,886,194
Cash, end of year	$ 20,250,271	$ 22,563,863

For more information on the Net assets held for CSA Systems operations and redevelopment, see Note 2(d) and Note 18.

8. Reserve Funds

As part of the approval of its self-funded status, the OSC was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

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

9. Property, Plant & Equipment

2019	Office furniture	Office equipment	Computer hardware and related applications	Networks and servers	Leasehold improvements	Total
COST						
Balance as at April 1, 2018	$ 4,888,009	$ 750,379	$ 25,603,812	$ 3,115,475	$ 10,469,921	$ 44,827,596
Reclassification to Intangibles	—	—	(3,287,123)	(1,184)	—	(3,288,307)
Additions	47,259	9,604	232,344	497,371	29,611	816,189
Disposals	—	—	—	—	—	—
Balance at March 31, 2019	**$ 4,935,268**	**$ 759,983**	**$ 22,549,033**	**$ 3,611,662**	**$ 10,499,532**	**$ 42,355,478**
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2018	$ (4,704,416)	$ (558,068)	$ (20,957,128)	$ (1,429,205)	$ (5,730,229)	$ (33,379,046)
Reclassification to Intangibles	—	—	1,949,837	890	—	1,950,728
Depreciation for the year	(88,750)	(32,388)	(1,033,320)	(319,840)	(1,228,849)	(2,703,147)
Disposals	—	-	—	—	—	—
Balance at March 31, 2019	**$ (4,793,166)**	**$ (590,456)**	**$ (20,040,611)**	**$ (1,748,155)**	**$ (6,959,078)**	**$ (34,131,465)**
Carrying amount at March 31, 2019	**$ 142,102**	**$ 169,528**	**$ 2,508,422**	**$ 1,863,507**	**$ 3,540,454**	**$ 8,224,013**
2018						
COST						
Balance as at April 1, 2017	$ 4,836,379	$ 710,515	$ 23,935,095	$ 3,326,954	$ 10,391,206	$ 43,200,149
Additions	51,630	39,864	1,677,802	1,536,224	78,715	3,384,235
Disposals	—	—	(9,085)	(1,747,703)	—	(1,756,788)
Balance at March 31, 2018	$ 4,888,009	$ 750,379	$ 25,603,812	$ 3,115,475	$ 10,469,921	$ 44,827,596
ACCUMULATED DEPRECIATION						
Balance as at April 1, 2017	$ (4,588,610)	$ (528,962)	$ (19,229,409)	$ (1,866,187)	$ (4,484,306)	$ (30,697,474)
Depreciation for the year	(115,806)	(29,106)	(1,736,804)	(778,958)	(1,245,923)	(3,906,597)
Disposals	—	—	9,085	1,215,940	—	1,225,025
Balance at March 31, 2018	**$ (4,704,416)**	**$ (558,068)**	**$ (20,957,128)**	**$ (1,429,205)**	**$ (5,730,229)**	**$ (33,379,046)**
Carrying amount at March 31, 2018*	**$ 183,593**	**$ 192,311**	**$ 4,646,684**	**$ 1,686,270**	**$ 4,739,692**	**$ 11,448,550**

* prior to reclassification to Intangible assets

As a result of a change in presentation to reflect a separate intangible asset section [refer to note 3(b) and 3(c)]. The following reclassifications were processed in 2019:

The original property, plant and equipment cost for 2018 of $44,827,596 was reduced by $3,288,307 to $41,539,289 and the original accumulated depreciation amount of $33,379,046 was reduced by $1,950,728 to $31,428,318. The reclassified amounts of $3,288,307 and $1,950,728 are now presented separately as intangible assets and accumulated amortization respectively and are reflected in the schedule in Note 10. In addition, 2018 depreciation expense of $946,899 was reclassified and presented as amortization expense.

In the first quarter of fiscal 2018, flooding occurred at the OSC resulting in damages to certain Property, plant and equipment. Costs incurred to replace damaged equipment amounted to $1.8 million in 2018 and have been capitalized. An insurance claim was initiated and proceeds of $1.1 million were received. A loss on disposal of damaged capital assets of $0.5 million has been recorded against insurance proceeds on the Statement of Comprehensive Income.

In 2019, an additional $0.5 million was accrued at year end to reflect an expected partial settlement from the insurance company that was deemed to be a virtually certain event. Subsequent to year end, the claim was finalized and it was determined that further insurance proceeds of approximately $0.6 million over the amounts accrued will be recognized in fiscal 2020.

10. Intangible Assets

Intangible assets consist of assets with finite useful lives. Finite life intangible assets comprise assets such as purchased software and software enhancement and development.

