OSC ONTARIO SECURITIES COMMISSION

MD&A

Management's Discussion And Analysis

For the year ended March 31, 2021

Ontario Securities Commission

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the Ontario Securities Commission's (OSC) financial performance for the fiscal year ended March 31, 2021. 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 2021 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about the OSC's performance.

Important information about this MD&A

- The information in this MD&A is prepared as of June 14, 2021.
- The terms "we", "us", "our," "Commission" 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.
- 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 2021 Notes to the Financial Statements.
- All financial information related to the current and preceding fiscal years has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, Note 2 *Basis of presentation*, Note 3 *Significant accounting policies* and Note 21 *Accounting pronouncements*.
- Amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise specified.
- Due to rounding, some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components.

About the OSC

A summary of our role, mandate, and goals

The Ontario Securities Commission is responsible for regulating the capital markets of Ontario. We are an independent self-funded Crown corporation of the Province of Ontario. Our powers are given to us under the *Securities Act* (Ontario), the *Commodity Futures Act* (Ontario) and certain provisions of the *Business Corporations Act*.

We operate independently from the government and are funded by fees charged to market participants. We are accountable to the Ontario Legislature through the Minister of Finance.

The OSC operates under the direction of the members of the Commission. The members have three distinct functions in support of the OSC's mandate – making policies and rules, serving as the board of directors, and adjudicating. As policy and rule-makers, members of the Commission approve and oversee the implementation of regulatory initiatives and priorities. As directors of the Board, they oversee the management of the financial and operational affairs of the OSC. As adjudicators, Commission members (other than the Chair and CEO who does not adjudicate) act independently of their other roles and preside over administrative proceedings brought before the OSC's Tribunal – the administrative tribunal that is assigned the power to conduct hearings under Ontario securities law and commodity futures law.

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

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

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

Mandate

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

Vision

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

Goals

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

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

About Our Fees

The OSC is funded by fees from market participants and we typically re-evaluate fee rates every three years. 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* ("Fee Rules"). When re-evaluating fee rates, the OSC considers the existing surplus, projected level of revenue and expenses, capital spending and the level of cash resources required to fund operations through capital market downturns. In 2020 we performed an analysis of our fee rates, but many of the underlying assumptions have since changed in light of COVID-19. We anticipate reassessing Fee Rule amendments including fee rates once market conditions stabilize and the direction on adoption of the Ontario Government's Capital Markets Modernization Taskforce (Taskforce) recommendations is finalized.

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. Fees are calculated, using an increasing tiered structure, based on average market capitalization for issuers and Ontario specified revenues for registrants. Other market participants are charged participation fees based on their market share or a fixed rate. The basis for calculating participation fees is on a market participants' most recent fiscal year. 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, and are set to reflect the costs associated with providing the related services. 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.

2021 Organizational Developments

Novel Coronavirus Disease (COVID-19)

In response to the unprecedented turbulence created by COVID-19, we adjusted our operational focus to include increased support to employees, investors, and market participants. We delivered investor information initiatives relevant to the situation created by COVID-19 while also seeking new and innovative ways to provide investor education and support retail investors in today's complex and uncertain investing environment. We supported market participants through various regulatory relief measures such as regulatory filing exemptions, extensions, and temporary relief from late fees. We transitioned our workforce to a virtual environment while maintaining operational effectiveness. Our enforcement activities remain robust, as we shifted from in-person to virtual investigations, interviews, and hearings. We continue to collaborate with the Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC) by identifying and implementing support measures for market participants where appropriate.

At the onset of the pandemic, the OSC implemented a targeted cost reduction plan to address the potential revenue implications from uncertain capital market conditions. While we delivered on the majority of the targets outlined in our Statement of Priorities, a key element of the cost reduction plan included deferring some capital expenditure programmes that would create the least disruption to fulfilling our mandate.

The markets have so far proven themselves to be largely resilient, having recovered from the initial stresses experienced in March and April 2020. Staff workload significantly increased as they reviewed 645 public company prospectuses, up 67% from the previous fiscal year, and enforcement case assessments increased by 10.2%. We continue to monitor market developments and operational workload to assess whether additional operating capacity is required. The OSC continues to remain flexible through our financial management oversight framework, which makes the necessary resources available to meet shifting organizational demands during these difficult times while still maintaining cost prudency.

Ontario Capital Markets Modernization Taskforce

The OSC embraces the Government of Ontario's commitment to making Ontario's capital markets globally competitive and to making Ontario an attractive place in North America in which to invest, grow businesses, and create jobs. In its 2021 budget, the Ontario government announced that it would seek to advance the recommendations made by the Taskforce in its final report, published on January 22, 2021. Though it continues to review the report, the government has stated that it will adopt Taskforce recommendations to enhance the structure of the OSC and expand the OSC's mandate, as defined in the new standalone Securities Commission Act. The mandate has been expanded to include fostering capital formation and competition in the markets to facilitate economic growth. Under the new structure, the previous OSC Chair and Chief Executive Officer (CEO) role will be split into two distinct and separate positions of Chair and CEO. In addition, the OSC's Board will continue to provide financial, regulatory and operational oversight while a separate Tribunal will be created to oversee adjudicative matters. The government anticipates publishing for comment a draft *Capital Markets Act* to replace the current *Securities Act* and incorporate some of the Taskforce recommendations that require legislative changes.

The OSC is also conducting an analysis to inform its regulatory consultation process on the Taskforce's recommendations that fall within the purview of OSC rules.

Chair and CEO extension

The term of Grant Vingoe, Chair and CEO of the OSC, has been extended by the Ontario Ministry of Finance for up to one year, effective April 15, 2021. His extension will ensure continuing executive leadership as the OSC transitions into the new governance framework and other proposed changes under the new standalone Securities Commission Act.

