

Balance sheet

AS AT MARCH 31

	2008	2007
ASSETS		
CURRENT		
Cash	\$ 64,571,100	\$ 58,770,149
Accounts receivable	1,652,856	1,707,830
Prepaid expenses	556,052	777,250
	66,780,008	61,255,229
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	4,882,802	5,611,341
FUNDS IN TRUST (Note 4)	23,927,009	16,174,925
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
PREMISES AND EQUIPMENT (Notes 6, 11(b))	2,657,985	3,229,307
	\$ 130,247,804	\$ 118,270,802
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 11,129,889	\$ 10,737,044
Current portion of obligation under capital leases (Note 11(b))	188,107	198,037
	11,317,996	10,935,081
NON-CURRENT		
Obligation under capital leases (Note 11(b))	61,076	246,743
Pension liabilities (Note 7(b))	1,549,038	1,409,779
	12,928,110	12,591,603
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	4,882,802	5,611,341
FUNDS IN TRUST (Note 4)	23,927,009	16,174,925
SURPLUS		
OPERATING		
General (Note 8)	56,411,639	51,794,689
Reserve (Note 5)	32,000,000	32,000,000
	88,411,639	83,794,689
CONTRIBUTED		
	98,244	98,244
	88,509,883	83,892,933
	\$ 130,247,804	\$ 118,270,802

Investor Education Fund (Note 13)

Commitments and Contingencies (Notes 9,11)

See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION



W. David Wilson

CHAIR AND CHIEF EXECUTIVE OFFICER

MAY 9, 2008



Suresh Thakrar

CHAIR, AUDIT AND FINANCE COMMITTEE

Statement of operations and operating surplus

FOR THE YEAR ENDED MARCH 31

	2008	2007
REVENUES		
Fees (Note 8)	\$ 74,693,885	\$ 67,784,003
Investment income	3,416,824	3,139,931
Miscellaneous	127,473	143,024
	78,238,182	71,066,958
EXPENSES		
Salaries and benefits (Notes 10, 12(c))	55,609,264	51,507,726
Administrative	5,655,113	5,142,855
Occupancy (Note 11(a))	5,532,809	5,103,973
Professional services (Note 10)	4,444,510	4,826,948
Amortization	1,483,247	1,771,296
Other	896,289	951,410
	73,621,232	69,304,208
EXCESS OF REVENUES OVER EXPENSES	4,616,950	1,762,750
OPERATING SURPLUS, BEGINNING OF PERIOD	83,794,689	82,031,939
OPERATING SURPLUS, END OF PERIOD	\$ 88,411,639	\$ 83,794,689
REPRESENTED BY:		
General	\$ 56,411,639	\$ 51,794,689
Reserve	32,000,000	32,000,000
	\$ 88,411,639	\$ 83,794,689

See accompanying notes to Financial Statements.

Statement of cash flows

FOR THE YEAR ENDED MARCH 31

	2008	2007
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	\$ 4,616,950	\$ 1,762,750
Items not affecting cash		
Pension liabilities	139,259	177,991
Loss on disposal of premises and equipment	4,656	3,896
Amortization	1,483,247	1,771,296
	6,244,112	3,715,933
Changes in non-cash working capital:		
Accounts receivable	54,974	(237,831)
Prepaid expenses	221,198	(439,489)
Accounts payable and accrued liabilities	392,845	809,262
	669,017	131,942
	6,913,129	3,847,875
Cash flows from financing activities		
Repayment of obligations under capital leases	(221,403)	(147,959)
	(221,403)	(147,959)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	-	615
Purchase of premises and equipment (Note 6)	(890,775)	(830,459)
	(890,775)	(829,844)
NET INCREASE IN CASH POSITION	5,800,951	2,870,072
CASH POSITION, BEGINNING OF PERIOD	58,770,149	55,900,077
CASH POSITION, END OF PERIOD	\$ 64,571,100	\$ 58,770,149

See accompanying notes to Financial Statements.

1. Nature of the corporation

The Ontario Securities Commission (the "OSC") is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. Significant accounting policies

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

a. Financial instruments

Effective April 1, 2007, the OSC adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) pertaining to financial instruments. These standards establish guidance for the recognition and measurement of financial assets and liabilities and how financial instrument gains and losses should be accounted for. Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held-to-maturity, loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest method.

The OSC has adopted the following classifications for financial assets and financial liabilities:

- > Cash, Funds held pursuant to designated settlements and orders, Funds in trust and Reserve fund assets are classified as held-for-trading and recorded at fair value.
- > Accounts receivable are classified as loans and receivables and are valued at face value which approximates fair value given their short-term maturities.
- > Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value which approximates fair value given their short-term maturities.

