



Canadian Securities
Regulation Regime
Transition Office

ANNUAL REPORT
2010-2011



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION
CANADIEN EN VALEURS MOBILIÈRES

TABLE OF CONTENTS

Letter to the Minister of Finance	3
Introduction	5
Mandate and Objectives	5
Our Team	7
Report on Activities	9
I. Delivery of draft securities legislation	9
II. Delivery of Transition Plan	9
III. Implementation	10
A. Initial implementation work	10
B. Development teams and program management processes established	10
C. Transition Office staff augmented and professional advisors retained	11
IV. Cooperation with participating jurisdictions	12
A. Secondments	12
B. Information requests	13
C. Extranet	13
V. Consultations with and outreach to stakeholders	13
A. Advisory Committees	13
B. Outreach to investors	15
C. Outreach to international stakeholders	15
D. Joint Advisory Committee and Participating Regulators Committee Meeting	16
E. General outreach	16
F. Website and electronic communications	16
Next Steps	17
Financial Highlights	19
Management’s Responsibility for Financial Reporting	23
Auditor’s Report	25
Financial Statements and Notes	27

July 30, 2011

The Honourable James M. Flaherty
Minister of Finance
Department of Finance
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister:

We are pleased to submit to you the Annual Report of the Canadian Securities Regulation Regime Transition Office (Transition Office) for the fiscal year from April 1, 2010 to March 31, 2011.

This has been a year of significant progress on our mandate of leading and managing the transition from the current system of provincial and territorial securities regulators to a new Canadian securities regulatory regime and the Canadian Securities Regulatory Authority.

Early in the fiscal year, we achieved two significant milestones: in May 2010, we delivered to you draft securities legislation, which you subsequently released as the proposed Canadian *Securities Act*; and, in July 2010, we delivered to you and participating provinces and territories the *Transition Plan for the Canadian Securities Regulatory Authority*. After July, we turned to the implementation of the Transition Plan and added resources through secondments and professional services contracts to handle the expanded work.

In working on the transition for the Canadian Securities Regulatory Authority, we have respected the process before the Supreme Court of Canada, which is considering the Government of Canada's question about whether the proposed Canadian *Securities Act* is within the constitutional jurisdiction of Parliament. While the Supreme Court considers the matter, we continue to work with participating provinces and territories to move the Canadian securities regulator initiative forward, as required by our mandate.

We wish to thank the Advisory Committee of Participating Provinces and Territories, the Participating Regulators Committee and our Legal Advisory Committee for their time and input into our work this year. We would also like to acknowledge the contributions of our staff and those seconded to the Transition Office by provincial regulators and law firms, whose dedication and expertise have made possible the achievements of this project.

We appreciate the opportunity to pursue this important national initiative under your leadership and look forward to moving toward implementing a new regulatory system over the next year.

Yours sincerely,



Douglas M. Hyndman
Chair and Chief Executive Officer



Bryan P. Davies
Vice-Chair

INTRODUCTION

The Canadian Securities Transition Office (Transition Office) was established by the Government of Canada in July 2009. This report covers the second fiscal year of its operations.

MANDATE AND OBJECTIVES

Under the *Canadian Securities Regulation Regime Transition Office Act*, the purpose of the Transition Office is to assist in the establishment of a Canadian securities regulation regime and a Canadian securities regulatory authority. In carrying out this purpose, the Transition Office must consult with stakeholders, develop a transition plan and undertake any other activity that the Minister of Finance may direct.

When the Transition Office was established in July 2009, the Minister gave us a mandate to lead and manage the transition from the current system of provincial and territorial regulators to a single, national securities regulator. The Minister directed us to lead the development of a Canadian securities act and to work on the transition with provinces and territories and with existing securities regulators.

In the first half of the fiscal year, the Transition Office achieved two significant milestones: we delivered draft securities legislation to the Minister of Finance in May 2010 and we delivered the *Transition Plan for the Canadian Securities Regulatory Authority* (Transition Plan) to the Minister of Finance and the ten participating provinces and territories in July 2010. In the latter part of the year, our activities turned to the implementation of the Transition Plan, leading to an expansion of the scope of our activities.

We focused on the following general objectives in this fiscal year:

- Deliver draft securities legislation to the Minister of Finance;
- Deliver a transition plan to the Minister of Finance and participating provinces and territories;
- Begin implementation work;
- Secure cooperation from participating provinces and territories to assist with our implementation work; and
- Continue to consult with a broad range of stakeholders on key aspects of the transition.

The Report on Activities on page 9 describes the activities we undertook to fulfill these objectives.

