



Canadian Securities Regulation Regime Transition Office

Annual Report 2016-2017



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN
EN VALEURS MOBILIÈRES

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July 31, 2017

The Honourable William F. Morneau
Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, ON K1A 0G5

Dear Minister,

We are pleased to submit to you the eighth Annual Report of the Canadian Securities Regulation Regime Transition Office for the fiscal year from April 1, 2016 to March 31, 2017.

The Transition Office 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), to which the Government of Canada is a signatory. 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*.

During the past year, the Transition Office entered into an agreement with the Capital Markets Authority Implementation Organization (CMAIO) to provide up to \$30 million in aggregate funding for its operations. CMAIO was established on behalf of the Participating Jurisdictions to assist in the transition to and implementation of the Capital Markets Regulatory Authority (CMRA). The CMRA's initial Board of Directors will serve as the Board of Directors for CMAIO pending the enactment of legislation to jointly establish the CMRA. CMAIO became operational in August 2016 following the Board's appointment by the Council of Ministers.

Our team of dedicated staff is committed to our mandate and we look forward to continuing to work towards the implementation of the *Capital Markets Stability Act* and 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 principal components of the Cooperative System are a uniform *Capital Markets Act* adopted in each participating province and territory and a complementary *Capital Markets Stability Act* adopted federally, to be administered by a single, operationally independent Capital Markets Regulatory Authority (CMRA). A Council of Ministers, comprising the Ministers responsible for capital markets regulation in each participating jurisdiction, would oversee the CMRA and be accountable for the exercise of the CMRA's regulatory powers.

The Transition Office supports 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.

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, Operations and Systemic Risk*

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.

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, Finance and Administration*

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

We retain the services of Dwight Willett as Implementation Lead assisting the Implementation Team of senior government officials established under the MOA, and the Transition Committee of executives from the regulators of the Participating Jurisdictions, on matters related to the integration of existing regulatory operations into the 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 also provides 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:

- A revised consultation draft of the *Capital Markets Stability Act* was published for comment in May 2016.
- The initial Board of Directors for the CMRA was announced by the Council of Ministers in July 2016, and those individuals were appointed as the Board of Directors of the Capital Markets Authority Implementation Organization (CMAIO) in August 2016.
- CMAIO announced the selection of Mr. Kevan Cowan as Chief Executive Officer and Chief Regulator of the future CMRA in December 2016.

In July 2016, the Participating Jurisdictions announced a new Cooperative System implementation timeline. Under an amended MOA, Participating Jurisdictions will use their respective best efforts to enact the uniform provincial-territorial *Capital Markets Act* and the complementary federal *Capital Markets Stability Act* by June 30, 2018, with the CMRA targeted to be operational in 2018.

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 I — development of legislation and regulations for the Cooperative System and establishment of the proposed CMRA with appropriate powers, oversight and governance; and Phase II — integration of the regulatory organizations and operations of the Participating Jurisdictions into the CMRA.

The following outlines our 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 has assisted 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*, a draft initial regulations package, and related commentaries were published for comment in August 2015. A total of 51 comment letters were received and posted to the Cooperative System website.

A revised consultation draft of the *Capital Markets Stability Act* and related commentary were published for comment in May 2016. A total of 27 comment letters were received and posted to the Cooperative System website.

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

As part of the CMRA Creation Working Group, the Transition Office has assisted 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, 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 II

The Transition Office is leading the development of capabilities to administer the information collection and systemic risk related provisions of the CMSA, and contributing to several other Phase II integration areas that have interdependencies with CMSA administration.

In addition, the Transition Office provides the services of the Implementation Lead to assist the Implementation Team of government officials, and the Transition Committee of executives from the regulators of the participating jurisdictions, on matters related to the integration of existing regulatory operations into the CMRA.

Nominating Committee Secretariat

The Nominating Committee for the initial CMRA Board of Directors 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 mandate was to recommend CMRA Board nominees to the Council of Ministers. The Transition Office provided staff and external service resources to the Nominating Committee in support of its mandate.

