

MANAGEMENT'S DISCUSSION & ANALYSIS



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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the OSC's financial performance for the 2015 fiscal year ended March 31, 2015. 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 2015 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance and ability to meet its objectives.

Important information about this MD&A

- The information in this MD&A is prepared as of June 8, 2015.
- The terms "we," "us," "our" and "OSC" refer to the Ontario Securities Commission.
- This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on the OSC's current views of future events and financial performance. Key risks and uncertainties are discussed in the Risks and risk management section of this MD&A. However, some risks and uncertainties are beyond the control of the OSC and are difficult to predict. Actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
- The words "believe," "plan," "intend," "estimate," "expect," "anticipate" and similar expressions, as well as future conditional verbs, such as "will," "should," "would" and "could" often identify forward-looking statements.
- The words "plan" and "budget" are synonymous in this MD&A and are used interchangeably. Both describe the planned budget revenue and expenses for the related fiscal year.
- Unless otherwise specified, references to a year refer to the OSC's fiscal year ended March 31.
- Notes to the financial statements refer to the OSC's 2015 Notes to the Financial Statements.
- All financial information related to 2014 and 2015 has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, **Note 2 Basis of presentation**, **Note 3 Significant accounting policies** and **Note 20 Accounting pronouncements**.
- Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
- Due to rounding, some 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 Ontario Crown corporation that serves as a regulatory agency with a governing board. Our powers are given to us under the *Securities Act* (Ontario), the *Commodity Futures Act* (Ontario) and certain provisions of the *Business Corporations Act* (Ontario). We operate independently from the government and are funded by fees charged to capital market participants. We are accountable to the Ontario Minister of Finance.

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

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

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

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

Mandate

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

Vision

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

Goals

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

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

Cooperative Capital Markets Regulatory System (CCMR)

The new target launch date for the CCMR is fall 2016. OSC staff continue to support the effort of the Ontario Government and to work cooperatively with our counterparts in the other CCMR participating jurisdictions. The participating jurisdictions plan to publish updated consultation draft legislation, along with draft initial regulations this summer. During 2015, the OSC committed approximately \$1.8 million in staff resources, in addition to the \$500 thousand committed in 2014, for a total of \$2.3 million toward the creation of and transition to the CCMR. These totals do not include time spent by members of the OSC's Executive who are appointed to the CCMR Transition Committee.

On April 15, 2015, Yukon became the first territory to participate in the CCMR, joining Ontario, British Columbia, Saskatchewan, New Brunswick, Prince Edward Island and Canada.

On April 16, 2015, the Ministers representing participating jurisdictions announced the members of the nominating committee who will recommend to the Ministers candidates for appointment to the initial board of directors of the Capital Markets Regulatory Authority.

Operating results

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

As a regulatory agency funded through fees charged to capital market participants, the OSC seeks to operate on a cost-recovery basis. In prior years, we accumulated a general operating surplus, which we plan to decrease by March 31, 2018 through a planned operating deficit in fiscal 2018, which includes investments in information technology (IT) and related Property, plant & equipment.

In 2015, our general operating surplus increased by \$7.7 million as a result of higher revenue, higher enforcement-related cost recoveries and extensive cost reductions.

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

Selected three-year annual information

(Thousands)	2015	2014	2013
Revenue	\$103,936	\$98,677	\$87,278
Expenses	98,870	97,663	96,052
Excess/(Deficiency) of revenue over expenses (before recoveries)	5,066	1,014	(8,774)
Recoveries of enforcement costs	2,995	508	1,245
Excess/(Deficiency) of revenue over expenses	8,061	1,522	(7,529)
General surplus	\$14,274	\$6,540	\$5,308
Property, plant & equipment (purchases)	\$1,616	\$6,940	\$7,775
Total assets	\$207,414	\$182,249	\$159,696
Non-current liabilities	\$157,057	\$137,378	\$117,298

Revenue increased from 2013 to 2014 primarily due to participation and activity fee rate increases that took effect on April 1, 2013. Revenue increased from 2014 to 2015 due to participation fee rate increases that took effect on April 7, 2014.

The general surplus increased each year as a result of the excess/(deficiency) of revenue over expenses for each related fiscal years' operations.

Property, plant & equipment purchases were significantly higher for 2013 and 2014 than 2015 due to a two-year renovation project of the leased premises at 20 Queen Street West during 2013 and 2014.