OUR TEAM

The Transition Office is headed by an Executive Team, which is supported by a Senior Management Team and staff. Our staff is made up of full and part-time employees together with employees seconded from a number of provincial securities regulators and ministries, as well as from law firms.

The following are the members of the Executive and the Senior Management Teams:

I. EXECUTIVE TEAM

Douglas M. Hyndman – Chair and Chief Executive Officer

Mr. Hyndman was appointed Chair and CEO of the Transition Office in July 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.

Bryan P. Davies – Vice-Chair

Mr. Davies was appointed Vice-Chair in July 2009. In addition to serving as Vice-Chair of the Transition Office, Mr. Davies is also Chair of the Canada Deposit Insurance Corporation. Previously he had served as Chief Executive Officer and Superintendent of the Financial Services Commission of Ontario and had been Senior Vice-President of Regulatory Affairs at the Royal Bank Financial Group. Mr. Davies received the 2010 Vanier Medal in recognition of his contributions to policy development and public service in Canada.

Lawrence E. Ritchie – Executive Vice-President and Senior Policy Advisor

Mr. Ritchie was seconded to the position of Executive Vice-President and Senior Policy Advisor in July 2009 by the Ontario Securities Commission (OSC), where he has served as Vice-Chair since 2007. Prior to that, Mr. Ritchie was a litigation partner with Osler, Hoskin & Harcourt LLP, where he specialized in securities enforcement and general corporate, securities and commercial litigation.

II. SENIOR MANAGEMENT TEAM

Patricia Callon – Director, Stakeholder Outreach and Communications

Prior to joining the Transition Office in August 2009, Ms Callon was engaged by the OSC to lead participation by the CSA in the Joint Forum of Financial Market Regulators Point of Sale Project. Before that, she was Vice President & Associate General Counsel at Canadian Imperial Bank of Commerce.

Gayle Fisher – Chief of Human Resources Strategy

Ms Fisher was seconded to the Transition Office in October 2010 from her position as Chief Human Resources Officer at the OSC. Prior to joining the OSC, she was the Assistant Deputy Minister of Employee Relations for the Ontario Government.



Peter Grant – *Director, Transition Planning and Implementation*

Prior to joining the Transition Office in July 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.

Jay Whitwham – *Chief Financial Officer*

Prior to joining the Transition Office as its Chief Financial Officer in May 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 Institute of Chartered Accountants of British Columbia.

REPORT ON ACTIVITIES

I. DELIVERY OF DRAFT SECURITIES LEGISLATION

In May 2010, the Transition Office delivered draft securities legislation to the Minister of Finance. The Minister released the Proposed Act to the public on May 26, 2010 and referred it to the Supreme Court of Canada for an opinion as to whether it is within the legislative authority of Parliament. The Supreme Court reserved its opinion, following hearings on the matter on April 13 and 14, 2011.

The Proposed Act builds on existing provincial securities legislation, harmonizing the provincial statutes into a single act. It establishes the Canadian Securities Regulatory Authority (CSRA) and sets out, among other new features:

- a mandate for the CSRA to contribute to the stability of the financial system as a whole;
- a harmonized criminal and regulatory enforcement regime with strengthened investigative powers;
- broad authority to regulate various types of financial instruments and participants in capital markets;
- a transparent and accountable governance structure that builds in avenues for provincial input and involvement; and
- an independent Canadian Securities Tribunal, which would be responsible for adjudication under the act.

The Proposed Act was informed by input from participating provinces and territories, investors, market participants, industry professionals and the advisors to the Transition Office, including the Advisory Committee of Participating Provinces and Territories, the Participating Regulators Committee and the Legal Advisory Committee. Further details regarding consultations with these stakeholders is provided in Section V.

II. DELIVERY OF TRANSITION PLAN

On July 12, 2010, the Transition Office delivered the Transition Plan to the Minister of Finance and participating provinces and territories. The plan was subsequently released to the public.

The Transition Plan is a roadmap for establishing the CSRA and transitioning from the current provincial and territorial system of securities regulation to a national securities regulator. The objective is for the CSRA to be an integrated, national organization administering a single statute and set of regulations within a unified accountability framework. The Transition Plan sets out:

- the vision for the CSRA and its regulatory approach;
- a high level governance and organizational structure for the CSRA;
- transition considerations related to people, business processes, information management, fee design and initial regulations;
- an approach to maintaining continuity of legal and regulatory processes through the transition; and
- an implementation approach.



The Transition Plan was informed by consultations with participating provinces and territories, the advisors to the Transition Office and other stakeholders. We expect that its details will continue to evolve through dialogue with provinces and territories and through ongoing consultations.