Workforce challenges

Our ability to meet identified goals and strategic objectives in a remote environment is dependent upon having sufficient and appropriate resources. Attracting, motivating, and retaining top talent with specialized knowledge in a competitive environment continues to be a priority. While the number of permanent full-time staff remained relatively stable throughout the year, the OSC remains flexible in adjusting our workforce in response to higher volumes of regulatory activities and the Government of Ontario's direction on the Taskforce recommendations.

Cooperative Capital Markets Regulatory System (CCMR)

Effective March 31, 2021, the Board of Directors of the Capital Markets Authority Implementation Organization (CMAIO) put a pause on its operations. The development of a Cooperative Capital Markets Regulatory System has been delayed, as the participating governments—including British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, and the Yukon, in addition to the Federal government—continue to take action in response to the COVID-19 pandemic. Steps have been taken to preserve knowledge, assets, and output so that CMAIO's work can be resumed at a future time when there is greater certainty around a cooperative system launch timeline.

Financial Highlights

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

As a self-funded Crown corporation, the Ontario Securities Commission (OSC) operates on a cost-recovery basis. The chart below provides a comparison of our results over the last two years. The general surplus on March 31, 2021 was $89.0 million, which increased by $9.9 million from the previous year.

Total revenue for the fiscal year ended March 31, 2021 was $4.0 million (3.0%) higher than the previous year. The increases in revenue were the result of higher capital markets participation fees from growth in Ontario's financial markets and higher capital raising activity fees. Total expenses before recoveries and finance costs were $2.8 million (2.2%) higher than the previous year, primarily due to an increase in salaries and benefits partially offset by lower professional services.

Total assets and liabilities increased by $13.4 million and $3.5 million, respectively. The growth in assets was primarily in cash as a result of excess of revenue over expenses.

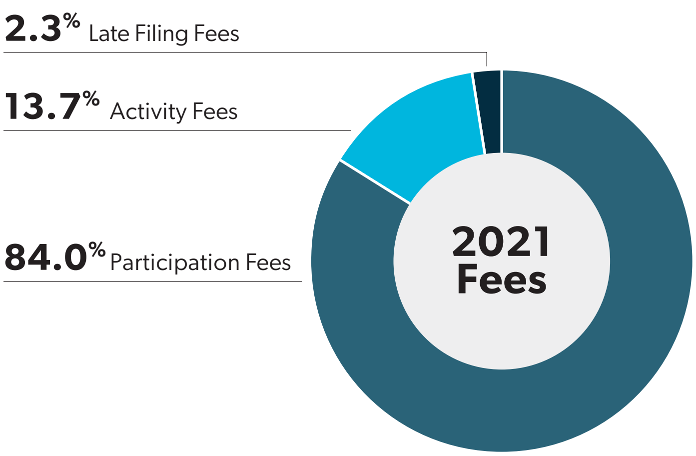
The increase in liabilities was primarily attributed to an increase in the vacation accrual as staff took less vacation during the year, and timing of vendor and staff payments partially offset by a decrease in lease liabilities.

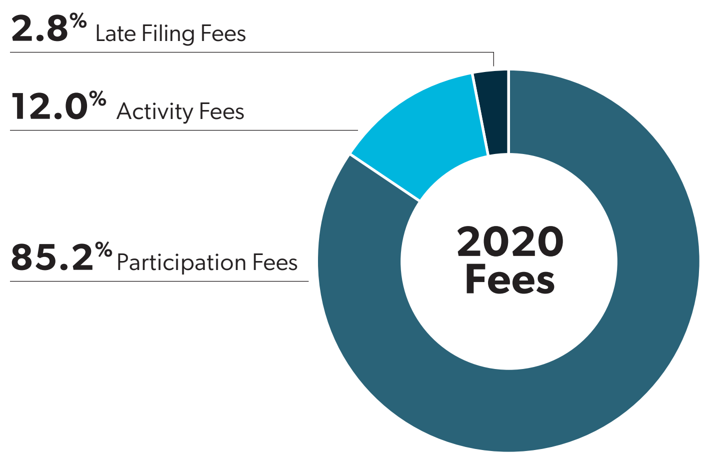
(Thousands of dollars)		2021 Actual		2020 Actual		2019 Actual
Revenue	$	138,434	$	134,396	$	129,353
Expenses		127,972		123,087		117,488
Excess of revenue over expenses	**$**	**10,462**	**$**	**11,309**	**$**	**11,865**
General surplus	$	88,982	$	79,080	$	67,516
Property, plant, equipment and intangibles (additions)	$	3,810	$	3,839	$	5,657
Total assets*	**$**	**460,293**	**$**	**446,915**	**$**	**340,233**
Total liabilities*	**$**	**351,312**	**$**	**347,835**	**$**	**252,717**

*Totals in 2021 includes $267.6 million of restricted funds from designated orders and settlements as well as funds collected by the CSA to operate and redevelop national systems (2020- $267.1 million, 2019- $227.4 million).

Revenue

For the fiscal year ending March 31, 2021, total revenue of $138.4 million was $4.0 million (3.0%) higher than 2020 and $8.1 million (6.2%) higher compared to budget. This increase is due to higher participation fees and higher capital raising activity fees.