Total assets increased from 2013 to 2014 and from 2014 to 2015 primarily as a result of the increase in Net assets held for CSA Systems operations and redevelopment that have been accumulated and are held in trust on behalf of the other CSA regulators.

Non-current liabilities increased from 2013 to 2014 and 2014 to 2015 primarily as a result of the corresponding increase to the offsetting liability which reflects Net assets held for CSA Systems operations and redevelopment obligations.

About our fees

- **Participation fees** are charged for a participant's use of Ontario's capital markets. They cover the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities of market participants. In fiscal 2014 and 2015, participation fees were based on a reference fiscal year where future participation fees are indexed to a prior fiscal year's results. Fees are calculated using an increasing tiered structure based on average market capitalization for issuers and revenues for registrants. Specified regulated entities are charged participation fees based on their market share or a fixed rate. The timing of participation fee revenue affects our cash flow. For more information, see the Liquidity and financial position section.

- **Activity fees** are charged when market participants file documents such as prospectuses and other disclosure documents, registration applications and applications for discretionary relief. Activity fees are also charged for requests such as making changes to a registration or searching for records. Activity fees are flat-rate fees based on the estimated direct cost for the OSC to review documents and respond to requests.
- **Late fees** are charged when market participants submit filings after applicable filing deadlines, and/or are late paying the fees related to a filing.

Our fee structure

The OSC is funded by fees from market participants. We charge two types of regulatory fees: participation fees and activity fees. Our fee structure is designed to recover costs and is set out in OSC Rules 13-502 *Fees* and 13-503 *(Commodity Futures Act) Fees*. The most recent fee rule amendments were effective from April 1, 2013 to April 5, 2015. We normally plan to balance our budget over each three-year fee cycle. However, in 2015, we re-examined our fee rule, one year earlier than originally planned. This was due to comments received from market participants on the use of the "reference fiscal year," which was included under the fee rules for 2014 and 2015.

In 2015, participation fees increased 11.6% year-over-year for reporting issuers and 4.7% year-over-year for registrants. There were no changes to participation fee rates for specified regulated entities year-over-year. The new fee rules (Rule), which took effect on April 6, 2015, return to the previous model of using a market participant's most recent financial year information (in place of "reference fiscal year"). The new Rule keeps participation fee rates at the levels that became effective in April 2014 and keeps the participation fee rates flat for the duration of the Rule.

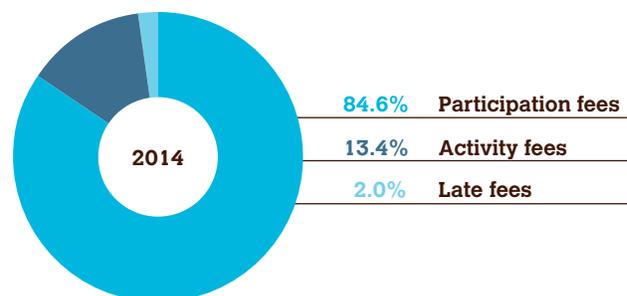
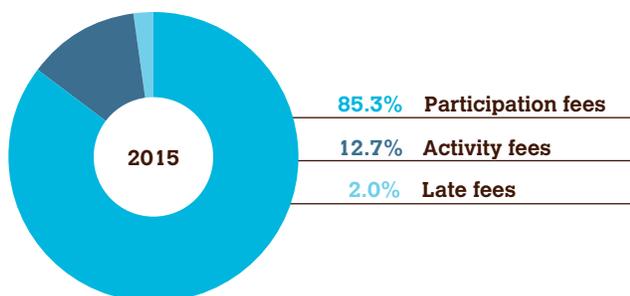
Activity fees are set to reflect the costs associated with providing the related services. Activity fee rates remained the same in 2015 as they were in 2014.

Revenue

Participation fee rate increases, which became effective at the beginning of the fiscal year, resulted in higher total revenue of \$103.9 million in 2015, up \$5.3 million (5.3%) from total revenue of \$98.7 million in 2014. Total revenue for the year exceeded plan by \$2.6 million (2.6%), with higher regulatory

fee revenue in most categories. Participation fees account for 39% of the variance, while activity fees account for 60% and late fees, miscellaneous revenue and investment income together account for 1% of the variance.

