ONTARIO SECURITIES COMMISSION

MD&A

Management's Discussion and Analysis

For the Fiscal Year ended March 31, 2022

Ontario Securities Commission

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the Ontario Securities Commission's financial performance for the fiscal year that ended March 31, 2022. 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 2022 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance.

Important information about this MD&A

- The information in this MD&A is prepared as of June 16, 2022.
- The terms "we", "us", "our" and "OSC" all 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. We discuss key risks and uncertainties later in this MD&A. Some risks and uncertainties beyond the control of the OSC are difficult to predict, so actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
- The words "believe", "plan", "intend", "estimate", "expect", "anticipate," and similar expressions, as well as future conditional verbs (such as "will", "should", "would," and "could") often identify forward-looking statements.
- Unless otherwise specified, references to "a year" indicate the past fiscal year (ending March 31).
- Notes to "the financial statements" refer to the OSC's 2022 Notes to the Financial Statements.
- All financial information related to the current and preceding fiscal years has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, Note 2 *Basis of presentation*, Note 3 *Significant accounting policies* and Note 21 *Accounting pronouncements*.
- Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
- Due to rounding, some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components.

About the OSC

A summary of our role, mandate, and goals

The Ontario Securities Commission is responsible for regulating the capital markets of Ontario. We are an independent, self-funded Crown corporation of the Province of Ontario. Our powers are given to us under the *Securities Act* (Ontario), the *Commodity Futures Act* (Ontario) and certain provisions of B*usiness Corporations Act* (Ontario). 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. As noted in the Organizational Developments section, structural changes announced by the Ontario government became effective on April 29, 2022, coinciding with the proclamation of the new *Securities Commission Act, 2021* (SCA).

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

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

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

Mandate

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

Vision

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

Goals for Fiscal 2022

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

For more information about our goals, see our Statement of Priorities.

Fees Charged to Market Participants

The OSC is funded by fees from market participants and our fees are structured to recover the costs of our operations.

Fee rates are typically re-evaluated every three years, taking into account the OSC's existing surplus, our projected level of revenue and expenses, our capital spending, and the level of cash resources required to fund our operations through capital market downturns. During the fee evaluation cycle, we also consider funding requirements for cyclical investments beyond the three-year period. Our fee structure is set out OSC Rules 13-502 *Fees* and 13-503 *Commodity Futures Act Fees* (under "Fee Rules").

On January 21st, 2022, the OSC proposed amendments to its Fee Rules. As we continue to strengthen and enhance regulatory oversight of the over-the-counter (OTC) derivatives sector, our proposal included a new fee for entities that enter into OTC derivatives transactions. We also proposed reducing fees for certain existing fee payers to ensure that fees collected are proportionate to fast-growing sectors and that fees reflect the cost of regulation across market segments. Furthermore, these amendments are expected to generate efficiencies for most market participants by eliminating a number of activity and late fees without compromising investor protection. These amendments are expected to come into force on April 3, 2023.

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 the individual activities of market participants. Fees are calculated using an increasing tiered structure, based on average market capitalization for issuers and Ontario-specified revenues for registrants and unregistered capital market participants. Other market participants are charged participation fees based on their market share or at a fixed rate.

Activity fees are charged when market participants file documents such as prospectuses and other disclosure documents, registration applications, and applications for discretionary relief. Activity fees are also charged for requests like making changes to a registration or searching for records. Activity fees are all flat-rate, and are 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 or when participants are late paying other filing-related fees.

Fiscal 2022 Organizational Developments

Structural Changes to the OSC

In fiscal 2022, the OSC continued its efforts and commitment to modernizing. On April 29, 2022, with the proclamation of the SCA, the role of the chair and chief executive officer was split into two distinct and separate positions. The Ontario government nominated Heather Zordel as the OSC's non-executive chair and announced nominees for the board of directors, as well as adjudicators for the new and separate Capital Markets Tribunal.

Grant Vingoe was selected by the Ontario government as its first dedicated CEO. Under this new structure, the CEO has greater strategic focus on OSC policy and regulatory work. Mr. Vingoe continues to serve on the OSC's board of directors in his new role. The Ontario government selected the OSC's Vice-Chair Tim Moseley as its chief adjudicator, leading the newly created Capital Markets Tribunal.

Organizational support roles have been added to operationalize our new structure and to take tangible steps toward on an initial series of recommendations from the Capital Markets Modernization Taskforce report.

The COVID-19 Pandemic and Capital Markets Outreach

The COVID-19 pandemic has had a significant impact on Ontario market participants and investor behaviours, and its effects continue to impact capital markets around the world. As the shift toward remote work in much of the financial sector matures to more permanent hybrid arrangements, the OSC is continuing to assess how it interacts with those businesses that it regulates through improved digital channels such as integrated virtual and on-site compliance reviews.

The Investor Office developed new materials, new research, and new avenues to reach investors during the pandemic. These included:

- expanding its hub of resources on GetSmarterAboutMoney.ca, including a section called "COVID and Your Money"
- considering the implications of our research on the impact of the pandemic on investors, especially the lack of Canadians' financial emergency preparedness and the rise in self-directed investing
- making presentations to community groups about COVID-related scams and frauds
- launching our new Instagram account @GetSmarterAboutMoney
- expanding public service campaigns on Reddit to reach younger investors

Workforce Challenges

The OSC's ability to meet our goals and strategic objectives depends on our having sufficient and appropriate resources. The COVID-19 pandemic has changed the way we work. We continue to adapt our work practices and our workplace to support an effective and efficient delivery of regulation and business operations in a hybrid work model, where employees are both on-site and remotely.

During the fiscal year, the OSC continued to experience record-breaking volumes and increased complexity within its regulatory operations. The OSC reviewed 702 public company prospectuses, up 22% from last year's record numbers. In addition, as the OSC continues to see growth in emerging sectors (such as trading in cryptocurrency assets), devoting resources towards the regulation of these emerging sectors remains a priority. In response to these growing regulatory trends and work associated with taskforce recommendations, additional positions have been added to the OSC workforce.

While attracting, motivating, and retaining top talent in an increasingly competitive market is challenging, the OSC continues to build its capabilities and skills by recruiting staff across a range of disciplines and by developing the skills and experience of our internal talent.

Digital Transformation

Ever-increasing market complexity is accelerating our reliance on technology and data. The OSC is investing in technology, infrastructure, and cyber-security to support a digital transformation program that will give us the capability to improve our efficiency and streamline our operations. The program will also improve forecasting and identification of trends and risks, providing support for analysis and decision-making.

We are investing in best-in-class technology to optimize and streamline regulatory operations, to replace siloed back-office systems and tools, and to provision a unified, scalable, secure, and governed platform that will offer enterprise data, analytics, and reporting capabilities across the OSC. Accomplishments this year included reaching the final stages of implementing a new contact center platform, a new electronic hearings platform, and a new enterprise data analytics and reporting platform. Additionally, the OSC has implemented a robotic process automation platform aimed at improving efficiencies by automating manual tasks.