III. IMPLEMENTATION

A. Initial implementation work

Implementing the CSRA and efficiently integrating the regulatory operations of participating jurisdictions is a complex undertaking. The Transition Plan sets out the Transition Office's recommendations on how to establish the new organization. It takes into account the resources and systems of the existing provincial and territorial securities regulators and the needs of the CSRA in fulfilling its mandate as the national securities regulator.

Underlying the Transition Plan is more detailed implementation planning, through which we have identified over 400 distinct tasks required to complete the transition to the CSRA. These tasks have been organized into more than 20 projects, which fall into 8 functional areas: Board and Governance, People and Organization, Initial Regulations, Adjudication, Legal Continuity, Regulatory/Business Processes, Finance and Strategy, and Information Management.

The implementation work flowing from the Transition Plan has proceeded on a staged basis, with projects requiring the most lead-time commencing first. The implementation projects and processes that were begun during this fiscal year include the following:

- Establishing the CSRA's governance structure and board of directors processes;
- Developing a set of initial regulations proposed to be adopted by the CSRA under the Proposed Act;
- Designing the structure and process for the adjudicative functions of the Canadian Securities Tribunal;
- Developing the detailed organization design for the CSRA;
- Developing a compensation philosophy and total compensation plan;
- Designing a simplified fee schedule; and
- Initial planning for the required network and telecommunications infrastructure to support a national organization.

Each of these projects was ongoing at the end of the fiscal year.

B. Development teams and program management processes established

Recognizing the scale and complexity of the implementation work required, in fiscal year 2010-2011, the Transition Office established development teams to work on most of the functional areas identified above. It also established a comprehensive, formal governance and program management process to ensure that project resources are utilized effectively and project milestones within the control of the Transition Office are met.

Development teams—each led by a project manager—are responsible for the execution of the projects in their respective functional areas. The Executive Team leads the oversight of all projects, including all elements of project planning, resource acquisition and project monitoring and reporting.

C. Transition Office staff augmented and professional advisors retained

In its first year of operations, the Transition Office focused on the development of the Proposed Act and Transition Plan. Following the release of the Proposed Act and Transition Plan, the Transition Office retained additional staff and professional advisors to meet the demands of the implementation phase of its mandate.

Additional staff members are a combination of secondments from securities regulators in participating provinces and territories, secondments from law firms and Transition Office employees and contractors. They provide the expertise and support required to manage the overall implementation program, and lead and staff various project streams.

Following delivery of the Transition Plan, the Transition Office retained Gerry O'Mahoney as Special Advisor, Project Implementation. Prior to joining the Transition Office, Mr. O'Mahoney was the Chief Operating Officer of TD Waterhouse. He assists the Transition Office with program management.

The Transition Office also retained the following professional advisors to contribute subject matter expertise and assist with implementing the CSRA:

- Gowling Lafleur Henderson LLP was retained as primary legal counsel on the transactional aspects of the transition to the CSRA;
- Osler, Hoskin & Harcourt LLP was retained as legal counsel on the derivatives aspects of the initial regulations; and
- Mercer was retained to advise on the compensation philosophy and compensation plan design for the CSRA.

Each of these firms was retained on the basis of responses to Transition Office Requests for Proposals (RFPs).

In addition, Deloitte LLP and PricewaterhouseCoopers LLP continue to support our implementation work. Both firms were retained in fiscal year 2009-2010 following a competitive RFP process.



IV. COOPERATION WITH PARTICIPATING JURISDICTIONS

Securities regulators in participating provinces and territories (“participating regulators”) provided significant input into the work of the Transition Office on the Proposed Act and Transition Plan. Since the delivery of the Transition Plan, the participating regulators have continued to be engaged in the transition process by seconding staff to the Transition Office, responding to information requests and continuing to consult on the activities of the Transition Office. The Transition Office has established an extranet site to keep staff of participating regulators informed about its work.

A. Secondments

As our work moved into the implementation phase following the delivery of the Transition Plan, a number of participating jurisdictions were able to second senior staff to lead or assist Transition Office development teams. We benefited from the following secondments from participating regulators during the fiscal year:

British Columbia Securities Commission (BCSC)

- Noreen Bent (Manager, Legal Services, Corporate Finance Division, BCSC) was seconded as Counsel to the Transition Office to assist with the development of initial regulations under the Proposed Act.

New Brunswick Securities Commission (NBSC)

- Kevin Hoyt (Regulatory Affairs and Chief Financial Officer, NBSC) was seconded as Finance Strategy and Processes Advisor to the Transition Office to assist with the development of financial and business systems and a fee structure for the CSRA.