(Thousands)	% of 2015 Revenue	2015	2014	Change	% Change
Participation fees	85.3%	\$88,423	\$83,267	5,156	6.2%
Activity fees	12.7%	13,111	13,208	(97)	-0.7%
Late fees	2.0%	2,122	1,966	156	7.9%
Total fees	100.0%	\$103,656	\$98,441	5,215	5.3%
Miscellaneous		159	108	51	47.2%
Interest income		121	128	(7)	-5.5%
Total revenue		103,936	98,677	5,259	5.3%



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

Participation fees

2014 Plan	\$84.4 M
2014 Actual	\$83.3 M
2015 Plan	\$87.4 M
2015 Actual	\$88.4 M
2016 Plan	\$97.4 M

Variance from prior year: Participation fee revenues were \$5.2 million (6%) higher in 2015 than in 2014, primarily due to a \$1.3 million (4%) increase from reporting issuers, a \$2.6 million (5%) increase from registrants, as a result of the rate increases previously noted, and a \$1.3 million (127%) increase from marketplaces and other entities, which was primarily due to the timing of filings.

Variance from current year plan: Participation fee revenues were \$1.0 million (1%) higher than the 2015 plan. Issuer participation fees were \$1.9 million (5%) under plan due to the impact of consolidation and amalgamations of reporting issuers since the current fee rule was developed. Registrant participation fees are \$1.9 million (4%) higher than plan due to higher participation fees pertaining to prior years collected from unregistered investment fund managers who operated in Ontario prior to relying on an exemption from registration under MI 32-102 (Registration Exemptions for Non-Resident Investment Fund Managers). Participation fees from marketplaces and other entities were \$1.0 million (76%) higher than plan because some marketplaces and other entities filed and paid their fiscal 2016 fees in fiscal 2015, even though they were not due until April 30, 2015.

Activity fees

2014 Plan		\$13.7 M
2014 Actual		\$13.2 M
2015 Plan		\$11.6 M
2015 Actual		\$13.1 M
2016 Plan		\$14.7 M

2016 plan: The 2016 plan for participation fees totals \$97.4 million: \$39.1 million from issuers, \$56.7 million from registrants and \$1.6 million from marketplaces and other entities. This represents a \$9.0 million (10%) increase from 2015 actual results and a \$10.0 million (11%) increase from the 2015 plan. The anticipated increase is due to the change in the Rule, effective April 2015, which moves away from the reference fiscal year and therefore reflects the improved market conditions since 2011/2012, which are the periods which most participants' reference fiscal year relate to.

Variance from prior year: Activity fee revenues were \$97 thousand (1%) lower this year than the prior year. An increase in activity fees from reporting issuers totaling \$709 thousand (10%) has been realized as a result of an increase in volume for prospectus and exempt distribution filings. This was more than offset by a \$240 thousand (4%) decrease from registrants, primarily due to fewer investment funds prospectus filings and a \$566 thousand (81%) decrease for marketplaces and other entities, primarily due to fewer applications for relief.

Variance from current year plan: Activity fee revenues were \$1.6 million (13%) higher than plan for the current year. Issuer activity fees were higher than plan by \$377 thousand (5%), mainly due to higher exempt distribution filings, which were partially offset by lower applications for relief. Registrant activity fees were greater than plan by \$1.0 million (25%) as a result of higher than expected investment fund prospectus filings and greater than expected filings of applications for relief. Activity fees attributable to marketplaces and other entities were \$133 thousand (100%) higher than plan as no marketplace and other entity activities were expected for the year, given the one-time nature of these filings.

2016 plan: The 2016 plan for activity fees totals \$14.7 million: \$8.1 million from issuers, \$6.7 million from registrants and \$0 from marketplaces and other entities. This represents a \$1.6 million (12%) increase from the current year actual results and a \$3.2 million (27%) increase from the 2015 plan, which reflects higher activity fee rates for certain filings.

Late fees

2014 Plan		\$2.7 M
2014 Actual		\$2.0 M
2015 Plan		\$2.0 M
2015 Actual		\$2.1 M
2016 Plan		\$2.0 M

Variance from prior year: Late fee revenues were \$156 thousand (8%) higher than the prior year as a result of more exempt distributions filings submitted late than in the prior year.

Variance from current year plan: Late fee revenues were \$122 thousand (6%) higher than plan for the current year. This was also mainly due to more exempt distribution filings submitted late than planned.