It is management's opinion that the OSC is not exposed to significant interest rate, currency, liquidity or credit risks arising from its financial instruments due to their short-term nature.

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of our performance to developments affecting a particular industry or geographic location. The OSC's Cash, Funds held pursuant to designated settlements and orders, and Funds in trust are held in a Schedule 1 bank and Reserve fund assets are invested with the Ontario Financing Authority, an agency of the Government of Ontario. Together, these two counterparties hold approximately 96% of the OSC's financial assets; however, given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

Notes to the financial statements

MARCH 31, 2008

b. Premises and equipment

Premises and equipment is 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

c. Revenues

Fees are recognized when earned, which is normally upon receipt.

Participation fees are recognized when received because these fees represent the payment for the right to participate in the Ontario capital markets.

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

Late filing fees for insider trading "reports" are recognized on the 15th and at the end of each month and include all insider trading reports filed late in the preceeding 15-day period.

Recoveries of costs of investigations are recorded as offsets to the relevant expense on the date a settlement is approved or an order issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d. Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e. Employee benefit plans

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

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in Note 7(b). The OSC accrues its obligations and the related costs under these unfunded supplemental 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. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus as described in Note 12(c).

3. Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. The balance includes a settlement for \$1,900,000, the distribution of which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.75%.

As at March 31, 2008, the accumulated balance is determined as follows:

	2008	2007
Opening balance	\$ 5,611,341	\$ 4,700,795
Settlements and Orders	786,694	711,883
Interest	234,767	215,663
Payments (Note 13(b)(i))	(1,750,000)	(17,000)
Closing balance	\$ 4,882,802	\$ 5,611,341
Represented by:		
Cash	\$ 4,831,486	\$ 5,591,158
Receivables	51,316	20,183
	\$ 4,882,802	\$ 5,611,341

4. Funds in trust

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval ("SEDAR"), the National Registration Database ("NRD"), and the System for Electronic Disclosure by Insiders ("SEDI") representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2008 were \$23,927,009 (2007 – \$16,174,925) representing total payments received to date of \$22,440,872 (2007 – \$15,464,752) and interest earned of \$1,486,137 (2007 – \$710,173). These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L'Autorité des marchés financiers. In the case of NRD, the Investment Dealers Association of Canada is also a party to the agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

5. Reserve fund assets

- a. 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 OSC. The accumulated funds, at March 31, 2008, have been invested in six-month and one-year Government of Ontario treasury bills with the Ontario Financing Authority.
- b. As part of the approval of its self-funded status, the OSC was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures.

Notes to the financial statements

MARCH 31, 2008

- c. The May 2, 2000 Budget proposed 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. At March 31, 2008, legislation has not yet been introduced.

The OSC received approval in 2002 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 OSC, the monies will be invested with the Ontario Financing Authority.

6. Premises and equipment

	Cost	Accumulated amortization	2008 net book value	2007 net book value
Office furniture	\$ 3,490,205	\$ 3,096,044	\$ 394,161	\$ 512,288
Office equipment	581,181	409,533	171,648	228,933
Computer hardware and related applications	11,963,964	11,036,869	927,095	967,183
Computer hardware and related applications held under capital leases	656,734	546,978	109,756	399,414
Leasehold improvements	7,235,747	6,180,422	1,055,325	1,121,489
	\$ 23,927,831	\$ 21,269,846	\$ 2,657,985	\$ 3,229,307

During the year, premises and equipment were acquired at an aggregate cost of \$916,581 (2007 – \$988,052) of which \$25,806 (2007 – \$157,593) was acquired by means of capital leases.

7. Pension plans

- a. All eligible OSC employees and members must participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2008 was \$3,011,765 (2007 – \$2,684,244) which is included in salaries and benefits.
- b. The OSC also has unfunded supplemental pension plans for the OSC's current and former Chairs and Vice-Chairs. They had an accrued benefit obligation (ABO) of \$1,327,235 at March 31, 2008 (2007 – \$1,311,797) and an accrued benefit liability (ABL) of \$1,549,038 (2007 – \$1,409,779). The difference between the ABO and the ABL represents the unamortized net actuarial gain of \$221,803 (2007 – \$97,982). The OSC's expense related to the supplemental pension plans for the year was \$238,220 (2007 – \$248,910) and is included in salaries and benefits. Benefits totalling \$98,961 were paid during the year (2007 – \$70,919). The average remaining service lifetime of the active members covered by these plans ranges from 3.58 to 4.89 years at March 31, 2007 (2006 – .85 to 4.59 years); the 2007 figures were used for amortization purposes in fiscal 2008. The average life expectancy of the non-active members ranges from 17.03 to 34.03 years at March 31, 2007 (2006 – 18.13 to 24.22 years). The significant actuarial assumptions adopted at March 31, 2008 include a discount rate of 5.9% (2007 – 4.75%) on the ABO, 4.75% (2007 – 5.0%) on the benefit cost and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2007 – 2.1% to 3.0%).