In July 2015, the Council of Ministers designated William A. Black as the inaugural chair of the Board of Directors of the CMRA. The remainder of the CMRA's initial Board of Directors was announced by the Council of Ministers in July 2016.

Capital Markets Authority Implementation Organization

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. CMAIO is accountable to the Council of Ministers and is responsible for Phase II work related to the operational matters for the transition to and implementation of the CMRA and managing the merger of existing securities regulatory operations.

CMAIO's purpose is:

- (a) to assist in the transition to and implementation of the CMRA, including assisting in the transition to and implementation of:
 - (i) the regulatory division of the CMRA; and
 - (ii) the adjudicative division of the CMRA;
- (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 CMRA; 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.

CMAIO became operational after Mr. Black and the remainder of the CMRA's initial Board of Directors were appointed as CMAIO's board of directors in August 2016. Following the appointment of the CMAIO board, the Transition Office entered into an agreement with CMAIO to provide it with up to \$30.0 million in funding and certain administrative support services.

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. The Transition Office will also focus efforts on preparing for the implementation of the federal *Capital Markets Stability Act*.

FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2017, together with comparative budget and prior year figures.

<i>(in thousands of dollars)</i>	2017 Budget	2017 Actual	2016 Actual
Operating expenses	8,779	6,307	8,405
Funding of Capital Markets Authority			
Implementation Organization	11,000	6,957	-
Total expenses	19,779	13,264	8,405
Interest income	394	432	551
Net results of operations	(19,385)	(12,832)	(7,854)
Cash provided by (Used in) operating activities	(12,932)	36,280	
Acquisition of tangible capital assets	(47)	(36)	
Increase (decrease) in cash and cash equivalents	(12,979)	36,244	
Cash and cash equivalents	36,282	49,261	
Net financial assets	35,753	48,575	
Accumulated surplus	35,934	48,766	

Fiscal 2016-17 Review

The Transition Office is assisting with Cooperative System development and implementation under the Memorandum of Agreement (MOA) and supports the Department of Finance on federal aspects of implementation including the draft *Capital Markets Stability Act*. The Transition Office also provides funding and administrative support services to the Capital Markets Authority Implementation Organization (CMAIO), a not-for-profit corporation established on behalf of the Participating Jurisdictions to serve as an interim body until the establishment of the Capital Markets Regulatory Authority (CMRA). CMAIO is responsible for Phase II work related to the operational matters for the transition to and implementation of the CMRA and managing the merger of existing securities regulatory operations.

The CMRA's initial Board of Directors was announced by the Council of Ministers in July 2016, and was appointed as the board of CMAIO in August 2016. Following the appointment of the CMAIO board, the Transition Office entered into a funding agreement with CMAIO to provide up to \$30 million in aggregate funding for its operations prior to the establishment of the

CMRA. The Transition Office also makes office space available and provides administrative support services to CMAIO at no cost under the funding agreement.

The Transition Office directly funded the activities of the CMRA's chair-designate prior to the appointment of the CMAIO board. Following the board's appointment, CMAIO became fully operational and responsible for its own cost of operations from the funding provided by the Transition Office. CMAIO also assumed responsibility for the costs of external professional services support for Phase II implementation activities, previously funded directly by the Transition Office.

The Transition Office contributed to several areas of Cooperative System development and implementation in fiscal 2016-17, including:

- Establishing a data collection and risk analysis group to develop initial capabilities for the administration by the CMRA of the systemic risk and national data collection provisions of the proposed *Capital Markets Stability Act*.
- Assisting with finalization of the revised consultation draft of the CMSA, published for comment in May 2016.
- Coordinating development of additional draft initial regulations under the provincial *Capital Markets Act*, including prospectus exemption and fee regulations; yet to be published for comment.
- Contributing to the ongoing development of the legislative and governance regime that will provide the legal basis and accountability framework for the CMRA.
- Providing the services of the Implementation Lead and, prior to transitioning to CMAIO, funding the costs of professional services support for program management and implementation activities.
- Performing the secretariat function for the Nominating Committee established under the MOA, with the CMRA's initial Board of Directors being announced by the Council of Ministers in July 2016.
- Entering into the funding agreement with CMAIO, and assisting CMAIO in establishing its financial and administrative infrastructure.