Value for Money Audit

The OSC was selected for a value-for-money audit by the Office of the Auditor General of Ontario (OAGO), which took place in fiscal 2022. The results and recommendations were released on December 1, 2021.

The action plan to implement the Auditor General's recommendations is included in the detailed business plans of relevant branches and supported by our strategic goals and priority initiatives.

Financial Highlights

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

Total excess of revenue over expenses in fiscal 2022 amounted to $24.1 million as evidenced in the table below. Revenue totalled $160.7 million, reflecting an increase of $22.2 million (16.0%) compared to the previous year.

Capital markets have experienced significant growth in recent years, following the initial decline at the onset of the pandemic. This growth translated to higher OSC revenues, as participation fees, representing approximately 83.4% of the OSC's revenues, are based on a tiered structure whereby fee movements between tiers are typically impacted by fluctuations in capital markets. To a lesser extent, a higher number of capital raising filings also contributed to higher revenue recognized in fiscal 2022.

Expenses totalled $136.6 million, reflecting an increase of $8.6 million (6.7%) compared to the previous year primarily due to higher professional services and salaries and benefits. We leveraged both additional external support and staff resources to deliver technology modernization initiatives and meet growing regulatory oversight needs.

The general surplus on March 31, 2022 was $113.4 million, which increased by $24.4 million from the previous year inclusive of other comprehensive income adjustments for pension liabilities. The main driver of the increase is due to significant growth in capital markets over the past year. In adjusting to this growth, we will be adding capacity to ensure appropriate oversight requirements are maintained to respond to higher volumes and rapidly growing sectors with more complex arrangements, further detailed in the Fiscal 2023 Financial Outlook section. The OSC's ability to grow and adapt to significant developments in our capital markets is critical in meeting our mandate. Accordingly, we continue to monitor surplus levels, ensuring the OSC is keeping pace with oversight needs, and can continue to effectively operate during market downturns when revenues decline. Any surpluses in excess of our oversight requirements are considered in accordance with our three-year fee review cycle.

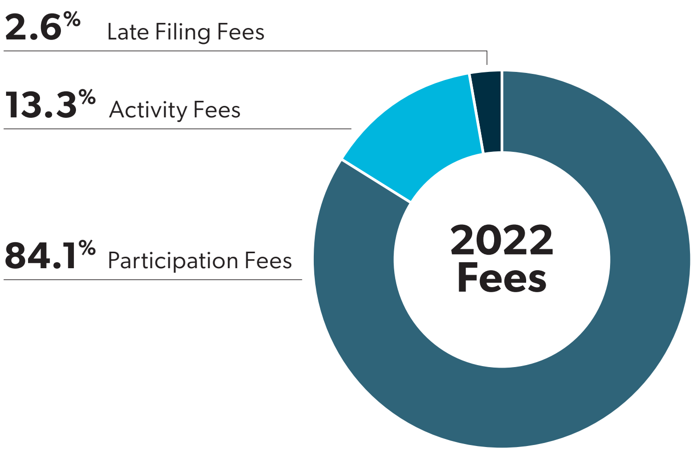
Total assets increased by $16.4 million while liabilities decreased by $8.0 million. The growth in assets during the year was primarily driven by higher cash balances as a result of excess of revenue over expenses, higher capital asset additions, partially offset by a decline in funds restricted for CSA Systems operations and redevelopment. The decrease in liabilities during the year was primarily attributed to a decrease in the funds restricted for CSA Systems operations and redevelopment.

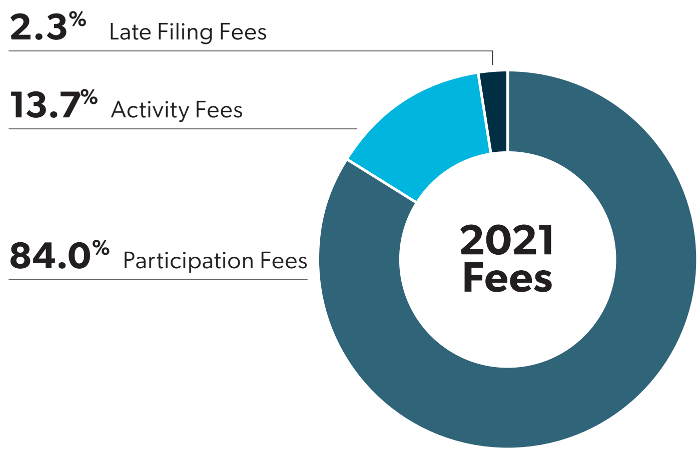
Selected Annual Information

(Thousands of dollars)		2022 Actual		2021 Actual		2020 Actual
Revenue	$	160,652	$	138,434	$	134,396
Expenses		136,556		127,972		123,087
Excess of revenue over expenses	**$**	**24,096**	**$**	**10,462**	**$**	**11,309**
Property, plant, equipment and intangibles (additions)	$	9,989	$	3,810	$	3,839
Total assets*	**$**	**476,689**	**$**	**460,293**	**$**	**446,915**
Total liabilities*	**$**	**343,310**	**$**	**351,312**	**$**	**347,835**
General surplus	**$**	**113,380**	**$**	**88,982**	**$**	**79,080**

*Totals in 2022 includes $261.3 million of restricted funds from designated orders and settlements as well as funds collected by the CSA to operate and redevelop national systems (2021- $267.6 million, 2020- $267.1 million)