Ontario Securities Commission (OSC)

- The secondment of Lawrence E. Ritchie (Vice-Chair, OSC) as Executive Vice-President and Senior Policy Advisor of the Transition Office was extended through the remainder of his current appointment term with the OSC.
- Gayle Fisher (Chief Human Resources Officer, OSC) was seconded to the Transition Office for the duration of the project as Chief of Human Resources Strategy.
- Monica Kowal (General Counsel, OSC) was seconded as Counsel to the Transition Office to assist with the development of initial regulations under the Proposed Act.

Saskatchewan Financial Services Commission (SFSC)

- Dean Murrison (Deputy Director, Legal/Registration, SFSC) was seconded as Counsel to the Transition Office to assist with the development of initial regulations under the Proposed Act.

The secondments from participating jurisdictions have provided valuable support and leadership for implementation projects and are an important aspect of our cooperation with participating jurisdictions.

B. Information requests

To assist with the Transition Office's implementation work, we requested and received information from participating regulators on staffing, compensation and benefits, fees, telecommunications and adjudicative processes. The development teams have used this information to advance implementation work.

C. Extranet

To support its objective of establishing consistent and transparent communication with staff of participating regulators, as set out in the Transition Plan, the Transition Office developed an extranet website and made it available to staff of all participating regulators as a means of keeping them informed of its work. We launched the extranet in February 2011, with the cooperation of participating regulators, and we update it with news items and other information from time to time.

V. CONSULTATIONS WITH AND OUTREACH TO STAKEHOLDERS

Consultation and stakeholder outreach are a significant, ongoing aspect of the mandate of the Transition Office. This fiscal year, we fulfilled this portion of our mandate by continuing to consult with established advisory committees and by extending outreach to a wide range of stakeholders through a combination of in-person meetings, web-based and electronic communications and other events.

A. Advisory Committees

The Transition Office met regularly with its committees over the past year to ensure it considered a wide range of perspectives in advancing the transition mandate.

1. *Advisory Committee of Participating Provinces and Territories*

The Advisory Committee of Participating Provinces and Territories continues to advise the Transition Office on matters related to the transition to a Canadian securities regulatory regime and a Canadian regulatory authority. Advisory Committee members bring the perspectives of their respective provincial and territorial governments and an understanding of the interests of investors and market participants in their regions.

Ten provinces and territories have nominated members to the Advisory Committee.

Members of the committee in the 2010-2011 fiscal year were:

British Columbia	Peter M. Brown
New Brunswick	William E. Belliveau (to January 22, 2011) ¹
Newfoundland and Labrador	Winston Morris
Northwest Territories	Gary I. MacDougall
Nova Scotia	Dawn A. Russell
Nunavut	Louis L. Arki
Ontario	James D. Hinds
Prince Edward Island	Yousef Hashmi (effective May 17, 2010)
Saskatchewan	Dale G. Linn
Yukon	Frederik J. Pretorius

We met with the Advisory Committee in person or by conference call seven times between April 1, 2010 and March 31, 2011. Meetings typically covered a full range of matters in relation to the draft legislation, the Transition Plan and implementation issues.

¹ William Belliveau resigned from the committee on January 22, 2011; New Brunswick's new representative is pending Governor in Council approval.



2. Participating Regulators Committee

The Participating Regulators Committee is made up of the heads of the securities regulators from each of the participating provinces and territories and, in some cases, the executive directors of the regulators. The mandate of the Participating Regulators Committee is to ensure regular and substantive communication between the Transition Office and participating regulators, providing a forum for the Transition Office to consult with provincial regulators and their staff on draft legislation, the Transition Plan and implementation activities.

This forum enables the Transition Office to draw on the experience and expertise of participating regulators, while at the same time providing an open line of communication to allow participating regulators to stay abreast of the Transition Office's work and help keep their staff informed.