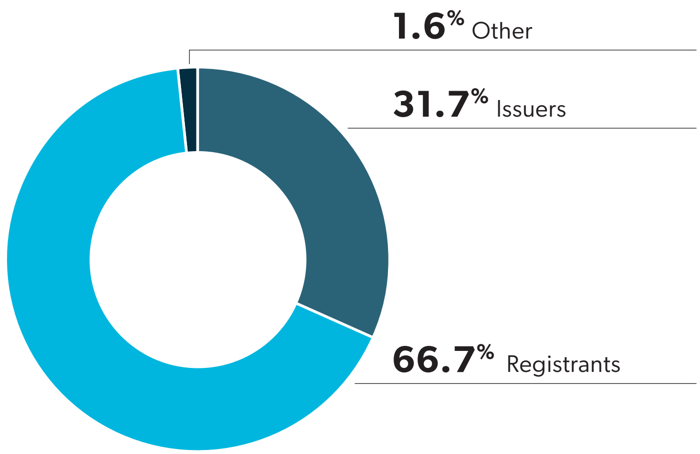




(Thousands of dollars)	2021 Actual	2021 Budget	2020 Actual	Variance Favourable/(Unfavourable) Budget		Prior Year	
REVENUE				**$**	**%**	**$**	**%**
Participation fees	$ 115,272	$ 110,441	$ 112,610	$ 4,831	4.4%	$ 2,662	2.4%
Activity fees	18,816	15,350	15,918	3,466	22.6%	2,898	18.2%
Late filing fees	3,165	2,955	3,695	210	7.1%	(530)	-14.3%
Total fees	**$ 137,253**	**$ 128,746**	**$ 132,223**	**$ 8,507**	**6.6%**	**$ 5,030**	**3.8%**
Miscellaneous	$ 689	$ 574	$ 763	$ 115	20.0%	$ (74)	-9.7%
Interest income	492	992	1,410	(500)	-50.4%	(918)	-65.1%
Total revenues	**$ 138,434**	**$ 130,312**	**$ 134,396**	**$ 8,122**	**6.2%**	**$ 4,038**	**3.0%**

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

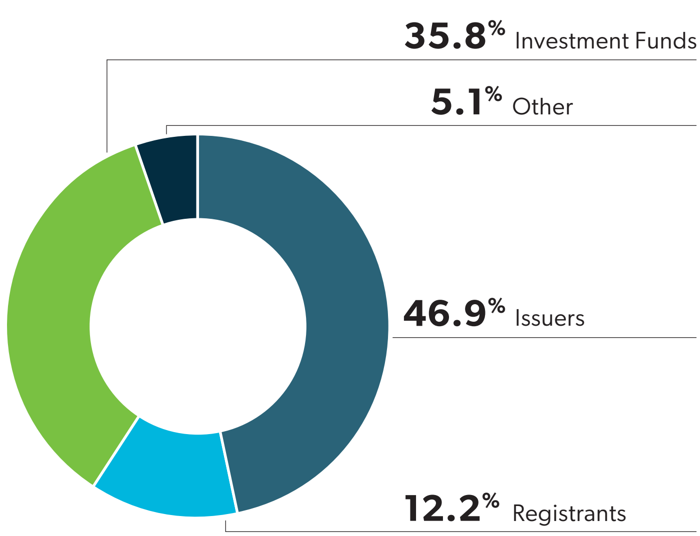
Participation Fees



Participation fee levels are set using a tiered structure based on Ontario specified revenues for registrants and unregistered capital market participants and on average market capitalization for reporting issuers. In 2021, participation fee revenues were $2.7 million (2.4%) higher compared to 2020, largely owing to growth in revenue from registrant firms and unregistered capital market participants moving them into higher fee tiers.

Participation fee revenues were $4.8 million (4.4%) higher in 2021 compared to budget, primarily from registrants and unregistered capital market participants.

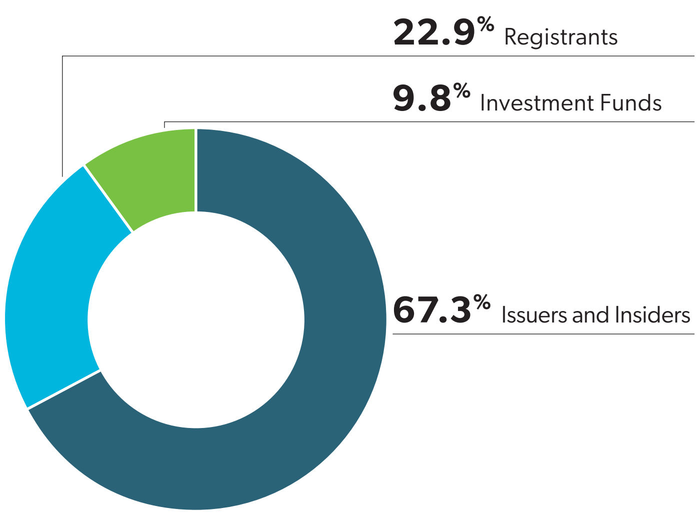
Activity Fees



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

Activity fee revenues were $2.9 million (18.2%) higher in 2021 compared to 2020, and $3.5 million (22.6%) higher compared to budget, mostly as a result of an increase in capital raising activities for issuers, including investment funds.

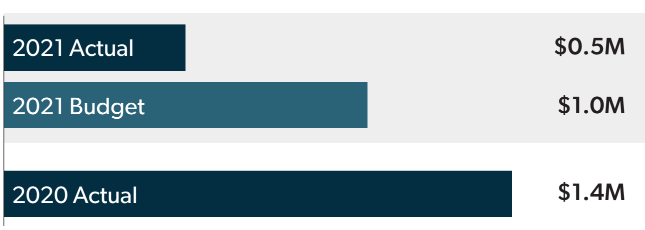
Late Fees



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

Late fee revenues in 2021 were $0.5 million (14.3%) lower compared to 2020 mainly due to a temporary waiver on late fees for part of the fiscal year as a COVID-19 accomodation for market participants. Late fee revenues were comparable to the 2021 budget.

