



Canadian Securities Regulation Regime Transition Office

Annual Report 2017-2018



CANADIAN SECURITIES TRANSITION OFFICE

**LE BUREAU DE TRANSITION CANADIEN
EN VALEURS MOBILIÈRES**

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July 31, 2018

The Honourable William Francis Morneau
Minister of Finance
Department of Finance
90 Elgin 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 for the fiscal year from April 1, 2017 to March 31, 2018.

The Transition Office continues 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*.

The Transition Office also provides federal funding and other support to the Capital Markets Authority Implementation Organization (CMAIO), the interim entity to which the initial board of directors of the Capital Markets Regulatory Authority (CMRA) has been appointed. CMAIO has now completed its first full year of operation and continues to pursue its mandate to assist in the transition to and implementation of the CMRA.

We are privileged to work with a team of dedicated staff who remain committed to our mandate and are pleased to continue working towards the implementation of the *Capital Markets Stability Act* and the establishment of the Cooperative System.

Yours sincerely,



Douglas M. 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* (CMA) adopted in each participating province and territory and a complementary *Capital Markets Stability Act* (CMSA) 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 G. 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 is supporting Cooperative System implementation efforts under the MOA. We also provide advice to the Government of Canada on matters related to its participation in the MOA and matters of federal responsibility, including the proposed CMSA.

I COOPERATIVE SYSTEM DEVELOPMENTS

Implementation of the Cooperative System is being pursued 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.

Notable Cooperative System developments during the fiscal year included:

- The Capital Markets Authority Implementation Organization (CMAIO) completed its first full year of operation, and has continued to pursue its mandate to assist in the transition to and implementation of the CMRA. 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.
- Preparation of draft prospectus and related registration exemption regulations was completed. These regulations were published for comment subsequent to the end of the fiscal year, in May 2018.
- The Supreme Court of Canada heard the appeal of a Court of Appeal of Quebec decision regarding the constitutionality of certain elements of the Cooperative System. The appeal was heard by the Supreme Court in March 2018.

The Participating Jurisdictions have announced that the Cooperative System will not be operational, as previously planned, in 2018. An update on the timing of the launch of the Cooperative System will be provided once a timeline review is completed following the decision of the Supreme Court of Canada. The objective is to proceed in a manner that provides certainty to all involved and to take the time necessary to provide a smooth transition for market participants.

II ROLE OF THE TRANSITION OFFICE IN THE COOPERATIVE SYSTEM 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.

Consistent with our mandate, the Transition Office supports implementation efforts under the framework set out in 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, including the proposed federal CMSA. The Transition Office also provides federal funding and other support to the CMAIO, the interim entity to which the initial CMRA Board of Directors has been appointed. 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 following outlines Transition Office activities contributing to the development and implementation of the Cooperative System over the past fiscal year.

CMSA Administration

The Transition Office is leading the development of capabilities to administer the systemic risk and national data collection-related provisions of the CMSA. Our data collection and risk analysis group is focused exclusively on CMSA implementation requirements. Considerable progress is being made in identifying priority data and data gaps, drafting and testing processes, assessing and back-testing indicators and models, and developing initial approaches to regulation under the CMSA. Transition Office staff are also assisting the Department of Finance with policy aspects related to the CMSA.

CMSA systemic risk and national data collection implementation is progressing in many areas, including:

Information Collection. Coordinating with various financial regulators to maintain and extend a data asset catalogue. We have expanded this list with capital markets information from Statistics Canada and are also utilizing data from commercial subscription services. In addition, we have established a technology environment to conduct pilots and test analytic tools.

Risk Identification. Monitoring and cataloguing systemic risk indicators used by domestic and foreign agencies and assessing them in the context of Canada’s capital markets. We have drafted a risk identification process that consists of three key stages: populating a broad inventory of possible issues, elevating issues to a list of hot topics to monitor more closely, and then escalating hot topics to a risk register as potential systemic risks for further assessment. We have also started to identify sources of information to implement these indicators and to back-test their utility in identifying possible systemic risks in Canada.

Risk Assessment. Drafting a risk assessment process to qualify and quantify the likelihood a risk might occur, as well as the potential impact of the risk on the financial system and the real economy. We are considering relevant parallels in risk assessment that are utilized for disease control, environment management, and information technology developed in Australia, Europe, the United States, and Canada.

Models, Software Tools, and Academics. Developing an inventory of relevant models to further assess their utility in identifying and assessing systemic risks and test indicators. We are also developing a network of domestic and international academics to assist our work.