Revenue Analysis

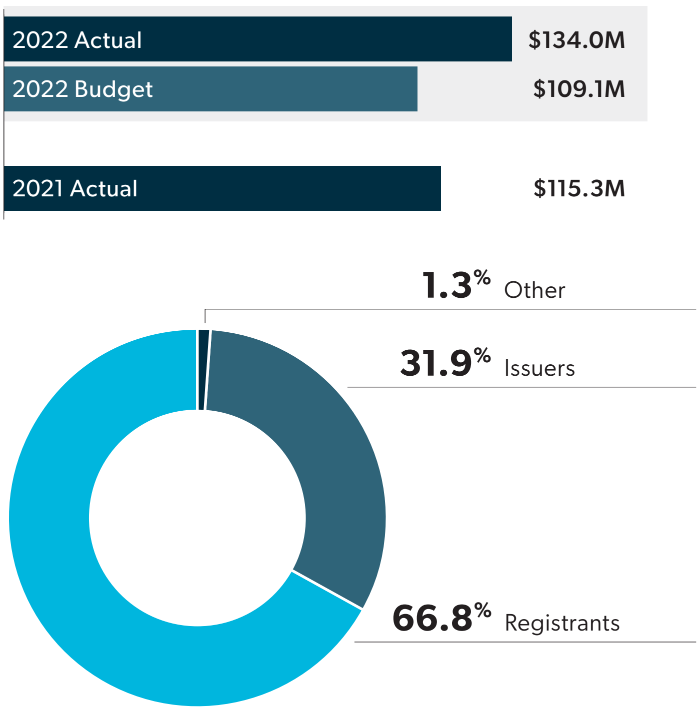




(Thousands of dollars)	2022 Actual	2022 Budget	2021 Actual	Variance Favourable/(Unfavourable) Budget		Variance Favourable/(Unfavourable) Prior Year	
REVENUE				**$**	**%**	**$**	**%**
Participation fees	$ 133,953	$ 109,083	$ 115,272	$ 24,870	22.8%	$ 18,681	16.2%
Activity fees	21,205	15,312	18,816	5,893	38.5%	2,389	12.7%
Late filing fees	4,195	2,502	3,165	1,693	67.7%	1,030	32.5%
Total fees	**$ 159,353**	**$ 126,897**	**$ 137,253**	**$32,456**	**25.6%**	**$ 22,100**	**16.1%**
Miscellaneous	$ 662	$ 651	$ 689	$ 11	1.7%	$ (27)	-3.9%
Interest income	637	394	492	243	61.7%	145	29.5%
Total revenues	**$ 160,652**	**$ 127,942**	**$ 138,434**	**$ 32,710**	**25.6%**	**$ 22,218**	**16.0%**

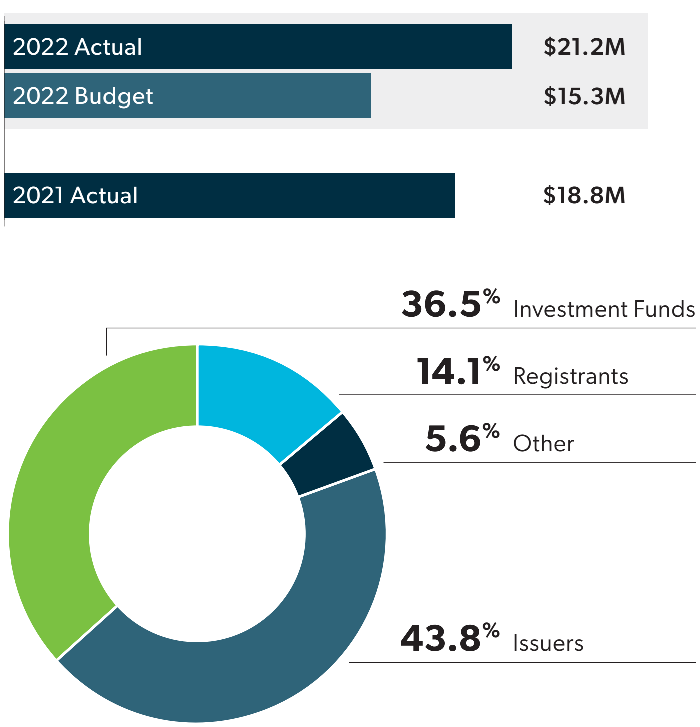
The following is a discussion of the most significant changes in our revenue components for the past fiscal year.

Participation Fees



In 2022, participation fee revenues were $18.7 million (16.2%) higher compared to 2021 and $24.9 million (22.8%) higher compared to budget. The increase is largely owing to strong growth in Ontario specified revenues from registrant firms and unregistered capital market participants as well as higher market capitalization for reporting issuers. As a result, market participants transitioned to a higher participation fee tier. In addition, we experienced a growth in new issuers which also increased issuer participation fees in fiscal 2022.

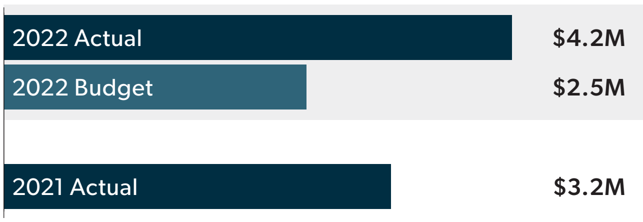
Activity Fees

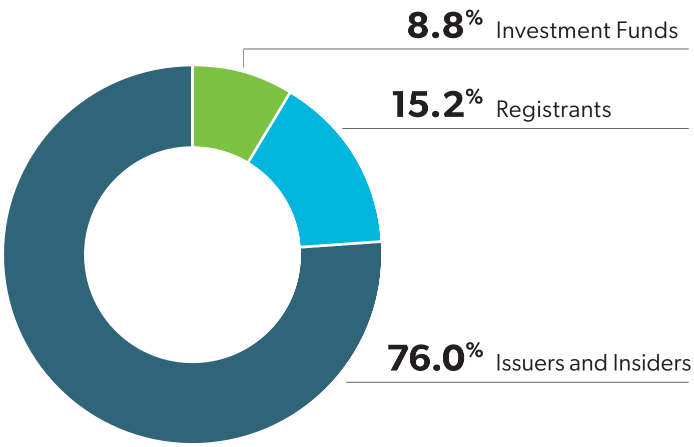


The majority of issuer activity fees are charged for services relating to securities offerings and applications, such as prospectus filings or exemptive relief applications from Ontario's Securities Act requirements. The majority of registrant activity fees are charged for services relating to registrations for a new firm or individual, and from applications.

Activity fee revenues were $2.4 million (12.7%) higher in 2022 compared to 2021, and $5.9 million (38.5%) higher compared to budget, mostly as a result of an increase in capital raising activities for issuers, and investment funds.

