



Canadian Securities Regulation Regime Transition Office

Annual Report 2015-2016



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN
EN VALEURS MOBILIÈRES

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July 31, 2016

The Honourable William F. Morneau
Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, ON K1P 0C6

Dear Minister,

We are pleased to submit to you the seventh Annual Report of the Canadian Securities Regulation Regime Transition Office for the fiscal year from April 1, 2015 to March 31, 2016.

The Transition Office, consistent with our mandate, is continuing to support implementation efforts to establish a Cooperative Capital Markets Regulatory System under the framework set out in the Memorandum of Agreement (MOA). We are also providing advice to the Government of Canada on matters related to its participation in the MOA and matters of federal responsibility, including the proposed federal *Capital Markets Stability Act*.

Also during this past year, the Transition Office has provided resources to support the Nominating Committee established under the MOA, as well as to the designated chair of the newly formed Capital Markets Authority Implementation Organization, in preparation for the appointment of its Board of Directors.

We are fortunate to have a team of dedicated staff who are committed to our mandate and we look forward to continuing to work with the Participating Jurisdictions towards the establishment of the Cooperative System.

Thank you for your support of this important initiative.

Yours sincerely,



Douglas Hyndman
Chair and Chief Executive Officer

OVERVIEW

The Canadian Securities Regulation Regime Transition Office (Transition Office) was established by the Government of Canada in 2009 to lead and manage the transition from the current system of provincial and territorial regulators to a Canadian securities regulator.

In 2010, we developed the *Transition Plan for the Canadian Securities Regulatory Authority* and worked with the Departments of Finance and Justice to prepare draft federal securities legislation. The following year, the Supreme Court of Canada determined that the proposed legislation was not constitutionally valid under the general branch of the federal power to regulate trade and commerce. The court also ruled that Parliament has a role in securities regulation regarding matters of genuine national importance and scope, and that the federal and provincial levels of government could seek common ground in a cooperative approach to sharing oversight of capital markets.

In September 2013, the governments of British Columbia, Ontario and Canada signed an Agreement in Principle (AIP) to Move Towards a Cooperative Capital Markets Regulatory System (Cooperative System) and invited all provinces and territories to participate. In 2014, the AIP was formalized in a Memorandum of Agreement (MOA). In 2014 and 2015, the governments of New Brunswick, Saskatchewan, Prince Edward Island and Yukon agreed to join the Cooperative System.

The Transition Office has supported implementation efforts under the MOA while also providing advice to the Government of Canada on matters related to its participation in the MOA and matters of federal responsibility.

Since July 2015, the Transition Office's activities also included providing support and resources to the designated chair of the newly formed Capital Markets Authority Implementation Organization (CMAIO).

OUR TEAM

The Transition Office is headed by a Management Team which is supported by a staff of full and part-time employees in our Vancouver and Toronto offices.

MANAGEMENT TEAM

Douglas M. Hyndman – *Chair and Chief Executive Officer*

Mr. Hyndman was appointed Chair and CEO of the Transition Office in 2009. Prior to that, he had served as Chair of the British Columbia Securities Commission. In that position, he played an active role in the Canadian Securities Administrators (CSA), the association of the provincial and territorial securities regulators. From 1995 to 2003, Mr. Hyndman was Chair of the CSA and from 2005 to 2009 he chaired the CSA's Passport Steering Committee.

Peter Grant – *Chief Information Officer and Director, Transition Planning and Implementation*

Prior to joining the Transition Office in 2009, Mr. Grant was the Chief Information Officer at the British Columbia Securities Commission. He has also worked for the Vancouver Stock Exchange, the Canadian Venture Exchange and the TRIUMF subatomic nuclear particle physics research facility.

Morag MacGougan – *Stakeholder Outreach Advisor*

Ms. MacGougan has been with the Transition Office since 2010. She was previously Vice President and Corporate Secretary of the Investment Industry Association of Canada and held senior roles in the Investment Dealers Association of Canada prior to that. Ms. MacGougan has also served as Vice President, Compliance and Corporate Secretary at a predecessor of HSBC Securities (Canada) Inc.