Systemically Important Products. Drafting the process for assessing the systemic importance of financial products – expanding on the factors listed in the CMSA to develop specific procedures to follow.

Systemically Important Benchmarks. Testing of processes by analyzing investment fund data to generate an inventory of financial benchmarks used by the fund industry for index products and the measurement of fund performance, assessing their systemic importance based on the factors listed in the CMSA.

The Transition Office will continue to advance key deliverables currently underway, and will also begin work in the following areas in 2018-2019:

Systemically Risky Practices. Drafting the process for identifying and assessing systemically risky practices – expanding on the factors listed in the CMSA to develop specific procedures to follow.

Risk Mitigation. Drafting the process for developing risk mitigation strategies, recommending an appropriate set of strategies to mitigate identified risks, and monitoring of implementation outcomes.

CMRA Integration. Developing the organizational requirements for the systemic risk function within the CMRA, including staff structure, technical infrastructure, and interrelationships with other CMRA functional areas.

Phase I Support

The Transition Office is 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 currently in place in each participating province and territory.

Draft prospectus and related registration exemptions were not included in the main package of draft initial regulations published in August 2015. During the fiscal year, officials of the participating provinces and territory resolved outstanding issues, enabling finalization of the draft exemptions. The draft exemptions allow market participants to conduct specified types of trades without the need to file a prospectus or, in some cases, to register as a dealer. The Transition Office coordinated the preparation of the final documents package and the publication process. This material was published for comment in May 2018.

Capital Markets Authority Implementation Organization

CMAIO is a not-for-profit corporation serving 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 became operational after the CMRA's initial board of directors was 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 million in funding. The Transition office also makes office space available and provides certain administrative support services at no cost to CMAIO.

Funding of \$4.8 million was provided to CMAIO during the year. The Transition Office has provided \$11.8 million in cumulative funding under the funding agreement, as at March 31, 2018.

CMAIO completed its first full fiscal year of operation in 2017-18. An executive team and support organization have been established and are working closely with the participating regulatory organizations on Phase II integration. CMAIO has continued to pursue its mandate in

2017-18, including developing organizational requirements for the launch of the CMRA and preparing for the integration of the participating regulatory organizations.

Further information on CMAIO's activities and progress is contained in its annual report, available at cmaio.ca.

Other Phase II Support

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 Phase II integration of existing regulatory operations into the CMRA. The Transition Office is also contributing to Phase II integration areas that have interdependencies with CMSA administration.

OUTLOOK

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

Our efforts in fiscal 2018-19 will focus on leading the development of capabilities to administer the systemic risk and national data collection-related provisions of the CMSA. We will also continue to support CMAIO's activities and provide a federal contribution to other aspects of Cooperative System development.

FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2018, together with comparative budget and prior year figures.

<i>(in thousands of dollars)</i>	2018 Budget	2018 Actual	2017 Actual
Operating expenses	6,121	5,039	6,307
Funding of Capital Markets Authority Implementation Organization	11,604	4,807	6,957
Total expenses	17,725	9,846	13,264
Interest income	282	413	432
Net results of operations	(17,443)	(9,433)	(12,832)
Cash used in operating activities		(9,529)	(12,932)
Acquisition of tangible capital assets		(40)	(47)
Decrease in cash and cash equivalents		(9,569)	(12,979)
Cash and cash equivalents		26,713	36,282
Net financial assets		26,310	35,753
Accumulated surplus		26,501	35,934

Fiscal 2017-18 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* (CMSA). The Transition Office also provides funding and other support 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. 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.

Following the establishment of CMAIO in 2016, the focus of the Transition Office shifted to developing capabilities for the CMRA's administration of the systemic risk and national data collection provisions of the draft *Capital Markets Stability Act*. The Transition Office established a data collection and risk analysis group focused exclusively on CMSA implementation requirements. Considerable progress is being made in identifying priority data and data gaps, drafting and testing processes, assessing and back-testing indicators and models, and developing initial approaches to regulation under the CMSA. Transition Office staff are also assisting the Department of Finance with policy aspects related to the CMSA.

The Supreme Court of Canada is currently considering the constitutionality of certain elements of the Cooperative System. The matter was heard by the Supreme Court on March 22, 2018. The participating governments will respect the decision of the Supreme Court, and intend to review the timelines for launch of the Cooperative System once a decision has been received. The Cooperative System will therefore not launch in 2018.

Net Results of Operations vs. Fiscal 2016-17 Actual

Total expenses for the year ended March 31, 2018 were \$9.8 million, down from \$13.3 million for the same period a year earlier. Transition Office funding of CMAIO was the major factor in the decrease. CMAIO funding of \$4.8 million was \$2.2 million lower than the previous year's \$7.0 million. Operating expenses were also lower, down by \$1.3 million from a year earlier.