2019	**Notes**	**Purchased software**	**Software enhancement and development**	**Total**
COST				
Balance as at April 1, 2018		$ 3,288,307	—	$ 3,288,307
Additions		1,152,984	3,688,195	4,841,179
Disposals		—	—	—
Balance at March 31, 2019		**$ 4,441,291**	**$ 3,688,195**	**$ 8,129,486**
ACCUMULATED AMORTIZATION:				
Balance as at April 1, 2018		$ 1,950,728	—	$ 1,950,728
Amortization expense		1,159,087	—	1,159,087
Disposals		—	—	—
Balance at March 31, 2019		3,109,815	—	3,109,815
Carrying Amount at March 31, 2019		**$ 1,331,476**	**$ 3,688,195**	**$ 5,019,671**
2018				
COST				
Balance as at April 1, 2017		$ 2,754,992	$ —	$ 2,754,992
Additions		533,315		533,315
Disposals		—		—
Balance at March 31, 2018		**$ 3,288,307**		3,288,307
ACCUMULATED DEPRECIATION				
Balance as at April 1, 2017		$ 1,003,829		$ 1,003,829
Amortization expense		946,899		946,899
Disposals		—		—
Balance at March 31, 2018		1,950,728		1,950,728
Carrying Amount at March 31, 2018		**$ 1,337,579**		**$ 1,337,579**

11. Trade and Other Payables

	March 31, 2019	March 31, 2018
Trade payables	$ 413,191	$ 424,461
Payroll accruals	13,706,710	12,417,094
Other accrued expenses	6,718,969	3,666,029
	$ 20,838,870	**$ 16,507,584**

12. 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, 2019	March 31, 2018
Less than one year	$ 8,572,175	$ 8,025,122
Between one and five years	35,914,480	35,131,322
More than five years	31,509,161	40,675,751
	$ 75,995,816	**$ 83,832,195**

Lease expense recognized during 2019 was $7,196,721 (2018 – $7,634,287). This amount consists of minimum lease payments. A portion of the OSC's office space is subleased to the CSA IT Systems Project Office and the Government of Canada on a full cost recovery basis. During the year, the OSC recorded sublease payments totaling $770,884 (2018 - $785,089) from these two organizations.

The OSC entered into a new lease as of September 1, 2017 for a term of ten years, ending August 31, 2027. The lease contains two consecutive options to extend the term beyond August 31, 2027, each for a period of five years. The lease was approved by the Minister of Finance under the *Financial Administration Act* section 28, which required review of contingent liabilities inherent in the lease.

13. 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, 2019 was $5,713,340 (2018 – $4,986,418), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for fiscal 2020 are $6,047,678.

(b) Supplemental pension plans

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

The OSC is responsible for governance of these plans. The OSC Board's Audit and Finance Committee assists in the management of the plans. The OSC has also appointed experienced, independent professional actuarial experts to provide a valuation of the pension obligation for the supplemental plans in accordance with the standards of practice established by the Canadian Institute of Actuaries.

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

The supplemental pension plans expose the OSC to the following risks:

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

There were no plan amendments, curtailments or settlements during the period. The duration of all plans combined is approximately 12 years (2018 – 12 years).

	March 31, 2019	March 31, 2018
Defined benefit obligation, beginning of year	$ 4,104,618	$ 3,839,928
Current service cost	300,303	254,812
Interest cost	137,562	132,311
Benefit payments	(234,724)	(236,625)
Actuarial loss on obligation	135,995	114,192
Defined benefit obligation, end of year	**$ 4,443,754**	**$ 4,104,618**

Actuarial assumptions

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

	March 31, 2019	March 31, 2018
Discount rate(s)	3.25%	3.45%
Inflation	2.00%	2.25%
Expected rate(s) of salary increase	0%	0%
CPP YMPE increase	2.50%	2.75%
Increase in Canada Revenue Agency limit	$ 3,025.6	$ 2,944.4

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, 2019	March 31, 2018
Discount rate increased by 0.5% (obligation will decrease by)	5.7%	5.4%
Discount rate decreased by 0.5% (obligation will increase by)	6.3%	5.9%
Life expectancy increased by 1 year (obligation will increase by)	2.7%	2.6%
Life expectancy decreased by 1 year (obligation will decrease by)	2.7%	2.6%
Inflation rate increased by 0.5% (obligation will decrease by)	0.6%	1.2%
Inflation rate decreased by 0.5% (obligation will increase by)	1.3%	1.8%

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2019 was $437,865 (2018 – $381,703). The OSC expects to incur $233,801 in benefit payments relating to the supplemental pension plan during the next fiscal year.

14. Capital Management

The OSC has a $20.0 million reserve fund, as described in Note 8, which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

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

The OSC has a $52.0 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. The Ministry of Finance approved the renewal of the credit facility on July 1, 2018 for a further two years expiring on June 30, 2020.

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

15. Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities, and are intended to serve as a proxy for the market participants' use of the Ontario capital markets.

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Late fees represent fees applied to market participants for not filing required documents and/or paying their participation and activity fees on time.

The commission is currently revisiting the fee rule for implementation in April 2021. Factors considered while reviewing the fee structure are the existing surplus, the projected levels of revenue and expenses, projected capital expense and the level of cash resources required to fund operations through market downturns and simplification.