Leigh-Anne Mercier – *Chief Legal Officer*

Ms. Mercier joined the Transition Office in 2009, prior to which she was the Special Advisor to the Chair at the British Columbia Securities Commission. She has also worked for the Manitoba Securities Commission and Thompson Dorfman Sweatman.

Jay Whitwham – *Chief Financial Officer*

Prior to joining the Transition Office as its Chief Financial Officer in 2010, Mr. Whitwham was a professional advisor providing corporate finance services to small and medium-sized enterprises requiring expertise in the areas of strategy, financing, M&A and restructuring. He previously held CFO and senior financial roles in manufacturing and technology businesses,

including a TSX-listed pulp and paper company. Mr. Whitwham is a member of the Chartered Professional Accountants of British Columbia.

SUPPLEMENTARY EXPERTISE

The Transition Office has retained professional advisors to assist with multi-jurisdictional implementation efforts, including Deloitte LLP, PwC Canada, Gowlings WLG and Odgers Berndtson.

On behalf of the Implementation Team of senior government officials established under the MOA, we retained the services of Dwight Willett as Implementation Lead to provide program management support to the Transition Committee of executives from the regulators of the participating jurisdictions who are responsible for the integration of existing regulatory operations into the Capital Markets Regulatory Authority (CMRA). Mr. Willett brings expertise in major program oversight and change management.

REPORT ON ACTIVITIES

The Transition Office has been supporting implementation efforts under the MOA, since it was signed in September 2014. At the same time, the Transition Office has also provided advice to the Government of Canada on matters related to its participation in the MOA and matters of federal responsibility, including the proposed *Capital Markets Stability Act (CMSA)*.

I KEY MILESTONES IN THE DEVELOPMENT OF THE COOPERATIVE SYSTEM

Several Cooperative System project milestones were achieved during our fiscal year:

- Yukon became a Participating Jurisdiction in April 2015, joining British Columbia, Ontario, New Brunswick, Saskatchewan, Prince Edward Island and the Government of Canada.
- In April 2015, the Council of Ministers, comprised of the ministers responsible for capital markets regulation in each of the Participating Jurisdictions, in accordance with the MOA, announced the members of the Nominating Committee.
- The Council of Ministers named William A. Black as the inaugural Chair-designate of the CMRA in July 2015.
- The CMAIO was established as a not-for-profit corporation in July 2015 to serve as an interim body until the launch of the CMRA.
- A revised consultation draft of the uniform provincial/territorial *Capital Markets Act (CMA)*, as well as draft initial regulations and related materials, were published for comment in August 2015.
- The consultation draft of the federal *Capital Markets Stability Act* was revised to respond to stakeholder comments received from the initial consultation in 2014. The revised consultation draft and related materials were published for comment in May 2016.

II ROLE OF THE TRANSITION OFFICE IN THE CMRA'S IMPLEMENTATION PROCESS

The Transition Office maintains a strong base of core capital markets regulatory knowledge together with valuable background experience from prior implementation planning and development efforts. Support for the implementation of the Cooperative System is being provided through two phases identified by the Implementation Team of government officials established under the MOA: Phase 1 — development of legislation and regulations for the Cooperative System and establishment of the proposed CMRA with appropriate powers,

oversight and governance; and Phase 2 — integration of the regulatory organizations and operations of the Participating Jurisdictions into the CMRA.

The following outlines the Transition Office's activities contributing to the development and implementation of the Cooperative System.

Phase I

a) Development of legislation and regulations for the Cooperative System

The Transition Office is assisting with the development of the uniform provincial/territorial *Capital Markets Act* and the federal *Capital Markets Stability Act* as a member of the Legislation Working Group. The Transition Office is also helping to coordinate the development of draft initial regulations under the *Capital Markets Act*. The draft initial regulations harmonize the substantial volume of instruments, policies and local rules under the existing regime.