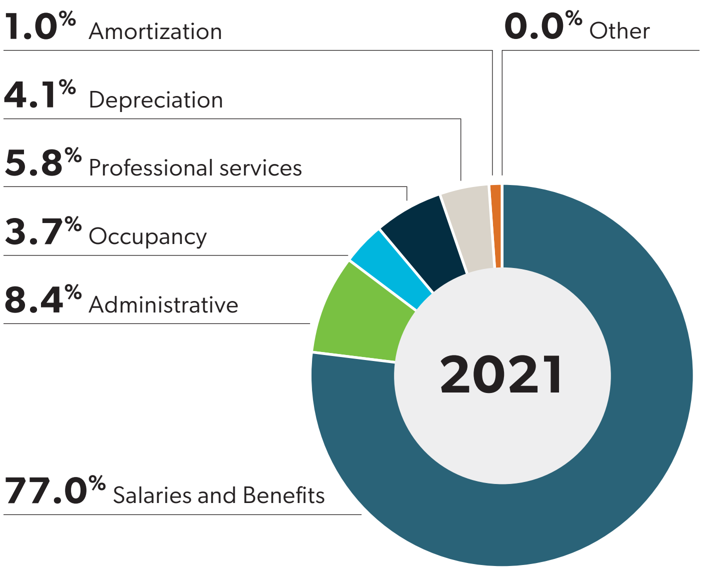
Interest

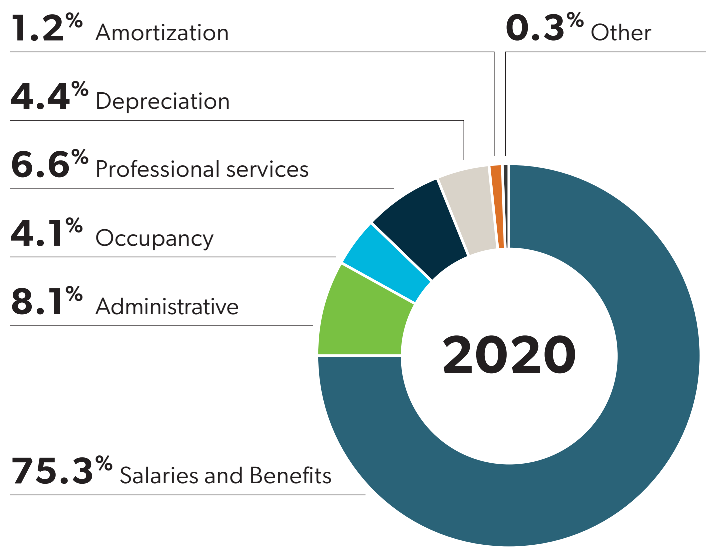


Interest income is received for cash and reserve balances held at Canadian banking institutions. As balances held at banking institutions and interest rates fluctuate throughout the year, so does the level of interest income received. Interest income in 2021 was $0.9 million (65.1%) lower compared to 2020 and $0.5 million (50.4%) lower compared to budget as result of a lower average interest rate of 0.63% received in 2021 compared to 2.08% in 2020.

Expenses

For the fiscal year ending March 31, 2021, total expenses before recoveries and finance costs of $129.1 million was $2.8 million (2.2%) higher than 2020 and $6.9 million (5.1%) lower compared to budget. The increase compared to 2020 is primarily due to an increase in salaries and benefits partially offset by lower professional services.





(Thousands of dollars)	2021 Actual	2021 Budget	2020 Actual	Variance Favourable/(Unfavourable) Budget		Prior Year	
EXPENSES				**$**	**%**	**$**	**%**
Salaries and benefits	$ 99,330	$ 97,645	$ 95,099	$ (1,685)	-1.7%	$ (4,231)	-4.4%
Administrative	10,808	13,337	10,188	2,529	19.0%	(620)	-6.1%
Occupancy	4,779	5,427	5,137	648	11.9%	358	7.0%
Professional services	7,538	11,117	8,304	3,579	32.2%	766	9.2%
Depreciation	5,268	6,119	5,540	851	13.9%	272	4.9%
Amortization	1,309	1,521	1,521	212	14.0%	212	14.0%
Other	47	839	482	792	94.4%	435	90.2%
Total expenses (before recoveries and finance costs)	**$ 129,079**	**$ 136,005**	**$ 126,271**	**$ 6,926**	**5.1%**	**$(2,808)**	**-2.2%**
Finance costs	$ 1,900	$ 1,820	$ 1,793	$ (80)	-4.4%	$ (107)	-6.0%
Recoveries of insurance proceeds net of loss on asset disposals	—	—	(622)	—	—	(622)	-100.0%
Recoveries of enforcement costs	(528)	(1,000)	(2,993)	(472)	-47.1%	(2,465)	-82.4%
Recoveries of investor education and knowledge enhancement costs	(2,479)	(1,682)	(1,362)	797	47.5%	1,117	82.0%
Total expenses	**$ 127,972**	**$ 135,143**	**$ 123,087**	**$ 7,171**	**5.3%**	**$(4,885)**	**-4.0%**

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

Salaries and Benefits

The OSC's largest cost is salaries and benefits, representing 77.0% of total expenses (before recoveries and finance costs). In 2021, salaries and benefits were $4.2 million (4.4%) higher compared to 2020, primarily as a result of performance-based compensation increases, and an increase in expenses for unused vacation time. The OSC's average active headcount increased by 3 positions to 575 in 2021 from 572 in 2020.

Salaries and benefits expenses were $1.7 million (1.7%) higher compared to budget, primarily due to an increase in expenses for unused vacation time.

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

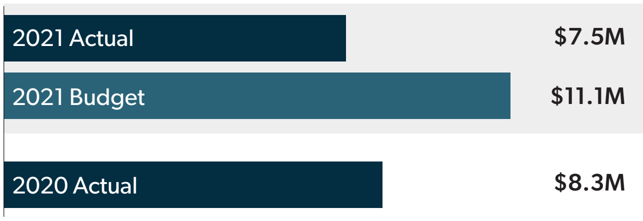
Administrative

Administrative expenses primarily consist of ongoing information technology (IT) maintenance and support charges, Commission expenses, research, and stakeholder outreach costs. Administrative expenses were $0.6 million (6.1%) higher compared to 2020, primarily due to higher IT maintenance costs as we continue to invest in cloud hosted software.

Administrative expenses were $2.5 million (19.0%) lower compared to budget. Information technology, research, and stakeholder outreach costs were lower than budget due to cost-reduction measures introduced during the year, resulting in deferring IT projects to 2022. Additionally, cost savings arose from lower monthly usage fees on select IT applications. Commission expenses were lower as a result of fewer hearings and Commissioners compared to budget.

