

# Chapter 1

## Notices / News Releases

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### 1.1 Notices

#### 1.1.1 OSC Notice 13-707 Fees under OSC Rule 13-502 Fees and OSC Rule 13-503 (Commodity Futures Act) Fees

##### **FEES UNDER OSC RULE 13-502 FEES AND OSC RULE 13-503 (COMMODITY FUTURES ACT) FEES**

**March 15, 2018**

#### **Introduction**

The fee structure under the *Securities Act* and the *Commodity Futures Act* was established in 2003. The OSC typically re-evaluates fee levels (the Fees) every three years. In 2017, after re-evaluating the Fees, the OSC has determined that no changes are required to OSC Rule 13-502 Fees or OSC Rule 13-503 (*Commodity Futures Act*) Fees (**Fee Rules**) at this time. Consequently, rates on OSC Fees will remain unchanged for a period of two years beginning April 1, 2018.

The fee structure is designed to recover the OSC's costs to provide protection to investors and promote efficient capital markets that are aligned with global markets. The two main types of fees charged under the Fee Rules are participation fees and activity fees.

Participation fees are based on the cost of a broad range of regulatory services that cannot be practicably or easily attributed to individual activities or entities. Participation fees are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Participation fees are calculated differently for reporting issuers, registrants and certain unregistered capital market participants, specified regulated entities and designated rating organizations.

Activity fees are generally charged when a document of a designated class is filed with the Commission or a request for service has been made. The set fee is based on an estimate of the average direct cost of Commission resources (labour and materials) utilized in performing an activity. Activity fees include charges for the following: prospectus reviews, registration applications, reports of exempt distribution, applications for discretionary relief and various other filings.

#### **Operating (Cash Flow) Requirements**

Since 2015, higher capital market growth has resulted in revenues being 3% higher over the three-year period (2015 – 2018) than was originally projected.

The cost of delivering OSC's mandate utilizes a disciplined approach to deliver on goals. To meet overall objectives, the framework is comprised of: a capital and operating program, resource management, treasury management and financial management oversight. Total costs over the three-year period (2015 – 2018) are 5% lower than original estimates.

#### **Rationale**

➤ ***Rates on OSC Fees will remain unchanged for a period of two years beginning April 1, 2018.***

The following reasons support maintaining existing rates:

- Although the OSC expects a modest surplus in fiscal 2018, the OSC anticipates annual cash flow deficits beginning fiscal 2019.
- Projected cash flows for the years 2018 to 2020 incorporate capital markets growth assumptions that will be lower than actual growth in the past few years. Various activity fees are expected to normalize over the next two years.
- As the complexity of the capital markets environment increases, investments in data and information systems are necessary to continue providing data driven, risk-focused, evidence-based regulatory oversight. Multi-year initiatives to modernize enforcement, case management and other technological tools are occurring. Capital funding is also required to support facilities rehabilitation within the existing OSC premises as a result of an

increasing resource complement to effectively deliver the core regulatory work and support strategic initiatives.

- The OSC's current average cash position is approximately 39% (four months) of total operating and capital expenditures and is expected to decline to 25% (three months) of total operating and capital expenditures by fiscal 2020. The existing cash position provides for an adequate cash safety margin over the next few years to allow the OSC to continue to carry out its mandate if unfavourable events require drawing down on the cash. The OSC's revenues, in particular revenue generated from participation fees (84% of total revenues), are directly tied to changes in firm, industry and general market growth. Should there be a market decline in the absence of an adequate reserve, rates would need to be revisited at that time.
- The resources employed in performing activities for which activity fees are charged were considered reasonably stable, warranting no changes to these fees at this time.

The OSC is committed to carefully monitoring capital market activities and impact on cash flows to assess whether fees charged to market participants continue to be appropriate. Cash flow requirements were considered beyond the two-year period to assess impact on the cash position given annual expenditures are expected to surpass revenues beginning fiscal 2019.

### Questions

Please refer your questions to:

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