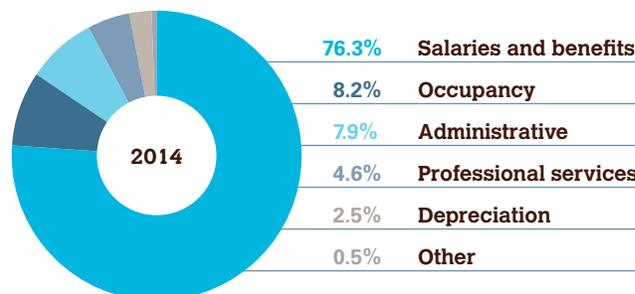
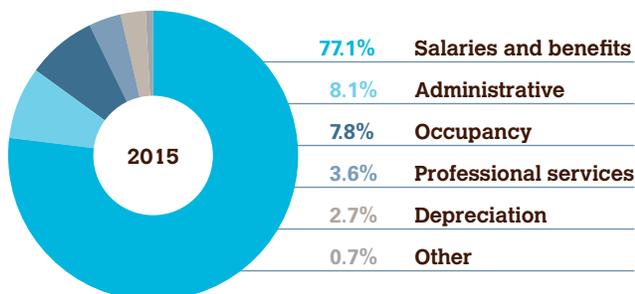
2016 plan: The 2016 plan for late fees totals \$2.0 million, which is consistent with the amount of late fee revenue that has been generated over the last two years.

Expenses

In 2015, our total expenses were \$98.9 million, up \$1.2 million (1%) from \$97.7 million in 2014 (excluding Recoveries of enforcement costs). Total expenses for the year were under plan by \$5.1 million (5%) before Recoveries of enforcement costs as a result of cost cutting and deferral initiatives.

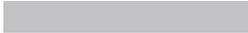
Targeted underspending in Salaries and benefits accounted for 38% of the variance, while 32% related to underspending in Professional services. Other areas of underspending included Administrative expenses and Depreciation.

(Thousands)	% of 2015 Expenses	2015	2014	Change	% Change
Salaries and benefits	77.1%	\$76,231	\$74,471	\$1,760	2.4%
Administrative	8.1%	8,017	7,761	256	3.3%
Occupancy	7.8%	7,741	7,997	(256)	-3.2%
Professional services	3.6%	3,551	4,446	(895)	-20.1%
Depreciation	2.7%	2,702	2,481	221	8.9%
Other	0.7%	628	507	121	23.9%
	100%	\$98,870	\$97,663	\$1,207	1.2%
Recoveries of enforcement costs		(2,995)	(508)	(2,487)	489.6%
Total expenses (net of recoveries)		\$95,875	\$97,155	\$(1,280)	-1.3%



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

Salaries and benefits

2014 Plan		\$76.9 M
2014 Actual		\$74.5 M
2015 Plan		\$78.2 M
2015 Actual		\$76.2 M
2016 Plan		\$80.7 M

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

Variance from prior year: Salaries and benefits were \$1.8 million (2%) higher this year than the prior year. This was a result of an increase in the average number of active positions coupled with salary increases implemented at the beginning of the year.

Variance from current year plan: Salaries and benefits were \$2.0 million (3%) lower than plan for the current year. This was a result of targeted cost-cutting measures, including maintaining vacancies for a longer than expected period of time, where possible.

2016 plan: The 2016 plan for Salaries and benefits totals \$80.7 million. This represents a \$4.5 million (6%) increase from the current year actual results and a \$2.5 million (3%) increase from the 2015 plan. The increase reflects an increased investment in the oversight of the derivatives and exempt markets, investor outreach and investment in IT. In addition, with the dissolution of the Investor Education Fund (IEF), the OSC will increase its focus on investors (including education) and will incur additional staffing costs toward this effort.

Administrative

2014 Plan		\$8.5 M
2014 Actual		\$7.8 M
2015 Plan		\$8.9 M
2015 Actual		\$8.0 M
2016 Plan		\$9.1 M

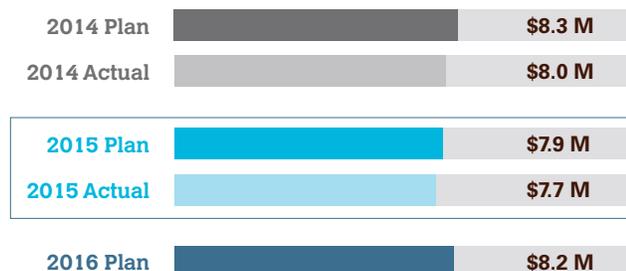
For details on the composition of Administrative expenses incurred, see **Note 16** of the financial statements.

