Canadian Securities Regulation Regime Transition Office

Annual Report
2013-2014

CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN EN VALEURS MOBILIÈRES

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July 31, 2014

The Honourable Joe Oliver
Minister of Finance
Department of Finance
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister,

We are pleased to submit to you the fifth Annual Report of the Canadian Securities Regulation Regime Transition Office for the fiscal year from April 1, 2013 to March 31, 2014.

During the past year, we have continued to support the efforts of the federal government and willing provinces and territories to establish a common securities regulator on a cooperative basis. This year, our work focused on two key areas: the development of draft legislation for the federal government to carry out its responsibilities for capital markets consistent with the decision of the Supreme Court; and the preparation for and subsequent implementation work on the Agreement in Principle signed in September 2013 by the governments of British Columbia, Ontario and Canada to establish a cooperative capital markets regulatory system.

Our staff have worked diligently on this important initiative. I wish to thank them for their dedication and perseverance.

I would also like to express my personal thanks to Bryan Davies and Larry Ritchie, whose terms as Vice Chair and Executive Vice President of the Transition Office came to an end during the year. They both joined the office with me at its inception. Their unwavering support, creative ideas and wise advice were instrumental in what we achieved at every step of the project.

Finally, let me pay tribute to the late Jim Flaherty. His remarkable vision and determination provided the continuing motivation for this project in the face of challenges that would have defeated others. Although he did not live to see the project to completion, his spirit will continue to guide the efforts of all participants.

We look forward to continuing our work with the participating governments to establish the new cooperative system.

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 achieved two significant milestones: we developed draft securities legislation which the Minister of Finance released as the proposed *Canadian Securities Act* (Proposed Act) and referred to the Supreme Court of Canada for an opinion on its constitutionality and we delivered to the Minister the *Transition Plan for the Canadian Securities Regulatory Authority* (Transition Plan).

In 2011, the Court determined that the Proposed Act, as drafted, was not constitutionally valid under the general branch of the federal power to regulate trade and commerce. However, it also found that Parliament has a role in securities regulation under that power regarding matters of genuine national importance and scope, including maintaining the integrity and stability of the financial system and preventing and responding to systemic risks.

Following the release of the decision, the Transition Office worked on developing a legal and administrative framework for a cooperative capital markets regulator and planning for a possible transition. In addition, we contributed to the development of draft federal legislation to address systemic risk in national 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. Since then, the Transition Office's principal focus has been to assist with the implementation of the Cooperative System.

In June 2013, the Government of Canada extended the mandate of the Transition Office to ensure that our resources remain available as this work continues.

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.

Patricia Callon – *Chief Legal Officer and Director, Stakeholder Outreach and Communications*

Prior to joining the Transition Office in 2009, Ms. Callon was engaged by the Ontario Securities Commission 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, Wealth Management at Canadian Imperial Bank of Commerce.

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

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

Leigh-Anne Mercier – *Special Advisor to the Chair*

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

Jay Whitwham – *Chief Financial Officer*

Prior to joining the Transition Office as its Chief Financial Officer in 2010, Mr. Whitwham was a professional advisor providing corporate finance services to small and medium-sized enterprises requiring expertise in the areas of strategy, financing, M&A and restructuring. He previously held CFO and senior financial roles in manufacturing and technology businesses, including a TSX-listed pulp and paper company. Mr. Whitwham is a member of the Institute of Chartered Accountants of British Columbia.

Supplementary Expertise

During the year, we continued to work with professional advisors retained for their specific expertise following competitive request for proposal processes. In particular, Deloitte LLP provided program management services for the implementation work that began after the AIP was signed in September 2013; and Gowling Lafleur Henderson LLP provided advice on the legal structure for the new regulator and the options for integrating the current provincial regulators into the Cooperative System.

Report on Activities

The Transition Office's activities evolved during the fiscal year. We initially assisted in the development of draft federal legislation addressing the aspects of capital markets regulation confirmed by the Supreme Court of Canada as being within the jurisdiction of Parliament. In the second half of the year, we supported the efforts to conclude the AIP and the initial work to implement the Cooperative System contemplated by it.

Our work focused on the following areas:

I Development of draft federal capital markets stability legislation

II Work to support the conclusion of an Agreement in Principle

III Initial implementation work under the Agreement in Principle

I Development of Draft Federal Capital Markets Stability Legislation

We worked with the Department of Finance to develop draft legislation for the federal government to carry out its responsibilities for capital markets regulation consistent with the Supreme Court of Canada's decision. This involved research and discussions with them on matters involving systemic risk, national data collection and criminal enforcement.