In July 2016, the Participating Jurisdictions announced new Cooperative System implementation timelines. Under an amended Memorandum of Agreement, participating

jurisdictions will use their respective best efforts to enact the uniform provincial-territorial *Capital Markets Act* and the complementary federal *Capital Markets Stability Act* by June 30, 2018, with the CMRA targeted to be operational in 2018.

Net Results of Operations vs. Fiscal 2015-16 Actual

Total expenses for the year ended March 31, 2017 were \$13.3 million, up from \$8.4 million for the same period a year earlier. Transition Office funding of CMAIO was the major factor in the year-over-year increase, with \$7.0 million in funding provided in the year just ended. This was partially offset by lower operating expenses, with a decrease of \$2.1 million from one year ago.

Operating expenses of \$6.3 million were down from \$8.4 million in the previous year. The decrease reflects lower external services utilization, partially offset by an increase in compensation and benefits expense from a year earlier.

Compensation and benefits expense of \$3.9 million was up by \$800,000 from the prior year. The increase is due primarily to increased staffing levels from a year earlier. The Transition Office staff complement averaged 19 during the year compared with the previous year's average of 15, with staff specialists being added to assist in developing national data collection and risk analysis capabilities for CMSA implementation.

External services expense decreased to \$1.2 million from \$4.0 million a year earlier. The pacing of Phase II implementation activities to the revised 2018 operational target for the CMRA, and the transitioning of responsibility for Phase II professional services support to CMAIO, led to the lower external services expense in the year just ended.

Occupancy expense of \$826,000 was flat relative to the prior year's \$821,000. Office lease rates were unchanged from a year ago.

Travel and consultation, information and technology, and administration expenses totalled \$415,000, down from \$467,000 a year ago. Costs were down from a year earlier as the result of CMAIO becoming responsible for its own costs following the appointment of its Board of Directors in August 2016.

Amortization expense was \$32,000 compared with \$37,000 in the prior year, with several previously-acquired capital assets reaching full amortization during the year.

Funding of \$7.0 million was provided to CMAIO under the funding agreement entered into in August 2016. There was no funding of CMAIO in the previous year.

Interest income fell to \$432,000 from \$551,000 a year earlier. The decrease reflects lower average cash balances held in the current year. Rates of return on cash balances were comparable to a year ago.

The net result of operations for the year was a deficit of \$12.8 million. The Transition Office closed the year with an accumulated surplus of \$35.9 million at March 31, 2017. The previous year's net results of operations was a deficit of \$7.9 million, and accumulated surplus of \$48.8 million at March 31, 2016.

Net Results of Operations vs. Fiscal 2016-17 Budget

Total expenses were \$13.3 million for the year ended March 31, 2017, 33% below budget expenses of \$19.8 million. The pacing of planned activities and expenditures to the new implementation timeline was the primary factor in expenses being lower than budget for the year.

Operating expenses of \$6.3 million were 28% lower than budget of \$8.8 million, reflecting unutilized contingency together with lower than planned staff levels and external services utilization.

Compensation and benefits expense of \$3.9 million was 8% below the \$4.2 million budgeted. Staffing levels were below budget as the Transition Office adjusted to the new implementation timeline for the CMRA to be operational.

External services expense was \$1.2 million, 25% less than the budget of \$1.6 million. The new implementation timeline led to lower than planned external services utilization.

Occupancy expense of \$826,000 was 9% below the \$904,000 budget due primarily to unplanned commodity tax recoveries.

Travel and consultation, information and technology, and administration expense totalled \$415,000, a collective 28% below the \$577,000 budget amount. The pacing of implementation activities, lower than planned staffing levels, and unplanned commodity tax recoveries were the principal factors.