Members of the committee in the 2010-2011 fiscal year were:

British Columbia

Brenda Leong
Chair and Chief Executive Officer
British Columbia Securities Commission

Paul Bourque
Executive Director
British Columbia Securities Commission

New Brunswick

David G. Barry
Chair and Chief Executive Officer
New Brunswick Securities Commission

Rick Hancox
Executive Director
New Brunswick Securities Commission

Newfoundland and Labrador

Doug Connolly
Director, Financial Services Regulation Division
Department of Government Services
Government of Newfoundland and Labrador

Northwest Territories

Gary MacDougall
Superintendent of Securities
Department of Justice
Government of the Northwest Territories

Nova Scotia

Leslie O'Brien
Chair
Nova Scotia Securities Commission

Bill Slattery
Executive Director
Nova Scotia Securities Commission

Nunavut

Louis Arki
Superintendent of Securities
Department of Justice
Government of Nunavut

Ontario

David Wilson
Chair and Chief Executive Officer
Ontario Securities Commission (to October 31, 2010)

Howard Wetston
Chair and Chief Executive Officer
Ontario Securities Commission
(from November 15, 2010)

Peggy Dowdall-Logie
Executive Director and Chief Administrative Officer
Ontario Securities Commission (to February 2011)

Prince Edward Island

Katharine Tummon
Superintendent of Securities
Consumer, Corporate and Insurance Services Division
Office of the Attorney General
Government of Prince Edward Island

Saskatchewan

David Wild
Chair
Saskatchewan Financial Services Commission

Yukon

Frederik Pretorius
Superintendent of Securities
Department of Community Services
Government of Yukon

We had seven meetings with this committee, in person or by conference call, during the fiscal year.

3. *Legal Advisory Committee*

The purpose of the Legal Advisory Committee is to advise the Transition Office on policy matters related to securities regulation. Members of the committee are securities law experts who were previously members of the Legal Advisory Committee to the Expert Panel on Securities Regulation.

Members of the committee during the fiscal year were:

Philip Anisman	Barrister & Solicitor
Richard Balfour	Torys LLP
Patrick Finnerty	Blakes LLP
Mitchell Gropper	Farris Vaughan Wills & Murphy LLP
Glorianne Stromberg	Barrister & Solicitor (retired)

We met with the Legal Advisory Committee twice during the fiscal year to obtain advice and input on the draft legislation and related matters.

B. Outreach to investors

In order to further expand outreach to investors this fiscal year, the Transition Office met with a number of consumer organizations such as the Canadian Association of Retired Persons, the Small Investor Protection Association, Canadian Foundation for the Advancement of Investor Rights (FAIR Canada) and the Consumers Council of Canada.

In the latter part of the fiscal year, the Transition Office worked with FAIR Canada to organize a symposium to learn about the experiences of investor advisory panels in the United Kingdom and United States. The event brought together panelists from the U.K. Financial Services Authority and the Securities and Exchange Commission's investor panels. Individual investor stakeholders and investor advocacy organizations were invited to the event, which was held in April 2011. The insights and ideas provided at the symposium will contribute to the Transition Office's work in formulating a recommendation to the new regulator about the design and operation of the investor advisory panel to be established under the Proposed Act.

C. Outreach to international stakeholders

The Transition Office also expanded outreach activities to international stakeholders during the fiscal year. In order to enhance awareness of the national regulator initiative in Canada and begin to establish communication channels with international organizations and stakeholders, members of the Executive Team met with a variety of these stakeholders, including:

- the International Monetary Fund
- regulatory bodies in the United States, such as the Securities and Exchange Commission, the Commodity Futures Trading Commission, NYSE Regulation, the Financial Industry Regulatory Authority, and the North American Securities Administrators Association
- the U.S. Department of the Treasury
- industry associations such as the Investment Advisor Association and the Securities Industry and Financial Markets Association
- law firms who advise U.S. issuers and registrants that do business in Canada



The meetings were an important step in beginning to inform these organizations and stakeholders of the work of the Transition Office and establish avenues to obtain input as may be necessary.

D. Joint Advisory Committee and Participating Regulators Committee Meeting

In February 2011, the Transition Office organized a series of meetings with the Advisory Committee, Participating Regulators Committee and provincial government representatives on the design and operation of the CSRA. The meetings provided a structured forum in which views and suggestions of each of the participants, as well as of market participants, could be heard by the Transition Office and others attending.

The meetings constituted a valuable exchange between stakeholders and yielded insights that the Transition Office will use in its implementation work.