Variance from prior year: Administrative expenses were \$256 thousand (3%) higher this year than the prior year. This was a result of higher information services costs to support our research and analysis.

Variance from current year plan: Administrative expenses were \$910 thousand (10%) lower than plan for the current year. This was primarily the result of reduced spending on training initiatives, coupled with reduced maintenance costs on IT due to more cost-effective alternatives sourced, or the deferral of planned costs.

2016 plan: The 2016 plan for Administrative expenses totals \$9.1 million. This represents a \$1.1 million (14%) increase from 2015 actual results and a \$217 thousand (2%) increase from the 2015 plan. The increase represents additional maintenance costs for our information systems deferred from 2015.

Occupancy

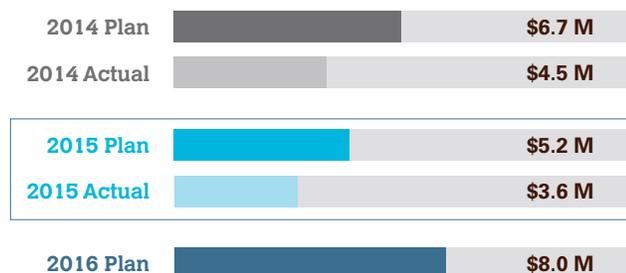


Variance from prior year: Occupancy expenses were \$256 thousand (3%) lower this year than the prior year as a result of higher sublease-related recoveries and more favourable realty tax costs in our space lease costs.

Variance from current year plan: Occupancy expenses were \$207 thousand (3%) lower than plan for the current year as a result of a reduction in property taxes included in our space lease costs.

2016 plan: The 2016 plan for Occupancy expenses totals \$8.2 million. This represents a \$470 thousand (6%) increase from the current year actual results and a \$263 thousand (3%) increase from the 2015 plan. The increase reflects an increase in leased space and expected additional costs for utilities.

Professional services

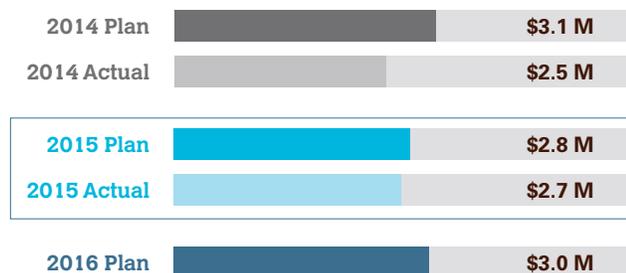


Variance from prior year: Professional services expenses were \$896 thousand (20%) lower this year than the prior year. This was due to targeted lower spending on consulting and other support on Enforcement matters, compared to 2014 by utilizing internal resources to a greater extent.

Variance from current year plan: Professional services expenses were \$1.6 million (32%) lower than plan for the current year as a result of targeted underspending, utilization of internal resources and deferral of certain initiatives.

2016 plan: The 2016 plan for Professional services expenses totals \$8.0 million. This represents a \$4.4 million (125%) increase from 2015 actual results and is to support the planned investments in derivatives oversight, investor outreach and IT enhancements.

Depreciation



Variance from prior year: Depreciation expense was \$221 thousand (9%) higher than the prior year due to an increase in the capital asset base.

Variance from current year plan: Depreciation expense was \$67 thousand (2%) lower than plan for the current year. This was because equipment and information systems purchases, which are capitalized, were incurred later than planned in the fiscal year.

2016 plan: The 2016 plan for Depreciation expense totals \$3.0 million. This represents a \$298 thousand (11%) increase from the current year actual results as new purchases begin to be depreciated.

CSA shared costs

As a member of the CSA, the OSC pays a portion of the costs to operate the CSA’s office and joint CSA projects. In 2015, total CSA spending on shared projects was \$1.8 million (\$1.9 million in 2014). The OSC contributed \$685 thousand (\$692 thousand in 2014). CSA shared costs expenses incurred by the OSC are included in Professional services expenses.