Late Fees

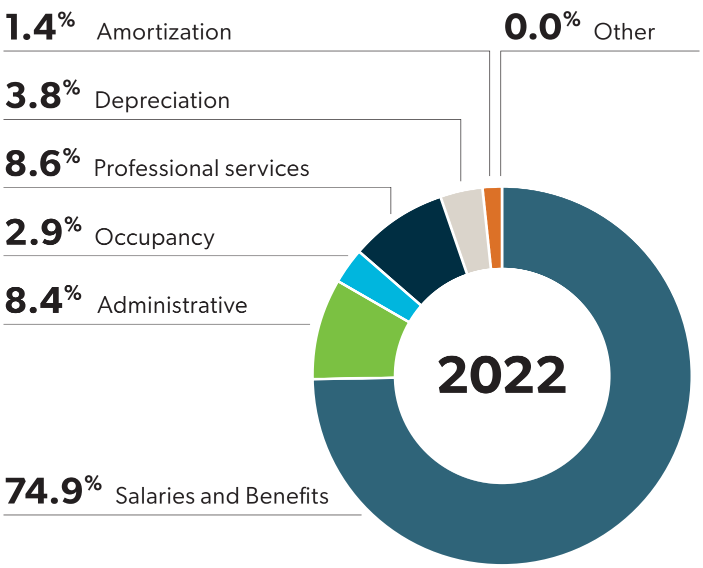


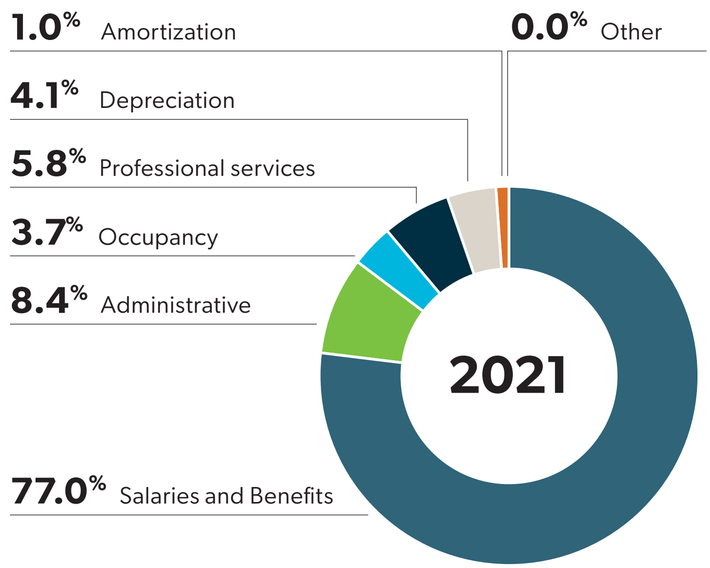


Late fees are triggered when market participants do not pay or do not file regulatory forms by established due dates as required by securities legislation. Late fees are intended to promote compliance with securities legislation to allow for filings to be made publicly available on a timely basis and to ensure the OSC can carry out our required regulatory tasks.

Late fee revenues were $1.0 million (32.5%) higher in 2022 compared to 2021, and $1.7 million (67.7%) higher compared to budget mainly due to more late filings of reports of exempt distribution and insider securities reports.

Expenses Analysis

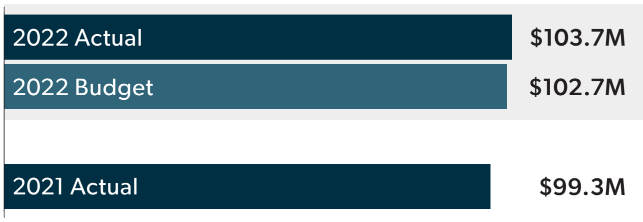




(Thousands of dollars)	2022 Actual	2022 Budget	2021 Actual	Variance Favourable/(Unfavourable) Budget		Prior Year	
EXPENSES				**$**	**%**	**$**	**%**
Salaries and benefits	$ 103,682	$ 102,740	$ 99,330	$ (942)	-0.9%	$ (4,352)	-4.4%
Administrative	11,644	14,016	10,808	2,372	16.9%	(836)	-7.7%
Occupancy	3,978	5,562	4,779	1,584	28.5%	801	16.8%
Professional services	11,825	13,601	7,538	1,776	13.1%	(4,287)	-56.9%
Depreciation	5,277	6,188	5,268	911	14.7%	(9)	-0.2%
Amortization	1,985	1,324	1,309	(661)	-49.9%	(676)	-51.6%
Other	28	714	47	686	96.1%	19	40.4%
Total expenses (before recoveries and finance costs)	**$ 138,419**	**$ 144,145**	**$ 129,079**	**$ 5,726**	**4.0%**	**$(9,340)**	**-7.2%**
Finance costs	$ 1,826	$ 1,848	$ 1,900	$ 22	1.2%	$ 74	3.9%
Recoveries of enforcement costs	(341)	(1,000)	(528)	(659)	-65.9%	(187)	-35.4%
Recoveries of investor education and knowledge enhancement costs	(3,348)	(4,164)	(2,479)	(816)	-19.6%	869	35.1%
Total expenses	**$ 136,556**	**$ 140,829**	**$ 127,972**	**$ 4,273**	**3.0%**	**$(8,584)**	**-6.7%**

The following is a discussion of the most significant changes in our expense components for the OSC in the past fiscal year.

Salaries and Benefits

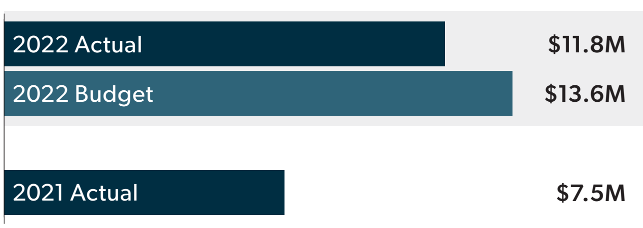


The OSC's largest cost is salaries and benefits, representing 74.9% of total expenses (before recoveries and finance costs). In 2022, salaries and benefits were $4.4 million (4.4%) higher compared to 2021, primarily as a result of providing salary increases in accordance with Bill 124, *Protecting a Sustainable Public Sector for Future Generations Act, 2019*, lower vacancies, and hiring staff resources mid-year to operationalize our new structure and address an increase in the volume of regulatory activities. The OSC's average active headcount increased year over year by 5.6% or 32 positions from 575 to 607.

Salaries and benefits expenses were $0.9 million (0.9%) higher compared to budget, primarily due to hiring resources towards establishing the new structure in accordance with the Securities Commission Act, 2021 and accommodating regulatory needs.

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

Professional Services



Professional services include consultants who provide specialized services to meet corporate and regulatory needs and CSA shared costs.

Professional services expenses were $4.3 million (56.9%) higher compared to 2021 mainly as a result of spend on digital transformation projects, including costs towards a new customer relationship management tool, customer contact center system, and the development of a robotic process automation platform. To a lesser extent, higher costs were incurred towards recruitment for new positions added during the fiscal year.

Professional services expenses were $1.8 million (13.1%) lower compared to budget primarily as a result of lower external engagement services required by the Office of Economic Growth and Innovation and the Investor Office.

As a member of the CSA, the OSC paid 38.5% (38.8% in 2021) of the costs to operate the CSA's office and joint CSA projects based on the population of its jurisdiction as a percentage of all participating jurisdictions. In 2022, total CSA spending on shared projects was $3.1 million ($2.5 million in 2021). The OSC contributed $1.2 million ($1.0 million in 2021).

Administrative

Administrative expenses primarily consist of ongoing information technology (IT) maintenance and support charges, Board and other governance expenses, research, and stakeholder outreach costs. Administrative expenses were $0.8 million (7.7%) higher compared to 2021, primarily due to higher IT maintenance costs as we continue to invest in cloud hosted software as part of our digital transformation roadmap.