E. General outreach

In addition to the meetings and events described above, outreach and communications activities in 2010-2011 included:

- meetings with regulatory staff in most of the participating jurisdictions
- meetings, in person or by telephone, with ministry staff in all of the participating jurisdictions
- presentations to the boards of directors of the Investment Industry Regulatory Organization of Canada, the Mutual Fund Dealers Association of Canada, the Investment Funds Institute of Canada, FAIR Canada, the Investment Industry Association of Canada, the Canadian Investor Protection Fund and the Canadian Venture Capital and Private Equity Association
- keynote addresses or speeches to the Capital Markets Forum, the Investment Funds Forum, the Pension Forum, the UBC National Centre for Business Law, the Canadian Securities Traders Annual Conference, Financial Executives International and Young Canadians in Finance
- presentations at seminars hosted by several law firms for their clients
- meetings with the Ombudsman for Banking Services and Investments and the Financial Consumer Agency of Canada
- participation in the Deloitte Directors' Series broadcast to participants in 19 Canadian cities
- speeches and presentations to academic institutions and law, business and industry associations

F. Website and electronic communications

In March 2011, the Transition Office launched an updated external website. Both the format and content of the site were revised in order to better accommodate expanded information about the transition to the CSRA and provide users with various means of keeping up to date with Transition Office activities, including an RSS feed and email updates. The website was updated regularly in order to keep stakeholders informed of Transition Office activities. We also sent occasional email updates to our stakeholders regarding our activities.

NEXT STEPS

Our plans for the CSRA and the transition are being pursued through collaboration with participating provinces and territories and are subject to review based on the Supreme Court's pending decision on the extent of federal jurisdiction. In the next fiscal year, we will continue to focus on implementation activities and consultation.



FINANCIAL HIGHLIGHTS

The Transition Office was established under the *Canadian Securities Regulation Regime Transition Office Act* on July 13, 2009. This Annual Report includes the Financial Statements of the Transition Office for the twelve months ended March 31, 2011, with comparative figures for the 8½ months from the date of inception to March 31, 2010.

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2011, with comparative figures for the 8½ months ended March 31, 2010.

<i>(in thousands of dollars)</i>	2011 Budget (12 months)	2011 Actual (12 months)	2010 Actual (8½ months)
Operating expenses	13,157	9,930	4,304
Interest income	–	77	–
Government of Canada funding	13,255	13,255	5,400
Net results of operations	98	3,402	1,096
Cash provided by operating activities		3,727	2,318
Acquisition of tangible capital assets		(302)	(224)
Interest received on deposits		71	–
Increase in cash		3,496	2,094
Cash		5,590	2,094
Net financial assets		3,948	790
Accumulated surplus		4,498	1,096

Net Results of Operations vs. 2010 Actual

The Transition Office completed the initial phase of its mandate early in fiscal 2010-2011, with the delivery of draft legislation to the Minister of Finance in May 2010 and delivery of the Transition Plan to the Minister and participating provinces and territories in July 2010. Since then, the Transition Office has moved into the next phase of implementation preparation for the CSRA, with development teams being established in the areas of Board and Governance, People and Organization, Initial Regulations, Adjudication, Legal Continuity, Regulatory/Business Processes, Finance and Strategy, and Information Management.

Operating expenses totalled \$9.9 million for the twelve months ended March 31, 2011, compared with \$4.3 million for the 8½ months ended one year earlier. The increase over the previous period reflects a full twelve months of operations, additional staff and professional service resources supporting implementation activities, and expanded facility and technology infrastructure.

Compensation and benefits expense for the twelve months was \$4.8 million, compared with \$1.8 million for the 8½ month period a year ago. The Transition Office had a complement of 40 staff at March 31, 2011, up from 17 staff at March 31, 2010 during the initial phase of its mandate. The growth in staff provides



Annual Report – 2010-2011

specific expertise and experience in securities policy and regulation, adjudication, human resources strategy, finance, project management, stakeholder outreach, and support functions. A significant number of staff are on secondment from participating regulators and the legal community.

Professional services expense was \$3.6 million for the twelve months, up from \$1.8 million in the corresponding 8½ months. With the Transition Office moving into the next phase of implementation preparation, additional professional service resources have been retained to provide expertise and support development activities.

Occupancy costs in the twelve months increased to \$667,000 from \$232,000 in the earlier 8½ month period. The increase reflects incremental facility requirements and the expiry of an initial sub-lease that had a very favourable lease rate relative to prevailing market rates.

Other infrastructure and support costs also increased with the full year of operation and the expanded activities of the Transition Office.

The Government of Canada provided funding of \$13.3 million for the twelve months ended March 31, 2011, compared with \$5.4 million for the 8½ months ended March 31, 2010. The net result of operations for the year was a surplus of \$3.4 million and an accumulated surplus of \$4.5 million at the close of the year. This compares with a surplus and accumulated surplus of \$1.1 million for the 8½ month period ended a year earlier.

Net Results of Operations vs. 2011 Budget

Operating expenses of \$9.9 million for the twelve months were \$3.2 million below the amount budgeted by the Transition Office. Lower professional services expense was the most significant factor in the budget variance for the year.