8. Fees

The OSC's fee structure is designed to generate fees that reflect the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Under this fee model, the OSC sets fees estimated to reflect the cost of regulation over a three-year horizon. The forecasted General Operating Surplus at March 31, 2006, was used to establish a revised level of participation fees for the three-year cycle which began April 1, 2006. Similarly, the forecasted General Operating Surplus at March 31, 2009 will be used to establish a revised level of participation fees for the three-year cycle which begins April 1, 2009.

Details of fees received for the year ended March 31, 2008 are as follows:

	2008	2007
Participation Fees	\$ 60,912,202	\$ 54,813,878
Activity Fees	11,027,587	10,731,993
Late Filing Fees	2,754,096	2,238,132
Total	\$ 74,693,885	\$ 67,784,003

9. Commitments and contingencies

- a. The OSC has committed to paying 45.1% of annual shortfalls resulting from the operations of 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. As described in Note 4, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2008, \$16,060,621 (2007 – \$12,485,730) of the total funds held in trust are available for SEDAR.

- b. The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time, however, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

10. Recovery of costs of investigations

In 2008, the OSC applied \$1,479,824 (2007 – \$185,000) in recoveries of the costs of investigations against salaries and benefits and \$89,176 (2007 – \$34,911) against professional services.

11. Lease commitments

a. Operating leases

The OSC has entered into operating lease agreements for equipment and office space and is committed to operating lease payments as follows:

2009	\$ 5,802,145
2010	\$ 5,848,615
2011	\$ 5,898,860
2012	\$ 5,871,962
2013	\$ 2,444,000

There are currently no lease commitments beyond 2013.

b. Capital leases

The OSC has entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the OSC, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. The total interest expense recorded on the lease obligations for the year ended March 31, 2008 is \$21,402 (2007 – \$22,581). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before August 16, 2010:

Year ending March 31,	
2009	\$ 196,672
2010	59,082
2011	3,906
Total minimum lease payments	259,660
Less: Amount representing interest at 6%	10,477
Balance of the obligation	<u>\$ 249,183</u>

The total obligations under capital leases of \$249,183 consists of a current portion of \$188,107 and a non-current portion of \$61,076.

12. Transactions with Province of Ontario

In the course of normal operations, the OSC 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 OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 8 and the OSC's practice of setting fees in three-year cycles, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.
- b. The OSC has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c. Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

13. 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 OSC oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the OSC's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2008 and 2007 and for the two years ended March 31, 2008 are as follows:

	2008	2007
FINANCIAL POSITION		
Total assets	\$ 2,170,222	\$ 2,535,910
Less:		
Total liabilities	238,704	355,542
Total net assets	1,931,518	2,180,368
Invested in premises and equipment	954,130	1,617,925
Available for Fund purposes	\$ 977,388	\$ 562,443
RESULTS OF OPERATIONS		
Total contributions and interest income	\$ 1,795,062	\$ 97,277
Total expenses	2,043,912	1,735,155
Deficiency of revenue over expenses	\$ (248,850)	\$ (1,637,878)
CASH FLOWS		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	\$ 1,750,000	\$ –
Investment income received	44,819	104,415
Cash paid for initiatives and expenses	(1,348,837)	(1,393,492)
Cash paid for premises and equipment	(120,506)	(1,123,266)
Net increase/(decrease) in cash position	325,476	(2,412,343)
Cash position, beginning of period	883,951	3,296,294
Cash position, end of period	\$ 1,209,427	\$ 883,951

- b. During the year, the OSC entered into transactions with the Fund as follows:
- i) The Board of the OSC authorized transfers totalling \$1,750,000 to the Fund (2007 – \$0). These transfers were from Funds held pursuant to designated settlements and orders, as described in Note 3.
 - ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services at cost.

For the period ended March 31, 2008, the OSC incurred costs totalling \$440,763 (2007 – \$565,788) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, \$117,562 is owing to the OSC as of March 31, 2008 (2007 – \$103,327).

Notes to the financial statements

MARCH 31, 2008

14. Changes in accounting standards

The CICA issued a new standard dealing with the disclosure of information about an entity's capital and how it is managed by requiring the entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The CICA also issued new standards with respect to the disclosure and presentation of financial instruments, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These new standards will be effective for the March 31, 2009 financial statements and it is management's opinion that these new standards will not materially impact the OSC's financial statements.

15. Comparative figures

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