Administrative expenses were $2.4 million (16.9%) lower compared to budget, primarily due to the timing of certain IT maintenance contracts, lower usage based costs and rate savings. Board and other governance expenses were lower as a result of fewer hearings and members compared to budget.

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

Occupancy

Occupancy consists of rent costs for non-lease component payments (i.e. common area maintenance). Occupancy expenses were $0.8 million (16.8%) lower compared to 2021, primarily as a result of refunds from the landlord for common area billing charges. Occupancy expenses were $1.6 million (28.5%) lower compared to budget due to refunds from our landlord and lower office maintenance spend.

Recovery of Enforcement Costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date that a monetary sanction is issued, unless management determines that collecting the monetary sanction is significantly doubtful, in which case, recovery is recognized when payment is received. In 2022, $0.3 million in enforcement costs were recorded ($0.5 million in 2021).

Recovery of Investor Education and Knowledge Enhancement Costs

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

During the year, the OSC recorded $3.3 million in recoveries of investor education and knowledge enhancement costs from funds held pursuant to designated settlements and orders ($2.5 million in 2021). The increase is primarily due to expanded outreach and financial literacy initiatives that meet the definition of eligible recoverable activities as defined in Ontario's Securities Act and approved by the OSC Board. The recoveries are reviewed and approved by the Audit and Finance Committee on a quarterly basis. For details on the recovery of investor education and knowledge enhancement costs, see Note 20 of the financial statements.

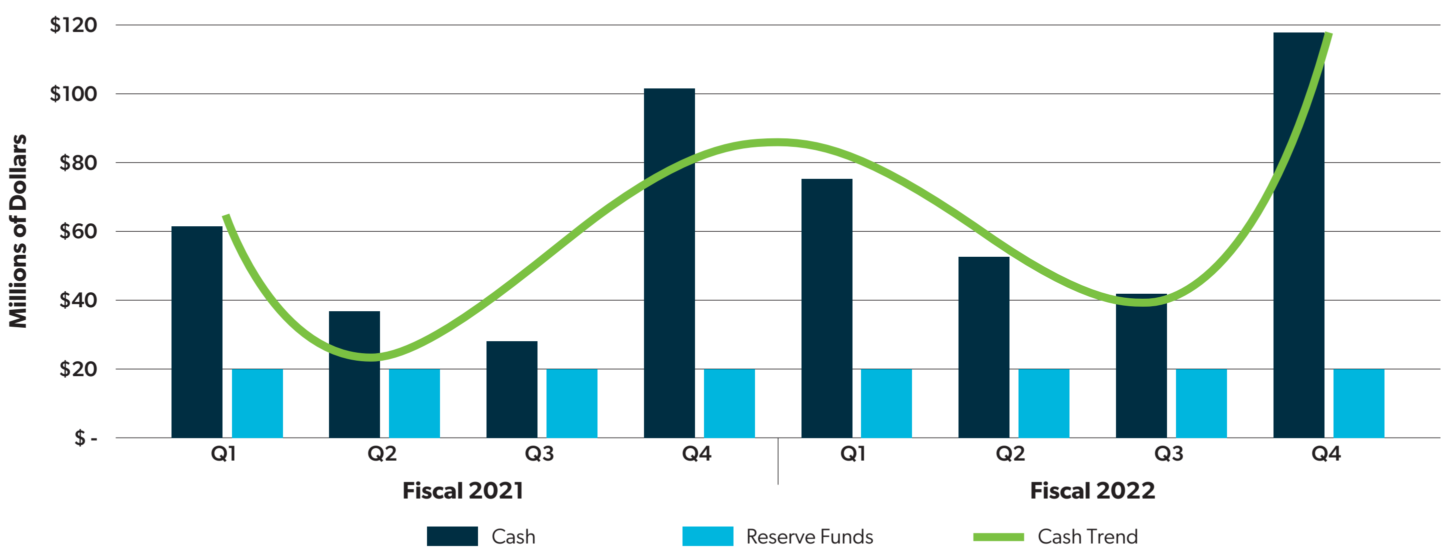
Liquidity and Financial Position

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

Liquidity

As of March 31, 2022, the OSC held $117.9 million in cash ($101.7 million in 2021) and $20.0 million in reserve fund assets ($20.0 million in 2021), for a combined total of $137.9 million ($121.7 million in 2021). The OSC also has access to a $52.0 million revolving line of credit. We hold a sufficient level of cash, reserve fund assets, and credit access to ensure liquidity for our forecasted cash requirements.

Cash Flow Trend



Historically, approximately 71% of our revenues are received in the last quarter, between January 1 and March 31 of each fiscal year, while expenses are incurred relatively evenly over the year. Funds received in the last quarter primarily represent annual participation fees that are used to fund most of our operating expenses during the following year. The OSC prudently manages liquidity risk from seasonal cash deficits and capital market downturns by utilizing three critical levers (in the following order): cash, a $20.0 million reserve fund and a $52.0 million revolving line of credit.

Since 2001, the OSC has held $20.0 million in reserve fund, as approved by Ontario's Minister of Finance, to guard against revenue shortfalls or unexpected expenses, or to cover discrepancies between timing of revenue and expenses. The primary investment consideration is protection of capital and liquidity. The OSC records interest income generated by the reserve fund with general operations. Reserve fund assets are segregated on the Statement of Financial Position to reflect their restricted use. For more information on reserve fund assets, see Note 8 of the financial statements.

The line of credit is a critical tool to fund seasonal deficits during periods of projected deficiency of revenues over expenses. There are no financial covenant requirements on the line of credit. The agreement for the current line of credit expires on June 30, 2022, as approved by the Minister of Finance, and the OSC has received approval to renew for another two year period.

As approved by our Board, we aim to maintain combined cash and reserve funds of approximately six months of operating expenditures. These financial management strategies are necessary to minimize the disruption during downturns so that the OSC can continue carrying out its mandate effectively. This strategy also benefits market participants by reducing the need to raise fees during capital market downturns. The OSC uses multi-year forecasts to project and maintain cash to ensure that we can meet ongoing operational needs and significant capital expenditure requirements.

As of March 31, 2022, the OSC had current assets of $127.8 million ($107.6 million in 2021) and current liabilities of $27.8 million ($26.7 million in 2021) for a current ratio of 4.6:1 (4.0:1 in 2021).

Cash Flows

In 2022, no reserve fund assets were used, and neither was the revolving line of credit. This was true in 2021 as well, for both the reserve funds and the line of credit. Cash flows from operating activities produced an inflow of $26.4 million ($21.8 million in 2021). Cash flows used in investing activities amounted to $7.9 million ($2.2 million in 2021). Cash flows used in financing activities amounted to $2.2 million ($2.1 million in 2021).