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

Professional Services



Professional services include consultants who provide specialized services to meet corporate and regulatory needs and CSA shared costs. As a member of the CSA, the OSC paid 38.8% (38.7% in 2020) of the costs to operate the CSA's office and joint CSA projects based on the population of its jurisdiction as a percentage of all participating jurisdictions.

Professional services expenses were $0.8 million (9.2%) lower compared to 2020 and $3.6 million (32.2%) lower compared to budget primarily as a result of cost reduction measures including lower spend on IT projects, and decreased spending on external legal services on collections of unpaid monetary sanctions and enforcement matters. In 2021, total CSA spending on shared projects was $2.5 million ($2.3 million in 2020). The OSC contributed $1.0 million ($0.9 million in 2020).

Recovery of Enforcement Costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date that a monetary sanction is issued, unless management determines that collecting the monetary sanction is significantly doubtful, in which case, recovery is recognized when payment is received. In 2021, $0.5 million in enforcement costs were recorded ($3.0 million in 2020).

Recovery of Investor Education and Knowledge Enhancement Costs

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

During the year, the OSC recorded $2.5 million in recoveries of investor education and knowledge enhancement costs from funds held pursuant to designated settlements and orders ($1.4 million in 2020). The increase is primarily due to a recovery of OSC website redevelopment costs, and behavioural research projects that meet the definition of eligible recoverable activities as defined in Ontario's Securities Act and approved by the OSC Board. The recoveries are reviewed and approved by the Audit and Finance Committee on a quarterly basis.

Liquidity and Financial Position

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

Liquidity

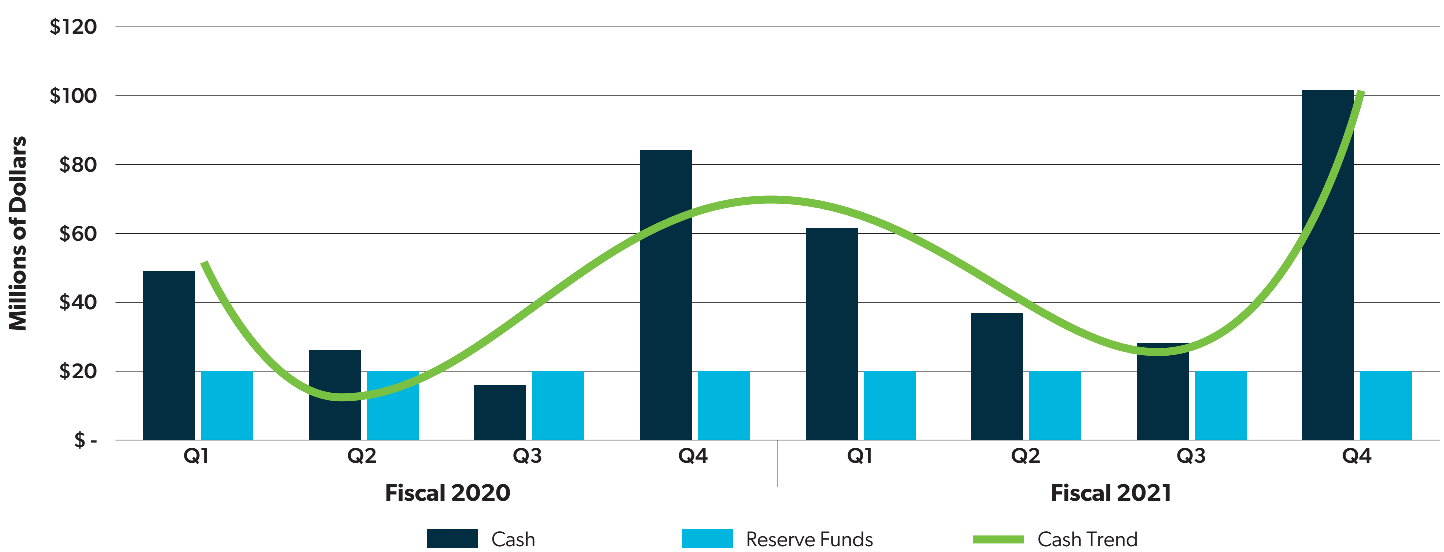
As of March 31, 2021, the OSC held $101.7 million in cash ($84.2 million in 2020) and $20.0 million in reserve fund assets ($20.0 million in 2020), for a combined total of $121.7 million ($104.2 million in 2020). The OSC also has access to a $52.0 million revolving line of credit. We hold a sufficient level of cash, reserve fund assets, and credit access to ensure liquidity for our forecasted cash requirements.

Historically, approximately 72% of our revenues are received in the last quarter, between January 1 and March 31 of each fiscal year, while expenses are incurred relatively evenly over the year. Funds received in the last quarter primarily represent annual participation fees that are used to fund most of our operating expenses during the following year. As depicted in the "Cash Flow Trend" graph, we usually experience a steady decline in our cash balances between the second quarter and the beginning of the fourth quarter, with cash balances at their lowest points between the second and third quarter each year.

Approximately 83% of the OSC's revenues are from participation fees, which we collect using a tiered structure that fluctuates with capital market activities. The OSC prudently manages liquidity risk from seasonal cash deficits and capital market downturns by utilizing three critical levers (in the following order): cash, a $20.0 million reserve fund and a $52.0 million revolving line of credit.

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

Cash Flow Trend



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

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

As of March 31, 2021, the OSC had current assets of $107.6 million ($91.8 million in 2020) and current liabilities of $26.7 million ($22.2 million in 2020) for a current ratio of 4.0:1 (4.1:1 in 2020). The decrease in the current ratio is primarily due to an increase in trade and other payables.