II Work to Support the Conclusion of an Agreement in Principle

We supported negotiations between British Columbia, Ontario and Canada to develop an Agreement in Principle that sets out the substantive provisions for the structure, governance and operations of the Cooperative System.

The proposed new system will feature a common regulator administering both uniform provincial and complementary federal capital markets legislation. The regulator will be operationally independent and self-funded through a single set of fees. It will be directed by a board of independent directors with capital markets-related expertise and broadly representative of the regions of Canada. A Council of Ministers of all participating jurisdictions will oversee the Cooperative System.

A uniform act adopted by each participating province and territory will address all of the areas that the securities legislation of the provinces currently addresses. Complementary federal legislation will address criminal matters and matters relating to systemic risk in national capital markets and national data collection.

III Initial Implementation Work under the Agreement in Principle

Following the signing of the AIP in September, the Transition Office assisted the parties in preparing to implement the AIP. This included meetings with representatives of the participating jurisdictions to make available work previously done by the Transition Office that might be adapted to the implementation of the Cooperative System and regular meetings with the team of government officials who are dealing with the day-to-day transition and implementation of the Cooperative System.

Next Steps

We will continue to support the work of the participating jurisdictions to implement the Cooperative System.

Financial Highlights

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2014, together with comparative budget and prior year figures.

(in thousands of dollars)	2014 Budget	**2014 Actual**	2013 Actual
Operating expenses	12,298	**5,567**	5,849
Interest income	–	**25**	67
Government of Canada funding	10,000	**13,670**	–
Net results of operations	(2,298)	**8,128**	(5,782)
Cash provided by (used in) operating activities		**8,862**	(5,416)
Acquisition of tangible capital assets		**(71)**	–
Increase (decrease) in cash		**8,791**	(5,416)
Cash and cash equivalents		**11,829**	3,038
Net financial assets		**10,580**	2,454
Accumulated surplus		**10,798**	2,670

Net Results of Operations vs. FY2013 Actual

Transition Office activities focused on three primary areas during fiscal 2013-2014:

1. Contributing to the development of draft legislation for the Government of Canada to carry out its responsibilities for capital markets regulation consistent with the Supreme Court of Canada's decision.
2. Supporting discussions among the governments of British Columbia, Ontario and Canada which led to the conclusion of an Agreement in Principle (AIP) setting out a cooperative basis for the regulation of capital markets within their respective jurisdictions.
3. Assisting initial implementation efforts following the conclusion of the AIP.

Following the conclusion of the AIP in September 2013, the Transition Office's principal focus has been to assist with its implementation. Primary responsibility for implementation lies with a joint Implementation Team, which reports to a Ministers' oversight committee, as set out in section 6.2 of the AIP. The Transition Office is providing support to the Implementation Team, and continues to work with the Department of Finance on the federal aspects of implementation. Initial implementation work under the AIP has focused on the legislative elements of the Cooperative System.

Operating expenses for the year ended March 31, 2014 totalled $5.6 million, down slightly from $5.8 million for the same period a year ago. The decrease in fiscal 2013-2014 is due primarily to a lower staff complement and reduced occupancy expense, partially offset by increased external services activities.

Compensation and benefits expense of $3.5 million was $0.6 million lower than the previous year. The decrease reflects consolidation of staff activities through attrition during the year. The Transition Office had an average complement of 16 staff in fiscal 2013-2014, compared with 21 staff in fiscal 2012-2013.

External services expense of $761,000 was $516,000 higher than a year ago. External service requirements in the previous year were limited, with implementation-related activities significantly curtailed. The current year's increase reflects external services support for initial implementation work under the AIP.

Occupancy expense of $828,000 was $76,000 lower than the same period a year earlier. The decrease reflects a reduction in premises space during the year.

Travel and consultation, information and technology, and administration expenses totalling $396,000 were up slightly from $392,000 in the prior year.

Amortization costs decreased to $73,000 from $161,000 in the previous year, with a number of capital assets reaching full amortization during the current year.

Interest income of $25,000 was down from the prior year's $67,000 due to lower average cash balances in the current year.

The Transition Office recognized $13.7 million in Government of Canada funding in the Statement of Operations for the year. No funding was requested in the prior year.

The mandate of the Transition Office was previously scheduled to expire in July 2013. The mandate was extended through an amendment to the *Canadian Securities Regulation Regime Transition Office Act* (the "Act"), which came into force in June 2013. This amendment provides for a dissolution date to be set by the Governor in Council, on the recommendation of the Minister of Finance, and replaces the previous statutory dissolution date. In December 2013, authorized funding under the Act was increased from $33.0 million to $52.1 million.