Financial Instruments

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

The OSC acts as a custodian of funds held pursuant to designated settlements and orders, and funds restricted for CSA Systems operations and redevelopment. Both are recorded at fair value. Funds restricted for CSA Systems operations and redevelopment includes cash and investments of $142.0 million ($150.6 million in 2021).

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

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

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

Financial Position

(Thousands of dollars)	2022 Actual	2021 Actual	Variance $	Variance %
ASSETS				
CURRENT				
Cash	$ 117,947	$ 101,683	$ 16,264	16.0%
Trade and other receivables	5,753	3,414	2,339	68.5%
Prepayments	4,085	2,493	1,592	63.9%
NON-CURRENT				
Funds held pursuant to designated settlements and orders *	$ 119,296	$ 117,001	$ 2,295	2.0%
Funds restricted for CSA Systems operations and redevelopment **	141,961	150,623	(8,662)	-5.8%
Reserve funds	20,000	20,000	-	0.0%
Lease receivable	3,117	3,270	(153)	-4.7%
Right of use assets	45,547	48,584	(3,037)	-6.3%
Property, plant & equipment	7,815	5,224	2,591	49.6%
Intangible assets	11,170	8,002	3,168	39.6%
LIABILITIES				
CURRENT				
Trade and other payables	$ 25,238	$ 24,464	$ 774	3.2%
Lease liabilities	2,525	2,212	313	14.2%
NON-CURRENT				
Lease liabilities	$ 49,375	$ 51,900	$ (2,525)	-4.9%
Pension liabilities	4,915	5,112	(197)	-3.9%
Funds held pursuant to designated settlements and orders *	119,296	117,001	2,295	2.0%
Funds restricted for CSA Systems operations and redevelopment **	141,961	150,623	(8,662)	-5.8%

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

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

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

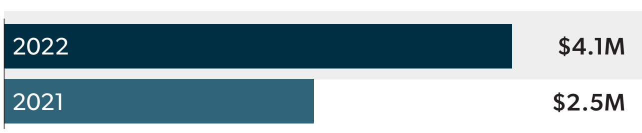
Cash

Cash increased by $16.3 million (16.0%) in 2022, primarily as a result of an excess of revenues over expenses.

Trade and Other Receivables

Trade and other receivables increased by $2.3 million (68.5%) in 2022 due to accrued refunds for health benefits and common area occupancy charges. For more information on trade and other receivables, see Note 5 of the financial statements.

Prepayments



Prepayments increased by $1.6 million (63.9%), primarily as a result of longer renewal terms for various technology contracts in the last quarter of 2022 compared to 2021.

Funds held pursuant to designated settlements and orders

(i) Background on monetary sanctions

If someone contravenes Ontario securities law or commodity futures law, the OSC can bring an enforcement proceeding against them. Some of these cases are heard by a panel of independent adjudicators, who have the power to impose monetary sanctions. Panels may also approve voluntary payments to the OSC under settlement agreements. Monetary sanctions reflect what the panel believes is appropriate in the circumstances, regardless of a respondent's ability to pay. Monetary sanctions are also intended to deter others from contravening securities laws. Monetary sanctions assessed are inherently uncertain and not susceptible to a trend.

(ii) Designated funds

The Commission's use of funds paid to it under these sanctions and settlements is restricted by law. These funds may only be allocated by the Commission to or for the benefit of third parties or used by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets. Third party recipients of these funds have included harmed investors, whistleblowers, and organizations dedicated to advancing the interests of investors.

(Thousands of dollars)	2022	2021
Total monetary sanctions assessed during the year	$ 17,889	$ 11,123
Total amount paid or payable to investors	728	4,030
Total amount recovered by the OSC for investor education and knowledge enhancement activities	2,859	2,483
Total amount paid to whistleblowers	240	585

In general, we include payments made directly by respondents to harmed investors pursuant to the terms of a settlement agreement in our reporting of total monetary sanctions assessed during the year. There were no such payments in both 2022 and 2021. While this amount is considered for our enforcement sanctions statistics, as part of the total monetary sanctions assessed during the year, it is not payable to the OSC and does not form part of the funds held pursuant to designated settlements and orders balance.

Total amounts paid or payable to harmed investors by the OSC amounted to $0.7 million ($4.0 million in 2021). In 2022, total amounts for the recovery of OSC investor education and knowledge enhancement costs approved by the Board amounted to $2.9 million ($2.5 million in 2021). In 2022, the OSC paid $0.2 million to whistleblowers ($0.6 million in 2021).

As at March 31, 2022, the accumulated balance of designated funds was $119.3 million ($117.0 million in 2021). Of this amount, $119.2 million was held in cash ($116.6 million in 2021) and $0.1 million in receivables ($0.4 million in 2021). After considering funds set aside for possible allocation to harmed investors, $116.6 million ($110.1 million in 2021) of the funds on hand are available for allocation to third parties or use by the Commission for educational and knowledge enhancement purposes. The increase in funds in 2022 is mainly due the collections and allocations of orders in the fiscal year. Of the $116.6 million, a total of $43.4 million has been earmarked for possible whistleblower payments, recoveries of investor education costs, knowledge enhancements, and other investor-related activities ($43.7 million in 2021).

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

Collecting monetary sanctions

While the OSC actively works to collect unpaid monetary sanctions, material differences between sanction assessments and collections have persisted since we began imposing 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. The collections rate decreased in 2022 to 35.5% from 53.0% in 2021 as a result of higher assessments from contested hearings compared to settlements. The collection rate will vary each year, depending on the nature of the cases brought by the Enforcement Branch.

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

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

(Thousands of dollars) **2022**		**Assessed***		**Collected****	**% Collected**
Settlements	$	6,408	$	6,354	99.2%
Contested hearings		11,482		—	0.0%
Total	**$**	**17,889**	**$**	**6,354**	**35.5%**
2021		**Assessed***		**Collected****	**% Collected**
Settlements	$	5,958	$	5,899	99.0%
Contested hearings		5,165		—	0.0%
Total	**$**	**11,123**	**$**	**5,899**	**53.0%**

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

**Prior year amounts collected in the current year are reflected in the year the sanction was issued.

Funds Restricted for CSA Systems Operations and Redevelopment

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) and marketplace surveillance and analytics system.

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 is essentially a custodial role. The funds restricted for CSA Systems operations and redevelopment include surplus funds accumulated from operation of the CSA Systems, which are received, held, and managed by the DPA on behalf of the Principal Administrators (PAs). The use of these surplus funds is restricted by various agreements between the PAs.

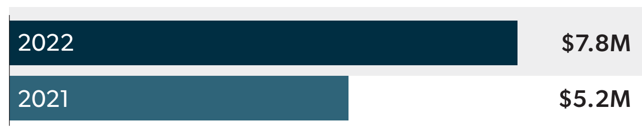
In June 2016, the PAs signed an agreement with CGI Information Systems and Management Consultants Inc. to replace the core CSA National Systems with one system to support existing and future requirements for the benefit of market participants. Redevelopment began in a multi-year phased approach beginning in 2018. The PAs have certain rights to terminate the agreement, with and without cause, as set out in the agreement. For more information on CSA National Systems contractual arrangements and financial results, see Note 7 and Note 18(a) of the financial statements.