A revised consultation draft of the Capital Markets Act, draft initial regulations, and related commentaries were published in August 2015 for a 120-day comment period. The comment period closed December 2015. A total of 51 comment letters were received and posted to the Cooperative System website.

The consultation draft of the federal Capital Markets Stability Act was revised to respond to stakeholder comments received from the initial consultation in 2014. The revised consultation draft and related materials were published in May 2016 for a 60-day comment period that closed in July 2016.

b) Establishment of the proposed CMRA with appropriate powers, oversight and governance

As part of the CMRA Creation Working Group, the Transition Office is assisting with the development of the legislative and governance regime that will provide the legal basis and accountability framework for the CMRA, and for its administration of the CMA and the CMSA.

As an interim step, the CMAIO was incorporated as a not-for-profit corporation in July 2015, to provide for the appointment of the initial Board of Directors to assist in transition and implementation prior to the establishment of the CMRA.

Phase 2

The Transition Office provides the services of the Implementation Lead to deliver program management support to the Transition Committee. The Transition Committee consists of executives from the regulators of Participating Jurisdictions who are responsible for the integration of existing regulatory operations into the CMRA. These multijurisdictional activities are also supported by external program management and implementation support services retained by the Transition Office.

In addition, the Transition Office is contributing to the development of capabilities to administer the information collection and systemic risk related provisions of the CMSA and to a number of other Phase 2 integration areas that have interdependencies with CMSA administration.

Nominating Committee Secretariat

The Nominating Committee was appointed under the MOA in April 2015, with the Transition Office being designated to provide the Secretariat function to the Committee. The Committee's initial mandate is to recommend CMRA Board nominees to the Council of Ministers. The Transition Office provides staff and external service resources to the Nominating Committee in support of its mandate.

Capital Markets Authority Implementation Organization

The CMAIO was established on behalf of the Participating Jurisdictions as a not-for-profit corporation to serve as an interim body until the establishment of the CMRA. This interim body has no regulatory or adjudicative functions. Pending enactment of joint legislation to establish the CMRA, the initial Board of Directors will serve as the board of the Capital Markets Authority Implementation Organization.

The CMAIO's purpose is:

- (a) to assist in the transition to and implementation of the Capital Markets Regulatory Authority, including assisting in the transition to and implementation of:
 - (i) the regulatory division of the Capital Markets Regulatory Authority; and
 - (ii) the adjudicative division of the Capital Markets Regulatory Authority;
- (b) to manage and carry out the operational merger of existing provincial and territorial securities regulatory bodies or operations, as the case may be, from Participating Jurisdictions into the Capital Markets Regulatory Authority; and

- (c) to do all such other things as are incidental or ancillary to the attainment of the foregoing purposes and the exercise of the powers of the CMAIO.

In July 2015, the Council of Ministers designated William A. Black as the inaugural chair of the CMRA. The Transition Office has been supporting Mr. Black's activities pending the appointment of Mr. Black and the remainder of the initial Board of Directors to the board of the CMAIO. The Council of Ministers announced the remainder of the initial board of directors in July 2016.

NEXT STEPS

The Transition Office will continue to apply its strong base of core capital markets regulatory knowledge together with its valuable background experience from prior implementation planning and development efforts to assist the Participating Jurisdictions in implementing the Cooperative System.

FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2016, together with comparative budget and prior year figures.