Cash Flows

In 2021, no reserve fund assets were used, and neither was the revolving line of credit. This was true in 2020 as well, for both the reserve funds and the line of credit. Cash flows from operating activities produced an inflow of $21.8 million ($15.4 million in 2020). Cash flows used in investing activities amounted to $2.2 million ($3.2 million in 2020). Cash flows used in financing activities amounted to $2.1 million ($2.0 million in 2020).

Financial Instruments

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

The OSC acts as a custodian of funds held pursuant to designated settlements and orders, and funds restricted for CSA Systems operations and redevelopment. Both are recorded at fair value.

Funds restricted for CSA Systems operations and redevelopment includes investments of $150.6 million. The OSC is not exposed to significant interest rate, currency, or liquidity risks from these investments because they are short-term, redeemable, and all balances are denominated in Canadian dollars. For a complete analysis of the risks relating to these financial instruments, see Note 4 of the financial statements.

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

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

Financial Position

(Thousands of dollars)	2021 Actual	2020 Actual	Variance $	Variance %
ASSETS				
CURRENT				
Cash	$ 101,683	$ 84,220	$ 17,463	20.7%
Trade and other receivables	3,414	3,624	(210)	-5.8%
Prepayments	2,493	3,968	(1,475)	-37.2%
NON-CURRENT				
Funds held pursuant to designated settlements and orders *	$ 117,001	$ 118,394	$ (1,393)	-1.2%
Funds restricted for CSA Systems operations and redevelopment **	150,623	148,730	1,893	1.3%
Reserve funds	20,000	20,000	—	—
Lease receivable	3,270	3,404	(134)	-3.9%
Right of use assets	48,584	51,620	(3,036)	-5.9%
Property, plant & equipment	5,224	6,000	(776)	-12.9%
Intangible assets	8,002	6,955	1,047	15.1%
LIABILITIES				
CURRENT				
Trade and other payables	$ 24,464	$ 20,022	$ 4,442	22.2%
Lease liabilities	2,212	2,138	74	3.5%
NON-CURRENT				
Lease liabilities	$ 51,900	$ 54,112	$ (2,212)	-4.1%
Pension liabilities	5,112	4,439	673	15.2%
Funds held pursuant to designated settlements and orders *	117,001	118,394	(1,393)	-1.2%
Funds restricted for CSA Systems operations and redevelopment **	150,623	148,730	1,893	1.3%

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

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

The following is a discussion of the significant changes in our Statement of Financial Position.

Assets

Cash

Cash increased by $17.5 million (20.7%) in 2021, primarily as a result of an excess of revenues over expenses and an increase in trade and other payables.

Prepayments

Prepayments decreased by $1.5 million (37.2%), primarily as a result of shorter renewal terms for various IT contracts in the last quarter of 2021 compared to 2020.

Funds held pursuant to designated settlements and orders

(i) Background on monetary sanctions

If someone contravenes Ontario securities law or commodity futures law, the OSC can bring an enforcement proceeding against them. Some of these cases are heard by a panel of OSC Commissioners who act as independent adjudicators and may result in monetary sanctions. Monetary sanctions reflect what the panel believes is appropriate in the circumstances, regardless of a respondent's ability to pay. Monetary sanctions are also intended to deter others from contravening securities laws.

(ii) Designated funds

A hearing panel may designate funds payable to the Commission under orders and settlement agreements ("designated funds") to be allocated in accordance with section 3.4(2)(b) of Ontario's Securities Act. The Act permits designated funds to be allocated to or for the benefit of third parties or to be used by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets. Third party recipients of these funds have included harmed investors, whistleblowers, and those dedicated to advancing the interests of investors.

(Thousands of dollars)	2021	2020
Total monetary sanctions assessed during the year	$ 11,123	$ 42,304
Total amount paid or payable to investors	4,030	7,467
Amount recovered by the OSC for investor education and knowledge enhancement activities	2,483	1,235
Total amount paid to whistleblowers	585	525

In general, we include payments made directly by respondents to harmed investors in total monetary sanctions assessed during the year. There were no such payments in 2021 ($1.0 million in 2020). While this amount is considered for our enforcement sanctions statistics, as part of the total monetary sanctions assessed during the year, it does not form part of the funds held pursuant to designated settlements and orders balance as the amounts owing are paid from respondents to investors directly and not by the OSC.

Total amounts paid or payable to harmed investors, by the OSC or respondents directly, were $4.0 million ($7.5 million in 2020). In 2021, total amounts for the recovery of OSC investor education and knowledge enhancement costs approved by the Board amounted to $2.5 million ($1.2 million in 2020). In 2021, the OSC paid $0.6 million to whistleblowers ($0.5 million in 2020). Whistleblower payments are inherently uncertain and not susceptible to a trend.

As at March 31, 2021, the accumulated balance of designated funds was $117.0 million ($118.4 million in 2020). Of this amount, $116.6 million was held in cash ($117.0 million in 2020) and $0.4 million was deemed as being receivable ($1.4 million in 2020). After considering funds set aside for possible allocation to harmed investors, $110.1 million ($75.5 million in 2020) of the funds on hand are available for distribution. The increase in funds on hand for distribution in 2021 is mainly due the collections and allocations of large dollar orders in recent years. There is a total of $43.7 million of funds earmarked for whistleblower payments, recoveries of investor education costs, knowledge enhancements, and other investor-related activities.

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

Collecting monetary sanctions

While the OSC actively works to collect unpaid monetary sanctions, material differences between sanction assessments and collections have persisted since we began imposing sanctions. Historically, collection rates from market participants have been much higher than from respondents sanctioned on matters related to fraud – where assets are typically non-existent or inaccessible. The collections rate decreased in 2021 to 51.6% from 96.7% in 2020 as a result of higher assessments from contested hearings compared to settlements. The collection rate will vary each year, depending on the nature of the cases brought by the Enforcement Branch.