Fees received are as follows:

	March 31, 2019	March 31, 2018
Participation fees	$ 108,082,005	$ 104,501,605
Activity fees	16,311,842	15,648,189
Late filing fees	3,716,485	4,080,222
	$ 128,110,332	**$ 124,230,016**

16. Salaries and Benefits

	March 31, 2019	March 31, 2018
Salaries	$ 73,717,590	$ 69,924,102
Benefits	8,787,700	8,411,061
Pension expense	6,151,205	5,368,994
Severance/termination payments	1,737,617	773,566
	$ 90,394,112	**$ 84,477,723**

17. Administrative

		March 31, 2019		March 31, 2018
Commission expense	$	1,318,968	$	1,620,405
Communications & publications		2,016,176		1,799,864
Maintenance & support		4,228,008		2,768,072
Supplies		425,348		517,131
Other expenses		799,189		1,080,760
Training		749,002		661,371
	$	**9,536,691**	**$**	**8,447,603**

18. Contingent Liabilities and Contractual Commitments

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

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

In 2018 and 2019, there were no such claims or expenses. As described in Note 7, the OSC, in its capacity as DPA, is holding funds in segregated bank and investment accounts that may be used to settle claims and expenses relating to the operation and redevelopment of the CSA Systems.

(b) Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. 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.

19. Related Party Transactions

(a) Funds restricted for CSA Systems operations and redevelopment

In the course of normal operations, the OSC fulfills transactions for CSA Systems with the Funds restricted for CSA Systems operations and redevelopment. During the year, total related party charges incurred and to be reimbursed were $4.8 million ($4.2 million in 2018). At March 31, 2019, $0.4 million was still owed to the OSC ($0.6 million in 2018). For more information, see Note 7.

(b) The Province of Ontario

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

(i) The *Securities Act* (Ontario) states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 15 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 Minister.

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

(iii) Certain payments to harmed investors from the Funds held pursuant to designated settlements and orders are made through the Civil Remedies for Illicit Activities Office (CRIA). Payments are made to CRIA from the OSC pursuant to forfeiture orders obtained by CRIA under the *Civil Remedies Act*. CRIA is an office of the Ministry of the Attorney General of Ontario.

(c) Compensation to key management personnel

The OSC's key management personnel are the members of the Board of Directors, Chair, Vice-Chairs and Executive Director.

The remuneration of key management personnel includes the following expenses:

	March 31, 2019	March 31, 2018
Short-term employee benefits	$ 3,283,719	$ 3,610,842
Post-employment benefits	514,986	451,687
	$ 3,798,705	**$ 4,062,529**

20. Recoveries of Investor Education Costs

During the year, as described in Note 3(h), the OSC recorded recoveries of investor education costs from the Funds held for designated settlements and orders as follows:

Summary of Investor Education costs for Recovery

	March 31, 2019	March 31, 2018
Payroll costs	$ 678,739	$ 679,997
OSC in the Community costs	25,704	14,602
Media Campaign costs	182,855	243,112
Website and other IT costs	—	185,080
Consulting costs	242,210	352,254
Total	**$ 1,129,508**	**$ 1,475,045**

The amount recorded in the year is $1,129,508 (2018 – $1,475,045), of which $400,438 (2018 – $363,644) is owing to the OSC at March 31, 2019.

21. Accounting Pronouncements

Current period changes in accounting policies

IFRS 9, *Financial Instruments*

Effective April 1, 2018, the OSC adopted IFRS9 Financial Instruments ("IFRS 9") and as permitted by the transitional provisions in IFRS 9, the OSC elected not to restate comparative figures. The application of IFRS 9 did not have a material effect on the OSC's financial statements. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

IFRS 15, *Revenue from Contracts with Customers*

Effective April 1, 2018, the OSC adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") on a modified retrospective basis with no restatement of comparatives. This standard replaces IAS 18 *Revenue, IAS 11 Construction Contracts*, and related interpretation on revenue. The application of IFRS 15 did not have a material effect on the OSC's financial statements.

New and revised Standard not yet effective

The following new IFRS standard which has been issued but is not yet effective for the year ended March 31, 2019, has not been applied in preparing these financial statements. This pronouncement is currently under consideration.

IFRS 16, *Leases*

In 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard replaces IAS 17, *Leases* and related interpretations.

The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively, subject to certain practical expedients, using either a retrospective approach or a modified retrospective approach. The standard is applicable to the OSC's financial statements for the year ending March 31, 2020, with an initial application date of April 1, 2019.

The OSC is a party to various leases, as lessee and as a lessor. Where the OSC is a lessee, all leases will be recorded on the Statement of Financial Position, except short-term leases and leases of low-value items. This is expected to result in a material increase to both assets and liabilities upon adoption of the standard, and changes to the timing of recognition and classification of expenses associated with such lease arrangements. The standard substantially carries forward the lessor accounting requirements. Accordingly, the OSC expects to continue to classify such leases as operating leases or finance leases, and to account for each differently.

The adoption of IFRS 16 is expected to materially affect the OSC's financial statements. On adoption, the OSC expects to recognize approximately $55-$60 million of additional assets and lease liabilities primarily arising from the office lease on the statement of financial position. This will increase depreciation and interest expense in future periods. As a result, cash flow from operating activities will also increase because lease payments for most leases will be recorded as cash flows from financing activities in the statements of cash flows under IFRS 16.