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

Right of Use Assets

Right of use assets decreased by $3.0 million (6.3%) due to the amortization of the lease agreements for rent of office space and printer equipment. For more information on right of use assets, see Note 12 of the financial statements.

Property, Plant, and Equipment



Property, plant, and equipment increased by $2.6 million (49.6%) in 2022 due to the cyclical refresh of IT hardware and the renovation of a floor within the office. For more information on property, plant and equipment, see Note 9 of the financial statements.

Intangible Assets

Intangible assets increased by $3.2 million (39.6%) in 2022 primarily due to spending on the development of the SEDAR+ integration initiative and a new contact center system. For more information on intangible assets, see Note 10 of the financial statements.

Non-Current Lease Liabilities

Non-current lease liabilities decreased by $2.5 million (4.9%) due to payments made on the lease contracts. For more information on lease liabilities, see Note 12 of the financial statements.

2023 Strategy

Our plans and outlook for fiscal year 2023

Every year, the OSC publishes a *Statement of Priorities* outlining our specific areas of focus. We publish this *Statement of Priorities* and give the public opportunities to comment on the draft document before it is finalized and incorporated into our business plan.

In the fall of 2021, we received feedback on our *Statement of Priorities* for fiscal year 2023. The priorities in our finalized *Statement of Priorities* for fiscal 2023 reflect unprecedented levels of innovation and disruption in financial markets and changes in investor preferences, while also supporting the ongoing transformation of the OSC and prioritization of excellence in our core regulatory and business operations. The most recent *Statement of Priorities* is included in the OSC's Business Plan, which can be found on our website. What follows is an overview of our priorities for the next fiscal year.

Statement of Priorities

GOAL 1: Promote Confidence in Ontario's Capital Markets

We aim to promote confidence in Ontario's capital markets among market participants and investors. We will:

- Sustain strong core regulatory operations
- Improve the retail investor experience and protection
- Support behavioural insights and policy testing capabilities
- Strengthen dispute resolution services for investors, such as the Ombudsman for Banking Services and Investments (OBSI), through policy and oversight activities
- Support implementation of the mutual fund embedded commissions rules banning the use of deferred sales charges (DSC Ban) and trailing commission where no suitability determination is required (OEO Ban)
- Continue efforts to implement a new single enhanced self-regulatory organization (SRO), and consolidate the current two investor protection funds (IPF) independent from the new SRO
- Strengthen oversight of crypto asset trading platforms and other dealers
- Develop a rule setting out climate change-related disclosures for certain reporting issuers
- Continue consideration of diversity on boards and in executive roles at certain reporting issuers*
- Monitor the listing function of recognized exchanges and identify areas for improvement
- Develop total cost reporting disclosure for investors

* For Corporate Finance / Business Issuers Only

GOAL 2: Modernizing the Regulatory Environment

We continue to evolve the regulatory environment in line with Ontario's changing capital markets and investor needs. In particular, we aim to:

- Implement an enhanced framework for modernizing regulation
- Continue work on streamlining periodic disclosure requirements for reporting issuers
- Work to modernize delivery options of regulatory and continuous disclosure filings for issuers
- Strengthen the framework and our capability to identify, assess, and respond to emerging regulatory issues
- Continue to expand systemic risk oversight
- Clarify the importance to be given to each of our mandates, including fostering capital formation and competitive markets, in regulatory actions.

GOAL 3: Facilitate Financial Innovation

We want to cultivate an environment that supports the development of innovative financial business models that benefit investors and capital market participants.

- Engage with and support novel and innovative businesses in our capital markets
- Continue building the OSC TestLab

GOAL 4: Strengthen Our Organizational Foundation

We will continue to invest in people and technology, and to strengthen the OSC's culture. We plan to:

- Redevelop CSA national systems
- Continue technology modernization, digital transformation, and data and analytics enablement at the OSC
- Foster and improve inclusion, equity, and diversity
- Implement a hybrid work model

Fiscal 2023 Financial Outlook

The OSC is budgeting a deficiency of revenue over expenses of $11.5 million in fiscal 2023. The deficiency is in accordance with our multi-year plan to draw down accumulated surplus to fund significant multi-year technology and workplace modernization initiatives. In response to the growth and changes in capital markets experienced over the past few years, the 2023 budget includes the costs of hiring additional staff to accommodate the increase in both the volume and the complexity of various regulatory activities, the implementation of Taskforce recommendations, and accelerated technology modernization.

The budget continues supporting the four key multi-year growth areas identified in the prior year's business plan:

- Technology modernization
- Strengthening investor education and outreach
- Facilitating financial innovation and modernizing regulation
- Enhancing derivatives compliance oversight

Budgeted revenues in fiscal 2023 of $144.4 million are $16.3 million (10.1%) lower compared to fiscal 2022 actual results, primarily due to a decrease in participation fees. While the OSC has experienced significant revenue growth following the initial decline at the beginning of the pandemic, a more conservative approach has been taken when setting the 2023 revenue budget.

The budget was reduced to exclude extraordinary growth experienced by a few market participants in 2022 that were not representative of the overall average growth over the past few years. We continue to monitor the influence of various macroeconomic factors, including international developments on Ontario's capital markets, and in turn, the OSC's overall revenues.

Budgeted expenses in fiscal 2023 of $155.9 million are $19.3 million (14.2%) higher compared to fiscal 2022 actual results. The increase in budgeted expenses is primarily attributed to an increase in staff resources and to a lesser extent professional services to address the following:

- capacity constraints from a significant and persistent increase in the volume and complexity of core operational activities, placing increased demands on the OSC's resources
- continuation of multi-year investments in the aforementioned four growth areas
- implementation of various Taskforce recommendations, including the establishment of the new Tribunal, adoption of various policy recommendations and expansion of the mandate to include capital formation and competition
- complexity and growth of emerging regulatory issues arising from the evolution of the investing landscape

Capital expenditures in fiscal 2023 are budgeted at $12.4 million, primarily comprised of costs towards new regulatory platforms and tools, workplace modernization spending to rehabilitate space and accommodate a hybrid working environment, and resources to integrate the new SEDAR+ system with OSC local systems.

Critical Accounting Estimates

Judgements, estimates, and assumptions related to preparing IFRS financial statements

In preparing financial statements consistent with International Financial Reporting Standards, the OSC's management must make judgements, estimates, and assumptions that affect our reported amounts of assets and liabilities for the date of the financial statements, as well as reported amounts of the revenues and expenses for the periods.