Operating expenses declined to \$5.0 million from \$6.3 million in the previous year. The decrease is due primarily to lower compensation and benefits expense and reduced external services utilization from a year earlier.

Compensation and benefits expense of \$3.4 million was \$500,000 lower than the previous year's \$3.9 million. The decrease reflects a lower staff complement from a year earlier. The Transition Office averaged 17 staff during the year compared with 19 staff a year ago.

Occupancy expense increased to \$897,000 from the previous year's \$826,000. The increase was due primarily to the Transition Office no longer being eligible for a commodity tax rebate on current year expenditures.

External services expense declined to \$353,000 from \$1.2 million in the prior year. The decrease reflects the transitioning of responsibility for Phase II external services support to CMAIO following the appointment of its board of directors in August 2016.

Travel and consultation, information and technology, and administration expenses totalled \$373,000, a reduction from \$415,000 a year ago. Expenses were lower as the result of CMAIO becoming responsible for its own costs following the appointment of its board of directors, and changes to technology infrastructure that reduced service costs.

Amortization expense was \$34,000 compared with the prior year's \$32,000, reflecting technology acquisitions in the current and prior year.

Funding of \$4.8 million was provided to CMAIO in the current year, down from \$7.0 million a year earlier. The lower funding amount in the current year reflects CMAIO's utilization of carry-in funding from the prior year, deferral of expenditures due to uncertainty over Cooperative System launch timelines, and a further review of CMAIO's implementation planning to accommodate timeline changes.

Interest income fell to \$413,000 from \$432,000 a year earlier. The decrease reflects lower average cash balances in the current year, largely offset by an increase in short-term interest rates.

The net result of operations for the year was a deficit of \$9.4 million. The Transition Office closed the year with an accumulated surplus of \$26.5 million at March 31, 2018. The previous year's net results of operations was a deficit of \$12.8 million, and accumulated surplus of \$35.9 million at March 31, 2017.

Net Results of Operations vs. Fiscal 2017-18 Budget

Total expenses of \$9.8 million for the year ended March 31, 2018 were 45% below budget expenses of \$17.7 million. Lower than planned funding of CMAIO was the primary factor.

Operating expenses of \$5.0 million were 18% lower than budget of \$6.1 million, reflecting unutilized contingency together with lower than planned external services utilization and staff composition changes.

Compensation and benefits expense of \$3.4 million was 7% below the \$3.6 million budgeted, with staff composition changes resulting in a lower overall expense for the year.

Occupancy expense of \$897,000 was 3% below the \$924,000 budget due to lower than anticipated maintenance expenditures.

External services expense was \$353,000, 31% less than the budget of \$512,000. External services utilization was lower than anticipated due to changes in the Cooperative System implementation timeline.

Travel and consultation, information and technology, and administration expense totalled \$373,000, a collective 12% below the \$426,000 budget amount. Changes to technology infrastructure resulted in reduced service costs, the primary factor in the lower than planned expense for the year.

Amortization expense of \$34,000 was 13% lower than the \$39,000 budget as the result of lower than planned capital expenditures in the year.

The Transition Office operating expense budget for the year included a \$600,000 contingency that was not utilized.

Funding of \$4.8 million was provided to CMAIO, 59% below the budget of \$11.6 million. Uncertainty over Cooperative System launch timelines led CMAIO to defer planned expenditures in the current year, resulting in lower funding requirements. The further review of CMAIO's implementation planning also resulted in funding for the first half of fiscal 2018-19 not being advanced in late 2017-18, as planned in the budget.

Interest revenue of \$413,000 surpassed the budget of \$282,000, reflecting increased short-term interest rates and higher average cash balances than planned.

Cash Flow

Cash decreased by \$9.6 million in the twelve months ended March 31, 2018, compared with a \$13 million decrease for the same period last year.

Cash of \$9.5 million was utilized for operating activities during the year, reflecting the year's operating deficiency net of movements in non-cash items. Cash of \$12.9 million was utilized for operating activities a year earlier.

Cash paid for capital asset acquisitions was \$40,000 for the year, down from \$47,000 in the prior year.

The Transition Office closed the year with a \$26.7 million cash position, down from \$36.2 million a year ago.

Financial Position

The Transition Office had net financial assets of \$26.3 million at March 31, 2018, down from \$35.8 million a year earlier. Net financial assets comprise cash and cash equivalent of \$26.7 million and amounts receivable of \$41,000, offset by accounts payable and accrued liabilities of \$444,000.

