

# Management's Responsibility

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit 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.



David A. Brown, Q.C.  
Chair and Chief Executive Officer  
May 13, 2005

Office of the  
Auditor General  
of Ontario



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# Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2005 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



J. R. McCarter, CA  
Auditor General  
Toronto, Ontario  
May 13, 2005

# Balance Sheet

As at March 31, 2005

	2005	2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 36,588,846	\$ 30,652,492
Accounts receivable	1,486,721	1,427,708
Prepaid expenses	361,776	465,923
	<u>38,437,343</u>	<u>32,546,123</u>
DESIGNATED SETTLEMENTS (Note 3)	2,501,008	2,000,711
FUNDS IN TRUST (Note 4)	5,998,785	–
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Note 6)	4,022,511	5,237,023
	<u>\$ 82,959,647</u>	<u>\$ 71,783,857</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 8,441,504	\$ 8,077,550
	<u>8,441,504</u>	<u>8,077,550</u>
<b>NON-CURRENT</b>		
Other long term liabilities (Note 7(b))	1,114,747	928,060
	<u>9,556,251</u>	<u>9,005,610</u>
DESIGNATED SETTLEMENTS (Note 3)	2,501,008	2,000,711
FUNDS IN TRUST (Note 4)	5,998,785	–
<b>SURPLUS</b>		
<b>OPERATING</b>		
General (Note 8)	32,805,359	28,679,292
Reserve (Note 5)	32,000,000	32,000,000
	<u>64,805,359</u>	<u>60,679,292</u>
<b>CONTRIBUTED</b>	98,244	98,244
	<u>64,903,603</u>	<u>60,777,536</u>
	<u>\$ 82,959,647</u>	<u>\$ 71,783,857</u>

Investor Education Fund (Note 9)  
 Commitments and Contingencies (Notes 10,12)  
 See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION



David A. Brown, Q.C.  
 Chair



David L. Knight, FCA  
 Commissioner

# Statement of Operations and Operating Surplus

For the year ended March 31, 2005

	2005	2004
<b>REVENUE</b>		
Fees (Note 8)	\$ 78,444,824	\$ 74,854,942
Rebate of fees (Note 8)	(14,935,360)	–
Investment income	1,534,933	1,672,727
Miscellaneous	710,907	84,973
	<b>65,755,304</b>	<b>76,612,642</b>
<b>EXPENSES</b>		
Salaries and benefits (Note 11)	44,286,613	40,147,154
Administrative	5,461,581	4,561,661
Occupancy (Note 12)	4,036,881	3,972,891
Professional services (Note 11)	3,419,175	1,957,490
Amortization	3,266,928	3,233,401
Other	1,158,059	1,098,577
	<b>61,629,237</b>	<b>54,971,174</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>4,126,067</b>	<b>21,641,468</b>
<b>OPERATING SURPLUS, BEGINNING OF PERIOD</b>	<b>60,679,292</b>	<b>39,037,824</b>
<b>OPERATING SURPLUS, END OF PERIOD</b>	<b>\$ 64,805,359</b>	<b>\$ 60,679,292</b>
<b>Represented by:</b>		
General	\$ 32,805,359	\$ 28,679,292
Reserve	32,000,000	32,000,000
	<b>\$ 64,805,359</b>	<b>\$ 60,679,292</b>

See accompanying notes to Financial Statements.

# Statement of Cash Flows

For the year ended March 31, 2005

	2005	2004
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
Cash flows from operating activities		
Excess of revenue over expenses	\$ 4,126,067	\$ 21,641,468
Adjustments for amortization	3,266,928	3,233,401
	7,392,995	24,874,869
Changes in non-cash working capital		
Accounts receivable	(59,013)	711,897
Prepaid expenses	104,147	(64,502)
Due to Province of Ontario	–	(14,480,975)
Accounts payable and accrued liabilities	363,954	(1,777,214)
Other long term liabilities	186,687	114,929
	595,775	(15,495,865)
	7,988,770	9,379,004
Cash flows from investing activities		
Purchase of capital assets	(2,052,416)	(1,430,854)
	(2,052,416)	(1,430,854)
<b>NET INCREASE IN CASH POSITION</b>	<b>5,936,354</b>	<b>7,948,150</b>
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<b>30,652,492</b>	<b>22,704,342</b>
<b>CASH POSITION, END OF PERIOD</b>	<b>\$ 36,588,846</b>	<b>\$ 30,652,492</b>

See accompanying notes to Financial Statements.