These judgements, estimates, and assumptions are considered "critical" if any of the following conditions are met:

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

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

There are also sources of estimation uncertainty in accounting estimates. For the OSC, these primarily consisted of leases, the supplemental pension plan benefit obligation liabilities, funds held pursuant to designated settlements and orders, recoveries of enforcement costs and allowance for credit losses.

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

Accounting pronouncements

Refer to Note 21 of the audited financial statements for pronouncements that are new or have been revised, but that are not yet in effect.

Key Risks and Mitigation Strategies

How we manage risks threatening our ability to achieve our strategic objectives

Key Components of the OSC Risk Management Framework

The OSC has implemented a risk management framework to foster an enterprise-wide acceptance and integration of risk management. The main components include:

- a risk management policy that supports the achievement of our objectives, defines risk management roles and responsibilities within the organization, and promotes a strong culture of understanding and mitigating risk
- a risk management process to identify, assess, manage, monitor, and report risks
- and common tools to enable risk-informed decision making, such as "risk registers" at the enterprise and branch level

The OSC employs a three-lines-of-defense model consisting of the following:

- Branch specific risk management processes utilizing a bottom-up process to identify, assess and manage branch specific risks
- Centralized risk management function to facilitate activities related to enterprise risks and maintenance of an enterprise risk inventory. This function includes a top-down and bottom-up view of the risks and controls in place within the OSC
- Internal audit function helping the OSC develop, evaluate, and improve risk-management practices, risk-based internal controls, good governance and sound business practices. Internal audits at the OSC are governed by a charter and an annual internal audit plan approved by the OSC's Board of Directors

The risk steering committee, made up of OSC senior and executive management, reviews the risk profile quarterly, paying close attention to key, new, or emerging risks. This information is reported to the board risk committee and escalated to the board of directors, as appropriate.

Key Risks

The table below highlights various key enterprise risks that the OSC is exposed to, along with the mitigating controls. The OSC continues to monitor the risk environment and to respond appropriately to ensure that risks are properly addressed.

Risk	Risk description	Mitigating controls
Digital transformation	Outdated technology, data, and processes increase regulatory burden for market participants and impede effectiveness and efficiency	▪ The Digital Solutions Branch has established a multi-year strategy, articulated the data and digital capability needs across the OSC, and developed the first executable roadmap ▪ An agile implementation and dedicated team model have been established to support various initiatives
Regulatory burden	OSC regulations, processes, and operational systems impede fair and efficient markets and inhibit capital formation	▪ Burden reduction initiatives were identified in the 2019 report *Reducing Regulatory Burden in Ontario's Capital Markets* and are part of business plans for each relevant branch ▪ Regulatory impact analyses, including cost-benefit analyses, are completed for all new policy projects ▪ The Office of Economic Growth and Innovation is developing and will implement an enhanced organization-wide framework that will ensure a systematic and streamlined approach to projects aimed at modernizing our regulatory environment
Enforcement effectiveness	The OSC fails to identify, investigate, and prosecute administrative, quasi-criminal, or criminal misconduct involving securities law violations that could cause significant harm to investors or the integrity of the markets	▪ Using a centralized intake process to identify matters that reflect OSC strategic priorities and factors relating to public harm ▪ Standardizing and making visible our planning and reporting process (from investigation to litigation) to identify key violations and use appropriate enforcement tools ▪ Partnering with other regulators and encouraged active advocacy in IOSCO, CSA, and North American Securities Administrators Association committees to monitor and identify cross-border issues
Systemic risk in capital markets	The OSC fails to identify an increase in systemic risk related to activity in capital markets in a timely manner	▪ Increasing oversight of systemically important market infrastructure ▪ Monitoring compliance with rules designed to minimize systemic risks ▪ Working groups and committees including the OSC systemic risk working group, CSA working groups, and IOSCO working groups increase collaboration efforts

Risk	Risk description	Mitigating controls
Business continuity	A significant disruption of business operation occurs	▪ Updating the formal business continuity plan (BCP) and pandemic plan including an annual BCP systems recovery plan, scenario testing, and emergency staff communications tests ▪ Forming reciprocal arrangements with other securities regulators to create continuity of regulatory services (e.g. prospectus and application reviews)
Information technology	Risks that a significant disruption of OSC information technology systems and/or services occurs or that critical IT system changes and implementation do not meet desired business outcomes	▪ Regularly reviewing established IT policy, procedures, and controls ▪ Annual audits include testing of IT key controls ▪ Ongoing monitoring of OSC systems and establishing support agreements and service-level agreements with key vendors ▪ Creating fall-back plans and system back-ups as required
Information security	Risks arising from breaches of or attacks on OSC information systems that result in loss of information or the compromise of confidential information that would impact OSC's reputation and/or operations	▪ A multi-year information security operations roadmap has been formulated that adheres to the National Institute of Standards and Technology (NIST) cybersecurity framework ▪ Key information security program controls are already in place, including formal security risk assessment process, access control, data protection, regular vulnerability scans and patch management, incident response and simulation, security awareness and testing, and cyber insurance protection
Workforce management	Misalignment and gaps between the OSC's existing workforce and the workforce required to deliver on its objectives	▪ Developed a strategic workforce plan detailing actions to retain, develop, motivate, and deploy human resources, including flexible work arrangements, training and development opportunities, and ongoing communications on workplace guidance and wellness programs to engage staff ▪ Reprioritizing various projects, deadlines, and deliverables to balance work demands across the organization, when needed ▪ Administering compensation and benefits to remain an attractive and competitive employer
Project delivery	The OSC is unsuccessful in delivering on major projects regarding objective, scope, budget and schedule	▪ Introducing robust project management processes and methodologies including regular status reporting such as reviewing project portfolio status and proactively identifying, communicating, mitigating, and escalating in a timely manner issues/trends that could impact scope, schedule, budget and/or change management ▪ The OSC technology enablement framework is in place to govern initiation, prioritization, and execution of OSC-led technology related initiatives

Risk	Risk description	Mitigating controls
Confidence in OSC's ability to deliver on its mandate	Loss of confidence by stakeholders in the OSC's ability to execute its mandate	▪ Executive-level messaging and regular public appearances that clearly communicate the OSC's mandate and authority ▪ Consulting with stakeholders on various policy matters to obtain feedback ▪ Publishing rules and national instruments for comment ▪ Impact on reputation is incorporated into the risk management process for all key risks at the branch and enterprise levels.

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. Design and operating effectiveness were tested, using the framework and criteria established in "Internal Control – Integrated Framework (2013 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under supervision and with the participation of management, of the effectiveness of the OSC's ICFR processes as at March 31, 2022. Based on this evaluation, the OSC has concluded that the ICFR processes were designed and operating effectively, to reduce the risk of material misstatement to an acceptably low level, and that there are no material weaknesses.