The Transition Office entered the current year with $2.5 million in net financial assets. Prior to the December 2013 increase in authorized funding under the Act, interim funding of $4.2 million was provided by the Government of Canada under a contribution agreement. The contribution agreement covers costs and expenses for the period August 1, 2013 to March 31, 2014. Costs and expenses of $3.7 million were incurred during that period under the contribution agreement. This amount has been recognized as Government of Canada funding in the Statement of Operations for the year, and the remaining $0.5 million is repayable to the Government of Canada.

The Transition Office also received $10.0 million in Government of Canada funding under the Act, following the increase in authorized funding in December 2013.

The net result of operations for the year was $8.1 million, with an accumulated surplus of $10.8 million at March 31, 2014. This compares with a net result of operations deficiency of $5.8 million for the previous year and an accumulated surplus of $2.7 million at March 31, 2013.

Net Results of Operations vs. FY2014 Budget

Operating expenses of $5.6 million for the year ended March 31, 2014 were below budget by $6.7 million, or 54%. Staffing levels and external services requirements were lower than planned, with the Transition Office supporting initial AIP implementation efforts which focused on the legislative elements of the Cooperative System.

Compensation and benefits expense at $3.5 million was 51% under the $7.2 million budgeted. Staffing needs were lower than budget, with the Transition Office supporting project organization, planning and initial implementation efforts of the joint Implementation Team under the AIP.

External services expense of $761,000 for the year was 75% under the $3.0 million budgeted. External services requirements were lower than planned as initial implementation work focused on the legislative elements of the cooperative system as set out in the AIP.

Occupancy expense of $828,000 was 15% below budget. Unplanned tax recoveries and lower than anticipated maintenance were the primary factors.

Travel and consultation, information and technology, and administration expenses were under budget by a collective 60%, reflecting the lower average staff complement and operational focus on the legislative elements of the AIP.

Government of Canada funding for the year was $3.7 million more than budget as a result of the interim funding provided under the contribution agreement.

Cash Flow

Cash increased by $8.8 million in the twelve months ended March 31, 2014, compared with a decrease of $5.4 million for the same period last year.

Cash of $8.9 million was provided by operating activities, reflecting the Transition Office's operating surplus for the year net of movements in non-cash items. This compares with cash used in operating activities of $5.4 million a year earlier.

Cash paid for capital asset acquisitions was $71,000 for the year. No cash was utilized in the previous year for capital assets. Capital asset acquisitions included updates to technology assets and furniture and leasehold improvements enabling a reduction in premises space.

The Transition Office closed the year with an $11.8 million cash position, up from $3.0 million a year ago.

Financial Position

The Transition Office had net financial assets of $10.6 million at March 31, 2014, up from $2.5 million a year earlier. Net financial assets comprise cash and cash equivalents, GST/HST rebate receivable and other amounts receivable totalling $12.0 million, offset by accounts payable, accrued liabilities and the repayable contribution totalling $1.4 million. Together with non-financial assets of $218,000, the Transition Office closed the year with an accumulated surplus of $10.8 million, an increase from the previous year's $2.7 million accumulated surplus.

The mandate of the Transition Office has been extended through an amendment to the Act, which came into force in June 2013. This amendment provides for a dissolution date to be set by the Governor in Council, on the recommendation of the Minister of Finance, and replaces the previous statutory dissolution date for the Transition Office.

In December 2013, authorized funding under the Act was increased from $33.0 million to $52.1 million. The Transition Office has received cumulative funding of $43.0 million under the Act from inception to March 31, 2014.

Management's Responsibility for Financial Reporting

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

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

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

Douglas M. Hyndman
Chair and Chief Executive Officer

Jay G. Whitwham
Chief Financial Officer

Vancouver, Canada
June 20, 2014

Auditor General of Canada
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 2014, 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.

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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 2014, 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 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*.

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

20 June 2014
Ottawa, Canada

Financial Statements and Notes

Statement of Financial Position

As at March 31

(in thousands of dollars)	**2014**	2013
Financial Assets		
Cash and cash equivalents	**11,829**	3,038
GST/HST rebate receivable	**120**	53
Other amounts receivable	**14**	-
Total financial assets	**11,963**	3,091
Liabilities		
Accounts payable and accrued liabilities	**853**	637
Repayable contribution (note 3)	**530**	-
Total liabilities	**1,383**	637
Net financial assets	**10,580**	2,454
Non-financial assets		
Tangible capital assets (note 4)	**89**	91
Prepaid expenses	**129**	125
Total non-financial assets	**218**	216
Accumulated surplus	**10,798**	2,670

Contractual obligations (note 7)