<i>(in thousands of dollars)</i>	2016 Budget	2016 Actual	2015 Actual
Operating expenses	24,687	8,405	7,364
Interest income	478	551	86
Government of Canada funding	-	-	53,100
Net results of operations	(24,209)	(7,854)	45,822
Cash provided by operating activities		36,280	1,197
Proceeds on disposition of tangible capital assets		-	4
Acquisition of tangible capital assets		(36)	(13)
Increase in cash		36,244	1,188
Cash and cash equivalents		49,261	13,017
Net financial assets		48,575	56,426
Accumulated surplus		48,766	56,620

Net Results of Operations vs. Fiscal 2014-15 Actual

The principal focus of the Transition Office is assisting with Cooperative System development and implementation under the MOA. Primary responsibility for implementation lies with a joint Implementation Team, which reports to a Minister's oversight committee, as set out in section 10.2 of the MOA. The Transition Office provides support to the Implementation Team, and to the Department of Finance on federal aspects of implementation including the draft *Capital Markets Stability Act*.

In fiscal 2015-16, Transition Office activities and resources contributed to Cooperative System development and implementation in a number of areas.

- Coordinating development of initial regulations under the provincial *Capital Markets Act* together with related materials; published for comment in August 2015.
- Assisting with development of a revised federal *Capital Markets Stability Act*; with a revised consultation draft published in May 2016.

- Assisting with ongoing development of the legislative and governance regime that will provide the legal basis and accountability framework for the CMRA.
- Continuing to support Phase 1 and Phase 2 program management and providing third-party external service resources for Phase 2 integration activities.
- Performing the secretariat function for the Nominating Committee established under the MOA in April 2015.
- Providing initial support functions for the Capital Markets Regulatory Authority chair-designate following his selection by the Council of Ministers in July 2015.

Operating expenses for the year ended March 31, 2016 totalled \$8.4 million, an increase from \$7.4 million for the same period a year ago. The increase in the current year is due primarily to higher external services utilization for Phase 2 integration support, partially offset by a decrease in compensation and benefits expense with a lower staff complement from a year earlier.

External services expense of \$4.0 million was up by \$1.6 million from the previous year, due primarily to increased external services utilization for Phase 2 integration support.

Compensation and benefits expense of \$3.1 million was down by \$0.6 million from the year earlier. The decrease reflects a reduction in staff following completion of the draft initial regulations. The Transition Office had an average complement of 15 staff in fiscal 2015-16, compared with 20 staff a year earlier.

Occupancy expense of \$821,000 was slightly higher than the previous year's \$808,000. Higher lease rates resulted in the increase.

Travel and consultation, information and technology, and administration expenses totalled \$467,000, up from \$379,000 a year ago. Travel and consultation expense was higher due to increased Phase 2 integration activity, and was partially offset by lower information and technology expense and lower administration expense.

Amortization expense of \$37,000 was down from \$51,000 in the previous year, with several capital assets reaching full amortization during fiscal 2015-16.

Interest income increased to \$551,000 from \$86,000 a year earlier. The increase in interest income was due to a significantly higher average cash balance following receipt of Government of Canada funding in March 2015 and April 2015.

The Transition Office did not recognize any Government of Canada funding in the Statement of Operations in fiscal 2015-16, compared with \$53.1 million recognized a year earlier. The

amount recognized in the previous year included \$44.0 million that was receivable at March 31, 2015. This amount was received in April 2015.

The net result of operations for the year was a deficit of \$7.9 million, with an accumulated surplus of \$48.8 million at March 31, 2016. This compares with net results of operations of \$45.8 million for the previous year, and accumulated surplus of \$56.6 million at March 31, 2015.

Net Results of Operations vs. Fiscal 2015-16 Budget

Operating expenses of \$8.4 million for the year ended March 31, 2016 was 66% below the budget expense of \$24.7 million. Lower than planned external services utilization was the principal factor, with overall activity levels being paced to the development of Cooperative System legislation, which is behind the timing assumptions in the Transition Office budget.

External services expense of \$4.0 million for the year was 79% under the \$18.7 million budgeted. The budget reflects a fall 2016 target for the CMRA to be operational. This date will not be met due to legislative aspects of Cooperative System development being behind schedule. As a result, Phase 2 integration activities are being paced to a longer implementation timeline.