CSA project costs are allocated to each CSA member based on the population of its jurisdiction as a percentage of all participating jurisdictions. All CSA projects, including developing harmonized securities policies and rules, are coordinated through a central secretariat. In 2015, the OSC contributed \$393 thousand (\$331 thousand in 2014) to support the CSA Secretariat.

Liquidity and financial position

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

Liquidity

Cash

At March 31, 2015, the OSC held \$17.0 million in Cash (\$9.5 million in 2014) and \$20.0 million in Reserve fund assets (\$20.0 million in 2014), for a combined total of cash and cash equivalent resources available of \$37.0 million (\$29.5 million in 2014).

2014		\$9.5 M
2015		\$17.0 M

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

At March 31, 2015, the OSC had current assets of \$21.3 million (\$14.3 million in 2014) and current liabilities of \$16.1 million (\$18.3 million in 2014) for a current ratio of 1.3:1 (0.8:1 in 2014). The higher current ratio is due to the increase in our Cash balance as described below.

The OSC uses multi-year forward-looking operational forecasts to anticipate potential future cash requirements. In 2015, a slightly lower amount was drawn on the line of credit and for a slightly shorter period than in 2014. This resulted in a reduction in interest charges paid on the line of credit.

The OSC's Cash position increased \$7.5 million (78%) from 2014 as a result of an operational surplus in 2015 adjusted by investment in fixed assets. In 2015, we had an excess of revenue over expenses of \$8.1 million (\$1.5 million in 2014), and our year-end surplus was \$14.3 million (\$6.5 million in 2014).

Cash flows

In 2014, Cash flows from operating activities produced an inflow of \$9.2 million (\$5.4 million in 2014). Property, plant & equipment investments in 2015 consumed \$1.6 million (\$6.9 million in 2014). Financing activities, which consisted of interest on the line of credit, utilized \$101 thousand.

Approximately 76% of our revenues are received in the last quarter of each fiscal year, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in negative cash balances from the second quarter to the beginning of the fourth quarter of each fiscal year. The OSC currently uses two key tools to manage temporary negative cash positions: a \$20.0 million general operating reserve and a \$52.0 million revolving line of credit, both as approved by the Minister of Finance.

In 2015, we used all of our \$20.0 million in Reserve fund assets and \$19.5 million (\$24.0 million in 2014) of our revolving line of credit to fund operations. We repaid the full outstanding balance of the line of credit and restored the \$20.0 million in Reserve fund assets in early January 2015 when most registrant participation fees were received.

Financial instruments

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

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

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

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

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

Financial position

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

Trade and other receivables

Trade and other receivables were \$3.0 million (\$3.5 million in 2014). The decrease was primarily due to a decrease on the amount owing to the OSC as a recovery of HST.

For more information on Trade and other receivables, see **Note 4** and **Note 5** of the financial statements.

Prepayments

Prepayments totaled \$1.4 million (\$1.3 million in 2014), reflecting a 6% increase as a result of an increase in professional memberships and subscriptions for information services that were prepaid near the end of the fiscal year.

Funds held pursuant to designated settlements and orders

2014		\$18.6 M
2015		\$24.7 M

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

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

In 2015, \$53.0 million in orders was assessed (\$61.7 million in 2014). The OSC recorded \$10.6 million of that money in Funds held pursuant to designated settlements and orders (\$3.9 million in 2014). Of this amount, the OSC collected \$7.5 million in 2015 (\$1.8 million in 2014) and deemed \$2.1 million (\$1.9 million in 2014) as being collectible.

As authorized by its Board, the OSC distributed \$22 thousand (\$1.4 million in 2014) to harmed investors, \$2.1 million (\$3.3 million in 2014) to the IEF and \$2.5 million (\$500 thousand in 2014) to the Canadian Foundation for the Advancement of Investor Rights (FAIR Canada).

At March 31, 2015, the accumulated balance of designated funds was \$24.7 million (\$18.6 million in 2014). Of this amount, \$19.9 million was held in cash (\$13.9 million in 2014) and \$4.9 million was deemed as being receivable (\$4.7 million in 2014). After considering funds set aside for possible allocation to harmed investors, \$5.6 million of the funds on hand is available for distribution (\$8.4 million in 2014).

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

The IEF was dissolved on March 31, 2015. For more information on the IEF, see **Note 19** of the financial statements.