Compensation and benefits expense at \$4.8 million was 29% higher than budget, as the Transition Office made greater use of staff resources in carrying out implementation preparation activities.

Professional services expense of \$3.6 million was 52% below the \$7.5 million budgeted. The timing of initiating certain development streams was a significant factor in the variance to budget. The variance also reflected lower than expected utilization of professional service resources during the year, with a greater degree of implementation preparation activities being performed by Transition Office staff.

Occupancy costs of \$667,000 were 85% higher than budget. Contributing factors were additional premises space and an increase in lease rate following the expiry of a favourable sub-lease.

Travel and consultation expenses of \$447,000 were 58% below budget. Activities during the year were targeted and the Transition Office made considerable use of available communications technology to manage overall travel requirements.

Aggregate expenses of \$264,000 for telecommunications, information management and administration were 21% below budget of \$336,000 for the year.

Cash Flow

Cash increased by \$3.5 million for the twelve months ended March 31, 2011. Cash provided by operating activities was \$3.8 million, reflecting the Transition Office's operating surplus for the year plus net movements in non-cash items. This compares with cash from operations of \$2.3 million for the 8½ months ended a year earlier.

Cash paid for capital expenditures was \$302,000 in the year, compared with \$224,000 for the 8½ months a year ago. The current year's cash paid includes \$29,000 for accounts payable at March 31, 2010 relating to fiscal 2010 capital additions. Capital additions in the current year include computer equipment and software, telecommunications infrastructure, and office furniture and improvements for incremental premise space.

The Transition Office closed the year with a \$5.6 million cash position, up from \$2.1 million a year earlier.

Financial Position

The Transition Office had net financial assets of \$4.0 million at March 31, 2011, up from \$790,000 a year earlier. Net financial assets comprise cash and amounts receivable of \$6.0 million, offset by \$2.0 million in accounts payable and accrued liabilities. Together with non-financial assets of \$550,000, the Transition Office closed the year with an accumulated surplus of \$4.5 million, up from the previous year's \$1.1 million accumulated surplus.

The Transition Office has received \$14.3 million in fiscal 2011-2012 funding from the Government of Canada. This brings the cumulative funding received by the Transition Office since inception to the \$33.0 million budgetary allocation provided in the *Canadian Securities Regulation Regime Transition Act*.

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 generally accepted accounting principles for the public sector. 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 21, 2011





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 2011, and the statement of operations and accumulated surplus, statement of changes 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 generally accepted accounting principles, 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 2011, and the results of its operations, the changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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*.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Interim Auditor General of Canada

21 June 2011
Ottawa, Canada

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

(in thousands of dollars)

	2011	2010
Financial Assets		
Cash	5,590	2,094
Amounts receivable	397	–
Total financial assets	5,987	2,094
Liabilities		
Accounts payable and accrued liabilities	2,005	1,272
Deferred rent (note 5)	34	32
Total liabilities	2,039	1,304
Net financial assets	3,948	790
Non-financial assets		
Tangible capital assets (note 4)	391	226
Prepaid expenses	159	80
Total non-financial assets	550	306
Accumulated surplus	4,498	1,096

Contractual obligations (note 6)

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

Approved by:



Douglas M. Hyndman
Chair and Chief Executive Officer



Bryan P. Davies
Vice Chair



Statement of Operations and Accumulated Surplus

For year ended March 31, 2011,
with comparative figures for 8½ months ended March 31, 2010

<i>(in thousands of dollars)</i>	2011 Budget	2011 Actual	2010 Actual
Operating expenses			
Compensation and benefits	3,770	4,849	1,816
Professional services	7,512	3,595	1,801
Occupancy	360	667	232
Travel and consultation	1,070	447	294
Telecommunications	153	119	30
Administration	153	95	47
Information management	30	50	57
Amortization	109	108	27
Total operating expenses	13,157	9,930	4,304
Revenue			
Interest income	–	77	–
Net results of operations before Government of Canada funding	(13,157)	(9,853)	(4,304)
Government of Canada funding (note 3)	13,255	13,255	5,400
Net results of operations	98	3,402	1,096
Accumulated surplus at beginning of period	1,096	1,096	–
Accumulated surplus at end of period	1,194	4,498	1,096

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

Statement of Changes in Net Financial Assets**For year ended March 31, 2011,****with comparative figures for 8½ months ended March 31, 2010**

<i>(in thousands of dollars)</i>	2011 Budget	2011 Actual	2010 Actual
Total financial assets, beginning of period	790	790	–
Items affecting net financial assets			
Increase in accumulated surplus	98	3,402	1,096
Acquisition of tangible capital assets	(207)	(273)	(253)
Amortization of tangible capital assets	109	108	27
Increase in prepaid expenses	–	(79)	(80)
Increase in net financial assets	–	3,158	790
Total financial assets, end of period	790	3,948	790