Compensation and benefits expense at \$3.1 million was 9% under the \$3.4 million budgeted. The expense was below budget due to the lower than planned staffing levels from the pacing of activities to the longer implementation timeline.

Occupancy expense of \$821,000 was 8% below the \$891,000 budget due primarily to unplanned tax recoveries.

Travel and consultation, information and technology, and administration expenses were a collective 2% below budget.

The Transition Office budget for the year included a \$1.2 million contingency that was not utilized.

Cash Flow

Cash increased by \$36.2 million in the twelve months ended March 31, 2016, compared with an increase of \$1.2 million for the same period last year.

Cash of \$36.3 million was provided by operating activities, with the \$44.0 million receipt of Government of Canada funding that had been recognized in the previous year's Statement of Operations, offset by the operating deficiency for the current year. This compares with \$1.2 million of cash provided by operating activities a year earlier.

Cash paid for capital asset acquisitions was \$36,000 for the year, up from \$13,000 in the prior year.

The Transition Office closed the year with a \$49.3 million cash position, up from \$13.0 million a year ago.

Financial Position

The Transition Office had net financial assets of \$48.6 million at March 31, 2016, down from \$56.4 million a year earlier. Net financial assets comprise cash and cash equivalents of \$49.3 million and GST/HST rebate receivable of \$353,000, offset by accounts payable and accrued liabilities of \$1.0 million.

Together with non-financial assets of \$191,000, the Transition Office closed the year with an accumulated surplus of \$48.8 million, a decrease from the previous year's \$56.6 million accumulated surplus.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of the Canadian Securities Regulation Regime Transition Office (Transition Office) and other financial information in this annual report is the responsibility of the Transition Office’s management. The financial statements have been prepared in accordance with Canadian public sector accounting standards. Where required, management’s best estimates and judgements have been applied in the preparation of these financial statements.

Management fulfils its financial reporting responsibilities by maintaining financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded, proper records are maintained, accurate financial information is prepared on a timely basis, and the Transition Office complies with all statutory requirements.

These financial statements have been audited by the Auditor General of Canada, and the report is included herein.



Douglas M. Hyndman
Chair and Chief Executive Officer



Jay G. Whitwham
Chief Financial Officer

Vancouver, Canada

June 27, 2016



INDEPENDENT AUDITOR'S REPORT

To the Canadian Securities Regulation Regime Transition Office and the Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Securities Regulation Regime Transition Office, which comprise the statement of financial position as at 31 March 2016, and the statement of operations and accumulated surplus, statement of change in net financial assets and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Securities Regulation Regime Transition Office as at 31 March 2016, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the Canadian Securities Regulation Regime Transition Office that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Canadian Securities Regulation Regime Transition Office Act*.

A handwritten signature in cursive script that reads "Margaret P. Haire".

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

27 June 2016
Ottawa, Canada

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

<i>(in thousands of dollars)</i>	2016	2015
Financial Assets		
Cash and cash equivalents (note 3)	49,261	13,017
Government of Canada funding receivable (note 4)	-	44,000
GST/HST rebate receivable	353	228
Total financial assets	49,614	57,245
Liabilities		
Accounts payable and accrued liabilities	1,039	819
Total liabilities	1,039	819
Net financial assets	48,575	56,426
Non-financial assets		
Tangible capital assets (note 5)	46	47
Prepaid expenses	145	147
Total non-financial assets	191	194
Accumulated surplus	48,766	56,620

Contractual obligations (note 8)

The accompanying notes form an integral part of these financial statements.