# Notes to the Financial Statements

March 31, 2005

## 1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "Commission") is a corporation without share capital and functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized when earned which is normally upon receipt.

Recoveries of costs of investigations are recorded as offsets to the relevant expense upon date of decision, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members as described in note 7(b). The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 13(c).

### 3. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine, subject to the approval of the responsible Minister, where required. The accumulated funds are held in a segregated bank account. As at March 31, 2005, the accumulated balance is determined as follows:

	2005	2004
Opening balance	\$ 2,000,711	\$ 474
Settlements	787,105	1,999,400
Interest	46,751	1,311
Payments		
Investor Education Fund – prior period	–	(474)
Investor Education Fund – current period	(333,559)	–
Closing balance	\$ 2,501,008	\$ 2,000,711
Represented by:		
Cash	\$ 2,406,850	\$ 1,628,195
Receivables	94,158	372,516
	\$ 2,501,008	\$ 2,000,711

### 4. FUNDS HELD IN TRUST

During the year, the Commission received \$5,943,687 from the operator of the SEDAR electronic filing system, representing the accumulated surplus from the operations of SEDAR from its inception. As at March 31, 2005, interest earned on these funds was \$55,098. These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers, and shall be used towards one or more of the following actions:

- i) The development or enhancement of SEDAR;
- ii) The development or enhancement of the System of Electronic Disclosure by Insiders;
- iii) To permit a reduction in the SEDAR Fee Schedule;
- iv) The application towards a previous year's Shortfall, as described in note 10.

### 5. RESERVE

- a) As part of the approval of its self-funded status, the Commission was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2005, have been invested in six month and one year treasury bills with the Ontario Financing Authority.
- b) In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001. At March 31, 2005, legislation has not yet been introduced.

# Notes to the Financial Statements

March 31, 2005

The Commission received approval from the Ministry of Finance to retain \$12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

- i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
- ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

## 6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Office furniture	\$ 3,022,971	\$ 2,401,460	\$ 621,511	\$ 974,063
Office equipment	282,727	236,638	46,089	102,371
Computer hardware and related applications	11,960,201	9,627,749	2,332,452	2,273,178
Leasehold improvements	6,302,503	5,280,044	1,022,459	1,887,411
	<u>\$ 21,568,402</u>	<u>\$ 17,545,891</u>	<u>\$ 4,022,511</u>	<u>\$ 5,237,023</u>

## 7. PENSION PLANS

- a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2005 was \$2,294,755 (2004 – \$2,104,631) and is included in salaries and benefits.
- b) The unfunded supplemental pension plans for the Commission's Chair and current and former Vice-Chairs had an accrued benefit obligation of \$966,712 at March 31, 2005 (2004 – \$735,476) and an accrued benefit liability of \$1,114,747 (2004 – \$928,060). The Commission's related expense for the year was \$186,687 (2004 – \$114,929) and is included in salaries and benefits. No benefits were paid during the year (2004 – \$0). The average remaining service period of the active members covered by these plans ranges from 1.85 to 4.88 years at March 31, 2004 (2003 – .25 to 5.04 years); the 2004 figures were used for amortization purposes in fiscal 2005. The average life expectancy of the non-active member was 23.32 years at March 31, 2004 (2003 – not applicable). The significant actuarial assumptions adopted at March 31, 2005 include a discount rate of 5.5% (2004 – 5.5%) and a rate of compensation increase of 2.1%, if applicable (2004 – 2.5%).