Amortization expense of \$32,000 was 74% lower than the \$121,000 budget as the result of the deferral of planned leasehold improvements.

The Transition Office operating expense budget for the year included a \$1.4 million contingency that was not utilized.

Funding of \$7.0 million was provided to CMAIO, 37% below the budget of \$11.0 million. CMAIO became operational later in the year than assumed in the budget, and the funding provided reflects the pacing of Phase II activities to the new implementation timelines.

Interest revenue of \$432,000 exceeded the budget of \$394,000, reflecting higher average cash balances than planned.

Cash Flow

Cash decreased by \$13.0 million in the twelve months ended March 31, 2017, compared with an increase of \$36.2 million for the same period last year.

Cash of \$12.9 million was utilized for operating activities during the year, reflecting the year's operating deficiency net of movements in non-cash items. Cash of \$36.3 million was provided by operating activities in the previous year, with a \$44.0 million receipt of Government of Canada funding being partially offset by the operating deficiency for the year.

Cash paid for capital asset acquisitions was \$47,000 for the year, up from \$36,000 in the prior year.

The Transition Office closed the year with a \$36.3 million cash position, down from \$49.3 million a year ago.

Financial Position

The Transition Office had net financial assets of \$35.8 million at March 31, 2017, down from \$48.6 million a year earlier. Net financial assets comprise cash and cash equivalent of \$36.3 million and amounts receivable of \$159,000, offset by accounts payable and accrued liabilities of \$688,000.

Together with non-financial assets of \$181,000, the Transition Office closed the year with an accumulated surplus of \$35.9 million, a decrease from the previous year's \$48.8 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. Whitwam
Chief Financial Officer

Vancouver, Canada

June 23, 2017



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

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 2017, 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.

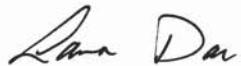
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 2017, 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*.



Lana Dar, CPA, CA
Principal
for the Auditor General of Canada

23 June 2017
Vancouver, Canada

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

<i>(in thousands of dollars)</i>	2017	2016
Financial Assets		
Cash and cash equivalents (note 3)	36,282	49,261
Amounts receivable	159	353
Total financial assets	36,441	49,614
Liabilities		
Accounts payable and accrued liabilities	688	1,039
Total liabilities	688	1,039
Net financial assets	35,753	48,575
Non-financial assets		
Tangible capital assets (note 6)	61	46
Prepaid expenses	120	145
Total non-financial assets	181	191
Accumulated surplus	35,934	48,766

Contractual obligations (note 9)

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>	2017 Budget	2017 Actual	2016 Actual
Operating expenses			
Compensation and benefits	4,181	3,854	3,089
External services	1,596	1,180	3,991
Occupancy	904	826	821
Travel and consultation	284	212	277
Information and technology	216	151	149
Administration	77	52	41
Amortization	121	32	37
Contingency	1,400	-	-
Total operating expenses	8,779	6,307	8,405
Funding of Capital Markets Authority Implementation Organization (note 5)			
	11,000	6,957	-
Total expenses	19,779	13,264	8,405
Revenue			
Interest income	394	432	551
Net results of operations	(19,385)	(12,832)	(7,854)
Accumulated surplus at beginning of year	48,766	48,766	56,620
Accumulated surplus at end of year	29,381	35,934	48,766

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>	2017 Budget	2017 Actual	2016 Actual
Net results of operations	(19,385)	(12,832)	(7,854)
Acquisition of tangible capital assets	(275)	(47)	(36)
Amortization of tangible capital assets	121	32	37
Acquisition of prepaid expenses	(145)	(120)	(145)
Use of prepaid expenses	145	145	147
 Increase (decrease) in net financial assets	(19,539)	(12,822)	(7,851)
 Net financial assets at beginning of year	48,575	48,575	56,426
 Net financial assets at end of year	29,036	35,753	48,575