Approved by:



Douglas M. Hyndman
Chair and Chief Executive Officer

Statement of Operations and Accumulated Surplus

For the year ended March 31

<i>(in thousands of dollars)</i>	2016 Budget	2016 Actual	2015 Actual
Operating expenses			
External services	18,672	3,991	2,423
Compensation and benefits	3,408	3,089	3,703
Occupancy	891	821	808
Travel and consultation	238	277	165
Information and technology	167	149	154
Administration	71	41	60
Amortization	40	37	51
Contingency	1,200	-	-
Total operating expenses	24,687	8,405	7,364
Revenue			
Interest income	478	551	86
Net results of operations before Government of Canada funding	(24,209)	(7,854)	(7,278)
Government of Canada funding (note 4)	-	-	53,100
Net results of operations	(24,209)	(7,854)	45,822
Accumulated surplus at beginning of year	56,620	56,620	10,798
Accumulated surplus at end of year	32,411	48,766	56,620

The accompanying notes form an integral part of these financial statements.

Statement of Change in Net Financial Assets

For the year ended March 31

<i>(in thousands of dollars)</i>	2016 Budget	2016 Actual	2015 Actual
Net results of operations	(24,209)	(7,854)	45,822
Acquisition of tangible capital assets	(38)	(36)	(13)
Amortization of tangible capital assets	40	37	51
Proceeds on disposal of tangible capital assets	-	-	4
Acquisition of prepaid expenses	(132)	(145)	(147)
Use of prepaid expenses	132	147	129
Increase (decrease) in net financial assets	(24,207)	(7,851)	45,846
Net financial assets at beginning of year	56,426	56,426	10,580
Net financial assets at end of year	32,219	48,575	56,426

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flow

For the year ended March 31

<i>(in thousands of dollars)</i>	2016	2015
Operating activities		
Cash received from:		
Government of Canada funding	44,000	9,100
Interest on deposits	551	86
Total cash received	44,551	9,186
Cash paid for:		
Compensation and benefits	(3,161)	(3,724)
Facilities, services and supplies	(5,110)	(3,735)
Contribution repayment	-	(530)
Total cash paid	(8,271)	(7,989)
Cash provided by operating activities	36,280	1,197
Capital activities		
Proceeds on disposition of tangible capital assets	-	4
Acquisition of tangible capital assets	(36)	(13)
Cash used in capital activities	(36)	(9)
Increase in cash	36,244	1,188
Cash and cash equivalents at beginning of year	13,017	11,829
Cash and cash equivalents at end of year	49,261	13,017

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

March 31, 2016

1. Authority and purpose

The Canadian Securities Regulation Regime Transition Office (Transition Office) was created under the *Canadian Securities Regulation Regime Transition Office Act (Act)*, which came into force on July 13, 2009. The purpose of the Transition Office is to assist in the establishment of a Canadian securities regulation regime and a Canadian securities regulatory authority.

The Government of Canada is entitled to any residual interest in the Transition Office after payment of its debts and liabilities.

2. Significant accounting policies

(a) Basis of presentation

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(b) Government of Canada funding

Funding provided by the Government of Canada under the Act is recognized in the Statement of Operations in the period when the funding is authorized by the Minister of Finance. Funding provided by the Government of Canada by way of contribution agreement is recognized in the Statement of Operations to the extent of operating and capital costs incurred within the stipulated period of the agreement.

(c) Operating expenses

Operating expenses of the Transition Office are recorded when goods have been received and when services have been rendered.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in bank and interest bearing deposits. There is no risk of a change in value. Refer to note 3.

(e) Financial instruments

i) *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

ii) *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within three months of year-end.

(f) Tangible capital assets

Tangible capital assets are recorded at acquisition cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Computers (hardware and software)	-	3 years
Telecommunications equipment	-	3 years
Office furniture	-	5 years
Leasehold improvements	-	lesser of lease term or estimated useful life

When conditions indicate that a tangible capital asset no longer contributes to the operations of the Transition Office, its cost is written down to net realizable value.

(g) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and expenses reported in the financial statements. At the time of preparation of these financial statements, management believes the estimates and assumptions to be reasonable. Actual results could differ significantly from those estimated. The most significant management estimate is the useful life of tangible capital assets.