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

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

(Thousands of dollars) 2021		Assessed*		Collected**	% Collected
Settlements	$	5,958	$	5,744	96.4%
Contested hearings		5,165		—	—
Total	**$**	**11,123**	**$**	**5,744**	**51.6%**
2020		**Assessed***		**Collected****	**% Collected**
Settlements	$	39,963	$	39,963	100.0%
Contested hearings		1,345		—	—
Total	**$**	**41,308**	**$**	**39,963**	**96.7%**

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

**Collections are based on the amounts ordered, by fiscal year, and the amounts collected from those orders.

Funds Restricted for CSA Systems Operations and Redevelopment

The core CSA Systems consist of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD), and the System for Electronic Disclosure by Insiders (SEDI) and marketplace surveillance and analytics system.

The OSC has been appointed the Designated Principal Administrator – Operations (DPA) to collect, hold, and administer the surplus funds accumulated from system fees charged to market participants that use the CSA Systems. This is essentially a custodial role. The funds restricted for CSA Systems operations and redevelopment include surplus funds accumulated from operation of the CSA Systems, which are received, held, and managed by the DPA on behalf of the Principal Administrators (PAs). The use of these surplus funds is restricted by various agreements between the PAs.

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

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

Right of Use Assets

Right of use assets decreased by $3.0 million (5.9%) due to the amortization of the lease agreements for rent of office space and printer equipment. For more information on right of use assets, see Note 12 of the financial statements.

Property, Plant, and Equipment

Property, plant, and equipment decreased by $0.8 million (12.9%) in 2021 due to higher depreciation on assets compared to purchases during the year. For more information on property, plant and equipment, see Note 9 of the financial statements.

Intangible Assets

Intangible assets increased by $1.0 million (15.1%) in 2021 due to spending on the development of the SEDAR+ integration initiative. For more information on intangible assets, see Note 10 of the financial statements.

Liabilities

Trade and Other Payables

Trade and other payables increased by $4.4 million (22.2%) primarily due to an increase in the vacation accrual (as staff took less vacation during the year), and because of the timing of vendor and employee compensation accruals. For more information on trade and other payables, see Note 11 of the financial statements.

Non-Current Lease Liabilities

Non-current lease liabilities decreased by $2.2 million (4.1%) due to payments made on the lease contracts. For more information on lease liabilities, see Note 12 of the financial statements.

2022 Strategy

Our plans and outlook for fiscal year 2022

Every year, the OSC publishes a *Statement of Priorities* outlining specific areas we will focus on to fulfil our mandate. The public has an opportunity to comment on the draft document before it is finalized and delivered to the Minister of Finance.

In the fall of 2020, the OSC published for comment its proposed Statement of Priorities for fiscal year 2022. In January 2021, the Taskforce published its report and the Government of Ontario has since adopted recommendations related to structure and the mandate and are considering other recommendations some of which require legislative changes. The OSC's final *Statement of Priorities* for 2022 incorporates impacts of recommendations adopted by the Government and stakeholder comments on the draft priorities. The most updated *Statement of Priorities* can be found at www.osc.ca/en/about-us/accountability/osc-statement-priorities.

Statement of priorities

Promote confidence in Ontario's capital markets

- Support implementation of client-focused reforms
- Implement mutual fund embedded commissions rules and discontinuance of the mutual fund deferred sales charges payment option in coordination with the CSA harmonized rule
- Improve the retail investor experience and protection
- Strengthen investor redress through the Ombudsman for Banking Services and Investments, through policy and oversight activities
- Bring timely and impactful enforcement actions
- Publish position paper regarding the framework for SROs
- Continue to expand systemic risk oversight
- Strengthen oversight of crypto asset trading platforms and other dealers
- Advance work on the Taskforce policy recommendations identified in the Ontario Government's 2021 Budget
- Improve climate change-related disclosures
- Integrate new mandates for fostering capital formation and competition in our activities

Reduce regulatory burden

- Develop an enhanced framework for reducing burden and modernizing regulation
- Continue to implement burden reduction initiatives

Facilitate financial innovation

- Implement multi-year plan for the Office of Economic Growth and Innovation
- Engage with innovative businesses and support innovation in capital markets

Strengthen our organizational foundation

- Redevelopment of CSA national systems
- Modernize OSC technology platform
- Foster inclusion, equity and diversity
- Continue to monitor and adapt to the impacts of the COVID-19 pandemic
- Implement the OSC structural changes as set out in the Securities Commission Act

2022 Financial Outlook

Revenues in 2022 are budgeted at $127.9 million, reflecting a decline of $10.5 million (8.1%) from 2021 actual results. A majority of our revenues are directly impacted by capital market conditions, which have become significantly volatile since the onset of the pandemic. The strong capital markets recovery experienced during the second half of the fiscal year is reflected in the 2021 results, since most participation fees are received in the fourth quarter. This recent growth has not been reflected in the 2022 revenue budget.

Expenses, not including implementation of adopted Taskforce recommendations, are budgeted at $140.8 million, reflecting a 4.2% increase from the 2021 budget and a 10.1% increase from 2021 actual results. Cost savings experienced in 2021 were primarily driven by targeted cost reductions and natural savings resulting from lockdown measures, such as reduced travel and office expenses. While lockdown measures may continue to impact costs next year, we do not plan on continuing our cost reduction plan but rather to deliver on deferred 2021 initiatives. The 2022 OSC operating and capital budgets include investments focused in the following growth areas:

- Investor education through expanded outreach and financial literacy initiatives, including the introduction of other methods to advance investor education and protection
- Full operation of the OSC's new Office of Economic Growth and Innovation, including increased engagement with fintech companies to support innovation in capital markets
- Support systematic risk oversight through continued development of an over-the-counter derivatives trades data repository
- Implementation of an enterprise-wide strategy to modernize OSC technology, acquire appropriate market data, and accelerate digitalization of OSC operations. The strategy consists of developing a digital transformation roadmap and replacing legacy systems with modern cloud-based platforms to optimize both our regulatory and back-office operations. In addition, we plan to use robotic process automation technology to achieve efficiencies in some areas of operation with repetitive manual tasks. This strategy requires significant spending over the next few years and the movement towards cloud-based solutions shifts costs into the operating budget from the capital budget.