Together with non-financial assets of \$191,000, the Transition Office closed the year with an accumulated surplus of \$26.5 million, a decrease from the previous year's \$35.9 million accumulated surplus.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of the Canadian Securities Regulation Regime Transition Office (the Transition Office) in accordance with Canadian public sector accounting standards, and other financial information in this annual report, is the responsibility of the Transition Office’s management. 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, Finance and Administration

Vancouver, Canada

June 28, 2018



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 2018, 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 2018, 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

28 June 2018
Vancouver, Canada

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

<i>(in thousands of dollars)</i>	2018	2017
Financial Assets		
Cash and cash equivalents (note 3)	26,713	36,282
Amounts receivable	41	159
Total financial assets	26,754	36,441
Liabilities		
Accounts payable and accrued liabilities	444	688
Total liabilities	444	688
Net financial assets	26,310	35,753
Non-financial assets		
Tangible capital assets (note 6)	67	61
Prepaid expenses	124	120
Total non-financial assets	191	181
Accumulated surplus	26,501	35,934

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>	2018 Budget	2018 Actual	2017 Actual
Operating expenses			
Compensation and benefits	3,620	3,382	3,854
Occupancy	924	897	826
External services	512	353	1,180
Travel and consultation	190	185	212
Information and technology	178	138	151
Administration	58	50	52
Amortization	39	34	32
Contingency	600	-	-
Total operating expenses	6,121	5,039	6,307
Funding of Capital Markets Authority Implementation Organization (note 5)	11,604	4,807	6,957
Total expenses	17,725	9,846	13,264
Revenue			
Interest income	282	413	432
Net results of operations	(17,443)	(9,433)	(12,832)
Accumulated surplus at beginning of year	35,934	35,934	48,766
Accumulated surplus at end of year	18,491	26,501	35,934

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

Statement of Changes in Net Financial Assets

For the year ended March 31

<i>(in thousands of dollars)</i>	2018 Budget	2018 Actual	2017 Actual
Net results of operations	(17,443)	(9,433)	(12,832)
Acquisition of tangible capital assets	(60)	(40)	(47)
Amortization of tangible capital assets	39	34	32
Acquisition of prepaid expenses	(120)	(124)	(120)
Use of prepaid expenses	120	120	145
Decrease in net financial assets	(17,464)	(9,443)	(12,822)
Net financial assets at beginning of year	35,753	35,753	48,575
Net financial assets at end of year	18,289	26,310	35,753

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>	2018	2017
Operating activities		
Cash received from:		
Interest on deposits	413	432
Total cash received	413	432
Cash paid for:		
Compensation and benefits	(3,638)	(3,803)
Facilities, services and supplies	(1,497)	(2,604)
Funding of Capital Markets Authority Implementation Organization (note 5)	(4,807)	(6,957)
Total cash paid	(9,942)	(13,364)
Cash used in operating activities	(9,529)	(12,932)
Capital activities		
Acquisition of tangible capital assets	(40)	(47)
Cash used in capital activities	(40)	(47)
Decrease in cash and cash equivalents	(9,569)	(12,979)
Cash and cash equivalents at beginning of year	36,282	49,261
Cash and cash equivalents at end of year	26,713	36,282

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

Notes to the Financial Statements

March 31, 2018

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.

(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>	2018	2017
Funds on deposit – operating	173	348
Funds on deposit – interest bearing	26,540	35,934
Total cash and cash equivalents	26,713	36,282

The average yield on interest bearing deposits during the year was 1.36% (2017 – 1.00%). 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, 2018 and March 31, 2017. 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. Cumulative funding of \$11.8 million has been provided to CMAIO as at March 31, 2018.

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 value of the goods and services cannot be reasonably estimated.

6. Tangible capital assets

<i>(in thousands of dollars)</i>	Computer & Telecom Equipment	Office Furniture	Leasehold Improvements	2018	2017
Cost					
Opening balance	333	100	143	576	529
Acquisitions	36	4	-	40	47
Disposals	(111)	-	-	(111)	-
Closing balance	258	104	143	505	576
Accumulated amortization					
Opening balance	274	98	143	515	483
Amortization	32	2	-	34	32
Disposals	(111)	-	-	(111)	-
Closing balance	195	100	143	438	515
Net book value	63	4	-	67	61

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 \$79,000 (2017 - \$99,000) 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>	2018-19	2019-20	2020-21	Total
Lease payments	935	969	729	2,633

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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