3. Cash and cash equivalents

<i>(in thousands of dollars)</i>	2016	2015
Funds on deposit – operating	342	360
Funds on deposit – interest bearing	48,919	12,657
Total cash and cash equivalents	49,261	13,017

The average yield on interest bearing deposits during the year was 1.04% (2015 – 1.10%). There are no restrictions on funds on deposit.

4. Government of Canada funding

Year ended March 31, 2016

No Government of Canada funding is recognized in the Statement of Operations for the year ended March 31, 2016. In April 2015, the Transition Office received \$44.0 million in funding that had been approved and recognized in the Statement of Operations during the prior fiscal year. This amount is reflected in the Statement of Cash Flow. Aggregate funding received and under the Act since July 2009 totals \$96.1 million.

Year ended March 31, 2015

Authorized funding under the Act was increased from \$52.1 million to \$96.1 million in March 2015. The Government of Canada approved funding of \$53.1 million under the Act in March 2015, and this amount was recognized in the Statement of Operations for the year. Of this amount, the Transition Office received \$9.1 million in funding during the fiscal year and \$44.0 million was receivable at March 31, 2015.

During the year, the Transition Office repaid \$530,000 in unutilized funding from a one-time contribution agreement covering the period August 1, 2013 to March 31, 2014. This amount is reflected in the Statement of Cash Flow.

5. Tangible capital assets

<i>(in thousands of dollars)</i>	Computer & Telecom Equipment	Office Furniture	Leasehold Improvements	2016	2015
Cost					
Opening balance	250	100	143	493	484
Acquisitions	36	-	-	36	13
Disposals	-	-	-	-	(4)
Closing balance	286	100	143	529	493
Accumulated amortization					
Opening balance	222	93	131	446	395
Amortization	21	4	12	37	51
Closing balance	243	97	143	483	446
Net book value	43	3	-	46	47

6. Financial risk management

Financial instruments of the Transition Office include cash and cash equivalents and accounts payable and accrued liabilities. These financial instruments expose the Transition Office to credit risk and liquidity risk.

a) Credit risk

Financial instruments that potentially expose the Transition Office to credit risk consist of cash and cash equivalents. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Transition Office's cash and cash equivalents are held in demand deposits with a major Schedule 1 Canadian chartered bank. Accordingly, the Transition Office is not exposed to significant credit risk. The maximum exposure the Transition Office has to credit risk is the carrying value of cash and cash equivalents.

b) Liquidity risk

Liquidity risk is the risk the Transition Office will encounter difficulty in meeting its obligations associated with financial liabilities. The Transition Office's objective for managing liquidity risk is to manage operations and expenditures within funding provided by the Government of Canada.

Each year, the Transition Office presents information on planned expenditures to the Minister of Finance and requests funding, as necessary, to ensure it has sufficient financial resources to meet obligations that will come due during the year. The Transition Office monitors expenditure commitments for the purpose of ensuring it is capable of discharging its obligations within available funding.

There has been no change to the level of risk compared to the prior year and no changes in risk management practices used by the Transition Office to manage risk.

7. Related party transactions

The Transition Office is related to all Government of Canada departments, agencies, and Crown corporations. During the year the Transition Office received services without charge from the Office of the Auditor General of Canada in the amount of \$86,000 (2015 - \$94,000) for the purpose of auditing the financial statements. The costs of these services provided without charge have not been recognized in the Statement of Operations.

8. Contractual obligations

The Transition Office has agreements for the lease of office premises and equipment. Under these agreements, the Transition Office is obligated to make the following annual payments:

<i>(in thousands of dollars)</i>	2016-17	2017-18	Total
Lease payments	883	665	1,548

Payments noted above include operating costs and property taxes for office premises, which are subject to adjustment annually based on the Transition Office's proportionate share of the actual costs incurred by the landlord.

Vancouver:

P.O. Box 10170, Pacific Centre
701 West Georgia Street, Suite 1650
Vancouver, BC
V7Y 1E4

Toronto:

P.O. Box 109, TD North Tower
77 King Street West, Suite 3110
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