Capital expenditures in 2022 are budgeted at $5.4 million, primarily comprised of costs towards integrating local systems into SEDAR+, leasehold improvements to complete the build-out of an additional floor leased in fiscal year 2020 and technology infrastructure refresh projects.

The OSC is projecting to draw down on its surplus in upcoming fiscal years to fund key multi-year programmes. Areas of focus include the aforementioned growth areas, which require significant investments. Additionally, we anticipate a sizable increase in one-time and ongoing expenditures to deliver adopted Taskforce recommendations. We continue to assess whether fees charged to market participants remain appropriate by assessing future cash flow requirements, including recent resource needs to deliver on Taskforce recommendations and growth in regulatory activities.

Critical Accounting Estimates

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

In preparing financial statements consistent with International Financial Reporting Standards (IFRS), the OSC's management must make judgements, 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 judgements, estimates, and assumptions are considered "critical" if any of the following conditions are met:

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

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

Sources of estimation uncertainty primarily consisted of the supplemental pension plan defined benefit obligation liabilities, lease obligations, funds held pursuant to designated settlements and orders, and recoveries of enforcement costs.

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

Accounting pronouncements

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

Risks and Risk Management

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

Risk Management Overview

The OSC must manage a growing range of risks arising from the pace of change and the increase in complexity of financial markets in Canada and globally. The OSC has an established Risk Management Framework in place, leveraging the International Risk Management Standard ISO 31000. The goal of the framework is to embed risk management within all elements of our operations and across all levels of staff. The framework sets out a process for identifying and assessing risks and for highlighting and reviewing controls.

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

- branch specific risk management processes utilizing a bottom-up process to identify, assess and manage branch specific risks. Management is responsible for ongoing control and reduction of operational risk by ensuring that appropriate procedures, internal controls and processes, other necessary actions, and compliance measures are undertaken as and when needed.
- centralized risk management function to facilitate activities related to enterprise risks and maintenance of an enterprise risk inventory. This function includes a top-down and bottom-up view of the risks and controls in place within the OSC. The top-down portion describes the environment in which the OSC works and the bottom-up portion deals with day-to-day operational risks that could affect our ability to do our work.
- Internal audit function helping the OSC develop, evaluate, and improve risk-management practices, risk-based internal controls, good governance, and sound business practices. Internal audits at the OSC are governed by a charter approved by the OSC's Board of Directors and by an annual internal audit plan that is also approved each year by the Board. The Chief Internal Auditor reports the results of internal audits to the Board Risk Committee and provides an annual summary of key internal audit findings to the Board of Directors.

Oversight of risk management is performed by the Risk Steering Committee, comprised of OSC senior and executive management, as well as the Board Risk Committee. Processes are in place to regularly review significant changes to the OSC's enterprise risk inventory, the OSC's risk profile, and new or emerging risks. In addition, a Code of Conduct and governance practice has been approved by the Board of Directors (details available at https://www.osc.ca/en/about-us/governance) which outlines key compliance requirements and accountabilities for all employees.

Systems Risk

The OSC's Information Services branch regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation.

The OSC relies on CSA Systems, which are operated by CGI, to collect most of its fee revenue and permit regulatory filings by market participants. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 – Type II) providing a review and evaluation of 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 this site annually. The most recent test was performed in January 2021 concluding CSA Systems used to collect fees recovered successfully.

The OSC could be contingently liable for claims against, or costs related to, CSA Systems operations. See Note 18 of the financial statements for more information.

Information Security Risk

The OSC has implemented security controls to safeguard the confidentiality, integrity, availability, accountability, and assurance of the information the OSC is collecting, generating, and processing as part of our normal business operations.

Following industry best practices, we have developed and implemented a comprehensive information security program aligned with the National Institute of Standards and Technology (NIST) Cybersecurity framework. The program implements a security governance framework and establishes a set of policies, standards, and procedures. The polices are supported by technical controls and operational processes designed to identify, detect, protect, respond, and recover from information security incidents. Security risks are tracked and monitored as part of our risk management framework. In addition, the OSC maintains cybersecurity insurance.

We recognize that the risk of a breach to its systems and networks cannot be entirely eliminated. A significant breach could produce adverse effects within the financial markets and negatively affect the OSC's reputation.

Business Continuity

The OSC has a detailed Business Continuity Plan (BCP), a Pandemic Plan, and Branch Business Continuity Plans (BBCPs) to ensure critical regulatory services can continue if an external disruption occurs. The BCP and BBCPs are continually reviewed and refined and include strategies to effectively address various business and market disruption scenarios. The OSC effectively executed its business continuity and pandemic plans in response to the COVID-19 pandemic and was able to continue the delivery of its core operations.

Financial Risk

The OSC has implemented financial risk mitigation measures to maintain financial health and deliver its mandate. The risk of capital market volatility on OSC revenues is mitigated by relying on various levers, consisting of cash, reserve funds, and a line of credit. The OSC's primary credit risk is its concentration of 84.9% of its financial assets with two Schedule 1 financial institutions. For a complete analysis of the risks relating to financial instruments, see Note 4 of the financial statements.

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

Legal Risk

Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. Settlements from these actions are accounted for when they occur. The outcome and ultimate disposition of any actions cannot currently be determined. However, management does not expect the outcome of any legal actions, individually or in aggregate, to have a material impact on the OSC's financial position.

Internal Control Over Financial Reporting (ICFR)

A summary of our ICFR program results

During the year, the OSC's ICFR processes were reviewed and updated where necessary. Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR processes as of March 31, 2021. The evaluation used the framework and criteria established in "Internal Control – Integrated Framework (2013 version)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the OSC concluded that there were no material weaknesses and that ICFR processes are designed and operating effectively to reduce the risk of material misstatement to an acceptably low level.