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



Statement of Cash Flow

For year ended March 31, 2011,
with comparative figures for 8½ months ended March 31, 2010

<i>(in thousands of dollars)</i>	2011	2010
Operating activities		
Cash received from Government of Canada	13,255	5,400
Cash paid for:		
Compensation and benefits	(4,532)	(1,313)
Facilities, services and supplies	(4,996)	(1,769)
Total cash paid	(9,528)	(3,082)
Cash provided by operating activities	3,727	2,318
Capital activities		
Acquisition of tangible capital assets	(302)	(224)
Investing activities		
Interest on deposits	71	–
Increase in cash	3,496	2,094
Cash at beginning of period	2,094	–
Cash at end of period	5,590	2,094

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

Notes to the Financial Statements

For year ended March 31, 2011,
with comparative figures for 8½ months ended March 31, 2010

1. Authority and purpose

The Canadian Securities Regulation Regime Transition Office (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.

In carrying out its purpose, the Act requires the Transition Office to:

- a) develop a transition plan with respect to administrative and organizational matters, including those relating to human, financial, material and informational resources;
- b) consult with stakeholders, including Canadian capital market participants; and
- c) undertake any other activity that the Minister of Finance may direct.

The Transition Office has a three-year mandate expiring on July 12, 2012. The Act provides that the mandate of the Transition Office may be extended to July 12, 2013 by the Governor in Council, acting on the recommendation of the Minister of Finance.

The Government of Canada is entitled to any residual interest in the Transition Office and will assume any risks and obligations upon its dissolution.

2. Significant accounting policies

(a) Basis of presentation

These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(b) Government of Canada funding

Aggregate funding of \$33 million is authorized under the Act for the operations and expenditures of the Transition Office during the term of its mandate, with such funding to be paid out of the Consolidated Revenue Fund on the requisition of the Minister of Finance. Funding provided by the Government is recognized in the Statement of Operations in the period it becomes receivable.

(c) Operating expenses

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



(d) Tangible capital assets

All tangible capital assets having an initial cost of \$2,000 or more are recorded at their acquisition cost. Tangible assets include computers (hardware and software), telecommunications equipment, office furniture and leasehold improvements. Amortization of tangible assets 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	–	period of lease

(e) Measurement uncertainty

The preparation of financial statements in accordance with GAAP 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.

(f) Future accounting changes

In March 2011, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants issued a revised Public Sector Accounting Handbook section PS 3410, Government Transfers. The revised standard addresses interpretation and application issues with current Public Sector Accounting Handbook section PS 3410, Government Transfers. The new section PS 3410 applies to fiscal periods beginning April 1, 2012. The future accounting implications of this new standard on the Transition Office are not expected to be significant.

3. Government of Canada funding

The Government of Canada provided funding of \$13.3 million to the Transition Office during the period (\$5.4 million in 2010). Cash balances held by the Transition Office are maintained on deposit with a major Canadian financial institution.

4. Tangible capital assets

<i>(in thousands of dollars)</i>	Computer & Telecom Equipment	Office Furniture	Leasehold Improvements	2011	2010
Cost					
Opening balance	167	57	29	253	–
Acquisitions	149	37	87	273	253
Closing balance	316	94	116	526	253
Accumulated amortization					
Opening balance	24	2	1	27	–
Amortization	75	16	17	108	27
Closing balance	99	18	18	135	27
Net book value	217	76	98	391	226

5. Deferred rent

The Transition Office has entered into a lease agreement for office premises that includes a rent-free period. The total payments due over the term of the lease are aggregated, with this aggregate amount being recognized to expense on a straight-line basis over the lease term, including the rent-free period. The balance shown as deferred rent represents the cumulative amount by which rent recognized as expense on a straight-line basis exceeds actual rent paid at the end of the period.

6. 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>	2011-12	2012-13	Total
Lease payments	971	745	1,716

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



7. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation and cover the period from the date of inception of July 13, 2009 to March 31, 2010.

Vancouver:

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

Toronto:

P.O. Box 109, Royal Trust Tower
77 King Street West, Suite 3110
Toronto, ON
M5K 1G8

Website: www.csto-btcvm.ca

Email: info@csto-btcvm.ca

Toll-free: 888-697-5390

Fax: 888-701-5177



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION
CANADIEN EN VALEURS MOBILIÈRES