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

(in thousands of dollars)	2014 Budget	**2014 Actual**	2013 Actual
Operating expenses			
Compensation and benefits	7,222	**3,509**	4,147
External services	2,993	**761**	245
Occupancy	970	**828**	904
Travel and consultation	583	**199**	176
Information and technology	278	**140**	155
Administration	134	**57**	61
Amortization	118	**73**	161
Total operating expenses	12,298	**5,567**	5,849
Revenue			
Interest income	–	**25**	67
Net results of operations before Government of Canada funding	(12,298)	**(5,542)**	(5,782)
Government of Canada funding (note 3)	10,000	**13,670**	–
Net results of operations	(2,298)	**8,128**	(5,782)
Accumulated surplus at beginning of year	2,670	**2,670**	8,452
Accumulated surplus at end of year	372	**10,798**	2,670

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

Statement of Change in Net Financial Assets

For the year ended March 31

(in thousands of dollars)	2014 Budget	**2014 Actual**	2013 Actual
Net results of operations	(2,298)	**8,128**	(5,782)
Acquisition of tangible capital assets	(274)	**(71)**	–
Amortization of tangible capital assets	118	**73**	161
Acquisition of prepaid expenses	(125)	**(129)**	(113)
Use of prepaid expenses	125	**125**	108
Increase (decrease) in net financial assets	(2,454)	**8,126**	(5,626)
Net financial assets at beginning of year	2,454	**2,454**	8,080
Net financial assets at end of year	–	**10,580**	2,454

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

Statement of Cash Flow

For the year ended March 31

(in thousands of dollars)	**2014**	2013
Operating activities		
Cash received from:		
Government of Canada funding	**14,200**	–
Interest on deposits	**25**	67
Total cash received	**14,225**	67
Cash paid for:		
Compensation and benefits	**(3,507)**	(4,127)
Facilities, services and supplies	**(1,856)**	(1,356)
Total cash paid	**(5,363)**	(5,483)
Cash provided by (used in) operating activities	**8,862**	(5,416)
Capital activities		
Acquisition of tangible capital assets	**(71)**	–
Increase (decrease) in cash	**8,791**	(5,416)
Cash and cash equivalents at beginning of year	**3,038**	8,454
Cash and cash equivalents at end of year	**11,829**	3,038

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

Notes to the Financial Statements

March 31, 2014

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 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) Financial instruments

i) *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value and include interest receivable on deposit balances.

ii) *Accounts payable and accrued liabilities*

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

(e) 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.

(f) 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. Government of Canada funding

(in thousands of dollars)	**2014**	2013
Funding under the Act	**10,000**	–
Contribution agreement funding	**3,670**	–
Total Government of Canada funding	**13,670**	–

The mandate of the Transition Office was previously scheduled to expire in July 2013. The mandate was extended through an amendment to the Act, which came into force in June 2013. This amendment provides for a dissolution date to be set by the Governor in Council, on the recommendation of the Minister of Finance, replacing the previous statutory dissolution date.

In December 2013, authorized funding under the Act was increased to $52.1 million from $33.0 million. Prior to the increase in authorized funding under the Act, interim funding of $4.2 million was provided by the Government of Canada under a contribution agreement. The contribution agreement covers costs and expenses for the period August 1, 2013 to March 31, 2014. Costs and expenses of $3.7 million were incurred during that period under the contribution agreement. This amount has been recognized as Government of Canada funding in the Statement of Operations for the year, and the remaining $530,000 is repayable to the Government of Canada in accordance with the contribution agreement.

The Transition Office received an additional $10.0 million in Government of Canada funding under the Act following the increase in authorized funding in December 2013. As at March 31, 2014, aggregate funding of $43.0 million has been received under the Act.

4. Tangible capital assets

(in thousands of dollars)	Computer & Telecom Equipment	Office Furniture	Leasehold Improvements	**2014**	2013
Cost					
Opening balance	361	94	129	**584**	584
Acquisitions	41	6	24	**71**	–
Write-downs	(151)	–	(20)	**(171)**	–
Closing balance	251	100	133	**484**	584
Accumulated amortization					
Opening balance	309	55	129	**493**	332
Amortization	46	20	7	**73**	161
Write-downs	(151)	–	(20)	**(171)**	–
Closing balance	204	75	116	**395**	493
Net book value	**47**	**25**	**17**	**89**	91

5. Financial risk management

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

(a) Credit risk

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

(b) Liquidity risk

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

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

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

6. 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 $87,000 (2013 - $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.

7. 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:

(in thousands of dollars)	2014 - 15	2015 - 16	Total
Lease payments	872	661	1,533

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.

8. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation.

Vancouver:
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CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN
EN VALEURS MOBILIÈRES