## 8. STREAMLINING OF FEES UNDER THE SECURITIES ACT

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the *Securities Act*. The new fee regime is designed to accomplish three primary objectives; to reduce the overall fees charged to market participants from what existed previously in Ontario, to create a clear and streamlined fee structure, and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. While it was initially planned that any surplus or deficit incurred over a three-year period would be reflected when the fees were reset, fees received have exceeded expectations. The Commission has therefore issued a one-time rebate of fees of \$14,935,360 to expedite the return of surplus to the market participants who funded it. The General Operating Surplus at March 31, 2005 of \$32,805,359, adjusted for the surplus or deficit in fiscal 2006, will be reflected in the fees set for the following three-year cycle beginning in fiscal 2007.

Details of fees received for the year ended March 31, 2005 are as follows:

	2005	2004
Participation and Transitional Fees	\$ 64,008,748	\$ 60,706,698
Activity Fees	12,436,046	11,765,826
Late Filing Fees	2,000,030	2,382,418
<b>Total</b>	<b>\$ 78,444,824</b>	<b>\$ 74,854,942</b>

## 9. INVESTOR EDUCATION FUND

- a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2005 and for the year ended March 31, 2005 are as follows:

### INVESTOR EDUCATION FUND

	2005	2004
<b>Financial Position</b>		
Total assets	\$ 5,790,235	\$ 7,037,458
Total liabilities	\$ 258,235	\$ 235,808
Invested in capital assets	843,804	753,806
Available for Fund purposes	4,688,196	6,047,844
Total net assets	5,532,000	6,801,650
	\$ 5,790,235	\$ 7,037,458
<b>Results of Operations</b>		
Total contributions and interest income	\$ 454,897	\$ 700,852
Total expenses	1,724,547	1,331,577
Deficiency of revenue over expenses	\$ (1,269,650)	\$ (630,725)
<b>Cash flows</b>		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	\$ 333,559	\$ 474
Cash receipts from third parties	59,625	500,000
Investment income received	123,827	207,033
Cash paid for initiatives and expenses	(1,411,793)	(1,180,041)
Cash paid for capital purchases	(441,100)	(671,792)
Net decrease in cash position	(1,335,882)	(1,144,326)
Cash position, beginning of period	6,271,144	7,415,470
Cash position, end of period	\$ 4,935,262	\$ 6,271,144

- b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:
- The Board of the Commission authorized transfers totalling \$333,559 of the Commission's Designated Settlements to the Fund (2004 – \$0) in accordance with the Minister's approval and its own authority under the *Securities Act*.
  - The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

# Notes to the Financial Statements

March 31, 2005

For the period ended March 31, 2005, the Commission incurred costs totalling \$480,417 (2004 – \$386,735) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, \$120,333 is owing to the Commission as of March 31, 2005 (2004 – \$105,980).

## 10. COMMITMENTS AND CONTINGENCIES

- a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of the System of Electronic Data Analysis and Retrieval (SEDAR), where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying a specified percentage of any annual SEDAR deficit. In the current year, there were no SEDAR deficits.
- b) The Commission is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

## 11. RECOVERY OF COSTS OF INVESTIGATIONS

In 2005, the Commission applied \$482,790 (2004 – \$541,585) in recoveries of the costs of investigations against salaries and benefits and \$260,710 (2004 – \$1,013,344) against professional services.

## 12. LEASE OBLIGATIONS

The Commission is committed to operating lease payments as follows:

2006	\$ 4,301,412
2007	\$ 4,565,792
2008	\$ 4,534,493
2009	\$ 4,552,472
2010	\$ 4,581,978
Thereafter	\$ 11,285,790

## 13. TRANSACTIONS WITH PROVINCE OF ONTARIO

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

- a) The *Securities Act* states that when ordered to do so by the responsible Minister, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the new fee model as described in note 8 and the Commission's plans to set fees in three-year cycles, the Commission is no longer required to make quarterly remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.
- b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

## 14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.