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>	2017	2016
Operating activities		
Cash received from:		
Government of Canada funding (note 4)	-	44,000
Interest on deposits	432	551
Total cash received	432	44,551
Cash paid for:		
Compensation and benefits	(3,803)	(3,161)
Facilities, services and supplies	(2,604)	(5,110)
Funding of Capital Markets Authority Implementation Organization (note 5)	(6,957)	-
Total cash paid	(13,364)	(8,271)
Cash provided by (used in) operating activities	(12,932)	36,280
Capital activities		
Acquisition of tangible capital assets	(47)	(36)
Cash used in capital activities	(47)	(36)
Increase (decrease) in cash and cash equivalents	(12,979)	36,244
Cash and cash equivalents at beginning of year	49,261	13,017
Cash and cash equivalents at end of year	36,282	49,261

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

Notes to the Financial Statements

March 31, 2017

1. Authority and purpose

The Canadian Securities Regulation Regime Transition Office (the “Transition Office”) was created under the *Canadian Securities Regulation Regime Transition Office Act* (the “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 one of seven Participating Jurisdictions that are signatories to the Memorandum of Agreement Regarding the Cooperative Capital Markets System (the “MOA”). The Transition Office supports 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.

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) Funding of Capital Markets Authority Implementation Organization

Funding provided to the Capital Markets Authority Implementation Organization is recognized in the Statement of Operations in the period when the funding is authorized by the Transition Office and all eligibility criteria have been met. Refer to note 5.

(e) 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.

(f) Financial instruments

i) *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

ii) *Amounts receivable*

Amounts receivable include GST/HST rebates receivable and amounts receivable from the Capital Markets Authority Implementation Organization for costs paid on its behalf. Amounts receivable from the Capital Markets Authority Implementation Organization are measured at cost.

iii) *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.

(g) 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.

(h) 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>	2017	2016
Funds on deposit – operating	348	342
Funds on deposit – interest bearing	35,934	48,919
Total cash and cash equivalents	36,282	49,261

The average yield on interest bearing deposits during the year was 1.00% (2016 – 1.04%). There are no restrictions on funds on deposit.

4. Government of Canada funding

No Government of Canada funding is recognized in the Statement of Operations for the years ended March 31, 2017 and 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.

5. Funding of Capital Markets Authority Implementation Organization

The Capital Markets Authority Implementation Organization (“CMAIO”) is a not-for-profit entity incorporated on behalf of the Participating Jurisdictions to serve as an interim body until the establishment of the Capital Markets Regulatory Authority (“CMRA”) as proposed under the MOA. In August 2016, the Transition Office entered into a funding agreement whereby it will provide aggregate funding of up to \$30.0 million to support CMAIO’s operations prior to the CMRA being established. Funding is advanced to CMAIO on the basis of funding requests made to the Transition Office semi-annually. The Transition Office also makes office space available and provides administrative support services to CMAIO at no cost under the funding agreement. Contributed goods and services are not reflected in these financial statements as the fair values of these goods and services cannot reasonably be estimated.

Funding of \$7.0 million was provided to CMAIO by the Transition Office during the period ended March 31, 2017.

6. Tangible capital assets

<i>(in thousands of dollars)</i>	Computer & Telecom Equipment	Office Furniture	Leasehold Improver- ments	2017	2016
Cost					
Opening balance	286	100	143	529	493
Acquisitions	47	-	-	47	36
Closing balance	333	100	143	576	529
Accumulated amortization					
Opening balance	243	97	143	483	446
Amortization	31	1	-	32	37
Closing balance	274	98	143	515	483
Net book value	59	2	-	61	46

7. Financial risk management

Financial instruments of the Transition Office include cash and cash equivalents, amounts receivable, 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 and amounts receivable. 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.

Cash and cash equivalents

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.

Amounts receivable

Given the nature and source of amounts receivable, the Transition Office does not consider credit risk to be significant.

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.

8. 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 \$99,000 (2016 - \$86,000) 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.

9. 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>	2017-18	2018-19	Total
Lease payments	905	681	1,586

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.

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