Collecting monetary sanctions

While the OSC actively works to collect outstanding sanction amounts, material differences between assessments and collections have persisted since we began imposing monetary sanctions. Historically, collection rates from market participants have been much higher than from respondents sanctioned on matters related to fraud – where assets are typically non-existent or inaccessible. Collections of monetary sanctions improved in 2015 primarily because two of the respondents are well-established firms that paid the sanctions assessed to them.

We continue to look for ways to improve our collections rates, including reviewing the experiences of other public and private sector organizations to identify methods that can be used by the OSC. We actively pursue collections using internal and external resources.

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

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

2013	Assessed	Collected	% Collected
Settlements	\$33,922,886	\$1,251,268	3.69%
Contested hearings	46,251,826	1,966,866	4.25%
Total	\$80,174,712	\$3,218,134	4.01%
2014	Assessed	Collected	% Collected
Settlements	\$16,010,927	\$1,230,469	7.69%
Contested hearings	45,664,682	538,300	1.18%
Total	\$61,675,609	\$1,768,769	2.87%
2015	Assessed	Collected	% Collected
Settlements	\$17,890,404	\$7,155,590	40.00%
Contested hearings	35,080,537	343,251	0.98%
Total	\$52,970,941	\$7,498,841	14.16%

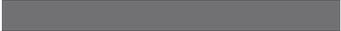
Reserve fund assets

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

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

Property, plant & equipment

Property, plant & equipment decreased 8% to \$12.6 million (\$13.7 million in 2014). The decrease is the result of delayed fixed asset acquisitions and the impact of depreciation of significant acquisitions in recent years.

2014		\$13.7 M
2015		\$12.6 M

For more information on Property, plant & equipment, see **Note 9** of the financial statements.

Trade and other payables

Trade and other payables decreased 12% to \$16.1 million (\$18.3 million in 2014). An increase in accrued salaries and related benefits accrued at the end of 2015 was more than offset by a decrease in Trade payables from the prior year due to lower IT capital purchases made and payable near the end of fiscal 2015 relative to 2014.

2014		\$18.3 M
2015		\$16.1 M

For more information on Trade and other payables, see **Note 10** of the financial statements.

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

Pension liabilities

The accrued supplemental pension plans' defined benefit obligation Pension liabilities of \$3.6 million (\$3.1 million in 2014) represents future obligations for supplemental pension plans for present and past Chairs and Vice-Chairs. Revisions to actuarial assumptions are the main reason for the increase. The OSC's related expenses for the year were \$262 thousand (\$247 thousand in 2014).

2014		\$3.1 M
2015		\$3.6 M

For more information on the supplementary pension plan and related defined benefit obligation see **Note 12(b)** of the financial statements.

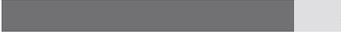
Net assets held for CSA Systems operations and redevelopment (formerly Net assets held for CSA Systems redevelopment)

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

The OSC, Alberta Securities Commission (ASC), British Columbia Securities Commission (BCSC) and l'Autorité des marchés financiers (AMF) are principal administrators (PAs) of the CSA Systems. The OSC has been appointed the Designated Principal Administrator – Operations (DPA). As DPA, the OSC oversees the custody and financial management of the system fees collected relating to CSA Systems use by market participants. The CSA IT Systems Project Office, which is housed at the OSC, manages the CSA Systems business relationships with third-party technology providers.

The Net assets held for CSA Systems operations and redevelopment includes all surplus funds accumulated from CSA Systems operations collected, held and administered by the DPA on behalf of the PAs. The use of these surplus funds is governed by various agreements between the PAs and the total is reflected in the Statement of financial position as both a Non-current asset and an equal offsetting Non-current liability of \$128.8 million (\$115.7 million in 2014).

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

2014		\$115.7 M
2015		\$128.8 M

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

For more information on Net assets held for CSA Systems operations and redevelopment, including current and prior year operating results, see **Note 7** and **Note 17(a)** of the financial statements.

2016 Strategy

Our plans and budget for fiscal year 2016

Statement of Priorities

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

The Statement of Priorities is our cornerstone accountability document.

On April 2, 2015, the OSC published its 2015-2016 OSC Draft Statement of Priorities – Request for Comments. The draft Statement of Priorities was open for public comment until June 1, 2015 and is available on the OSC website at www.osc.gov.on.ca.

2016 Budget approach

The 2016 OSC budget is focused on maintaining fiscal responsibility while investing in the following four key areas:

1. Improving investor education, outreach and advocacy through the creation of an integrated Office of Investor Policy, Education and Outreach
2. Developing and implementing a new regulatory framework (including supervision and oversight) for the derivatives market
3. Enhancing oversight of activities in the exempt market
4. Improving the OSC's use of IT and data to support a greater reliance on data and research

As a result, the 2016 budget is 7% higher than the 2015 budget. Salaries and benefits, which comprise \$80.5 million or 74% of the budget, represent an increase of \$4.3 million or 5.6% over 2015 spending. This is largely due to:

- new positions approved to support the investments noted above,
- full-year costs for vacancies and staff hired in 2015, and
- resources for work toward the successful implementation of the CCMR.

Budget amounts will decrease or remain flat in approximately 40% of the OSC's operating branches.

The capital budget primarily reflects costs to support the OSC's IT needs, including a data warehouse to support the oversight of the derivatives market.

2016 Plan

(Thousands)	2014-15 Budget	2014-15 Actual	2015-16 Budget	2015-16 Budget to 2014-15 Budget		2015-16 Budget to 2014-15 Actual	
				Change	% Change	Change	% Change
Revenue	\$101,325	\$103,936	\$115,782	\$14,457	14.3%	\$11,846	11.4%
Expenses	102,976	95,875	109,182	6,206	6.0%	13,307	13.9%
(Deficiency)/Excess of revenue over expenses	\$(1,651)	\$8,061	\$6,600	\$8,251		\$(1,461)	
Property, plant & equipment	\$3,349	\$1,616	\$3,101	\$(248)		\$1,485	

For more information on 2016 planned budget amounts for significant revenue and expense line items, see the Revenue and Expenses sections of this MD&A.

Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements

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

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

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

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

Sources of estimation uncertainty primarily consisted of the supplemental pension plan defined benefit obligation Pension liabilities, Funds held pursuant to designated settlements and orders, and Recoveries of enforcement costs.

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

Risks and risk management

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

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

Strategic risks

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

Strategic risk inventory

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

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

Business risks

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

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

Internal audit

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

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

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

Systems risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs extensive security and vulnerability assessments bi-annually to highlight potential areas of risk. All findings and key recommendations from these assessments are tracked along with a management response and target remediation date. The results of these assessments and the progress made to address these findings and recommendations are reported to the Audit and Finance Committee and are used to improve security of the OSC systems.

The OSC relies on CSA Systems, which are operated by CGI, to collect most of its fee revenue. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 – Type II) that reviews and evaluates the internal controls design and effectiveness of the CSA Systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually, with the most recent test performed in February 2015.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See **Note 17** of the financial statements for more information. No material change is expected in the volume of fees collected through these systems. In fiscal 2016, the CSA IT Systems Project Office intends to issue a competitive tender for redeveloping these systems.

Business continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. Offsite facilities tests are performed bi-annually. The BCP is continually reviewed and refined, and includes strategies to effectively address various market disruption scenarios.

Financial risk

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

The fee rules for fiscal years ending March 31, 2014 and 2015 introduced the concept of a reference fiscal year to calculate participation fees. This was expected to significantly reduce the impact of market fluctuations on participation fee revenue. However, market fluctuations continued to affect our ability to precisely forecast revenue. For fiscal years ending March 31, 2016, 2017 and 2018, we have returned to requiring participants to use their most recent fiscal year as the basis for calculating their participation fees. As a result, actual revenues received may be lower than plan, but are not expected to impair our operations.

Legal risk

Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. This year, no new legal actions were commenced against the OSC and one existing action against the OSC was dismissed by the court. It is not possible to determine the outcome and ultimate disposition of all other outstanding actions involving the OSC. However, management does not expect the outcome of any such proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Any settlements in these actions would be accounted for when they occur.

Internal control over financial reporting (ICFR)

A summary of our ICFR program results

During the year, the OSC's ICFR processes were reviewed and documentation updated where necessary. Operating effectiveness was tested using the framework and criteria established in "Internal Control – Integrated Framework (2013 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2015. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no significant changes in controls that occurred during the most recent year ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director, Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

The OSC transitioned to the 2013 Internal Control – Integrated Framework issued by COSO in 2015.