Canadian Securities Regulation Regime Transition Office

Annual Report 2019-2020

CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN EN VALEURS MOBILIÈRES

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July 31, 2020

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, 2019 to March 31, 2020.

In recent months, financial market stresses resulting from the COVID-19 crisis have underscored the importance of having a comprehensive framework in place to identify, assess, and mitigate systemic risk in Canada's capital markets on a national basis. The Transition Office has advanced significantly towards our goal of having an operationally-ready framework to administer the draft *Capital Markets Stability Act* (CMSA), to strengthen the management of systemic risk in Canada's capital markets. Processes are now in place that would begin to support the initial administration of the CMSA's systemic risk mandate.

The Transition Office also continues to support and advise on efforts by the Government of Canada and participating provinces and territories to establish a Cooperative Capital Markets Regulatory System with a single Capital Markets Regulatory Authority (CMRA). As part of our support, the Transition Office provides federal funding and other assistance to the Capital Markets Authority Implementation Organization (CMAIO), the interim entity to which the initial board of directors of the CMRA has been appointed. CMAIO has a mandate to assist in the transition to and implementation of the CMRA.

We have a strong 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 to a Canadian securities regulatory regime and a Canadian securities regulatory authority.

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.

The governments of British Columbia, Ontario and Canada signed an Agreement in Principle to Move Towards a Cooperative Capital Markets Regulatory System (Cooperative System) in 2013 (later formalized in a Memorandum of Agreement), inviting all provinces and territories to participate. Since then, the governments of New Brunswick, Nova Scotia, Prince Edward Island, Saskatchewan, and Yukon have agreed to join the Cooperative System.

The principal components of the Cooperative System are a uniform *Capital Markets Act* (CMA) in each participating province and territory and a complementary federal *Capital Markets Stability Act* (CMSA), 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.

Under our mandate, the Transition Office is helping develop the capital markets regulatory capabilities falling within the jurisdiction of the Government of Canada and supporting federal participation in the Cooperative System. This includes:

1. Preparing for the successful administration of the systemic risk and national data collection provisions of the federal *Capital Markets Stability Act*.
2. Advising the Government of Canada on matters related to the CMSA and the Cooperative System.
3. Supporting other aspects of Cooperative System implementation.

OUR TEAM

The Transition Office is headed by a Management Team and supported by staff 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 that she was the Special Advisor to the Chair at the British Columbia Securities Commission, where she held various legal positions of increasing responsibility from 1998 to 2009. Ms. Mercier also worked for the Manitoba Securities Commission and Thompson Dorfman Sweatman.

Jay G. Whitwham – *Chief, Finance and Administration*

Prior to joining the Transition Office 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 Memorandum of Agreement, 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 maintains a strong base of capital markets regulatory knowledge together with valuable background experience from prior implementation planning and development efforts. We are focused on developing capabilities for the administration of the systemic risk mandate as set out in the draft *Capital Markets Stability Act* and supporting federal participation in the Cooperative System.

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 CMRA Board of Directors has been appointed. CMAIO is responsible for assisting in the transition to and implementation of the CMRA and managing the merger of existing securities regulatory operations.

CMSA Administration

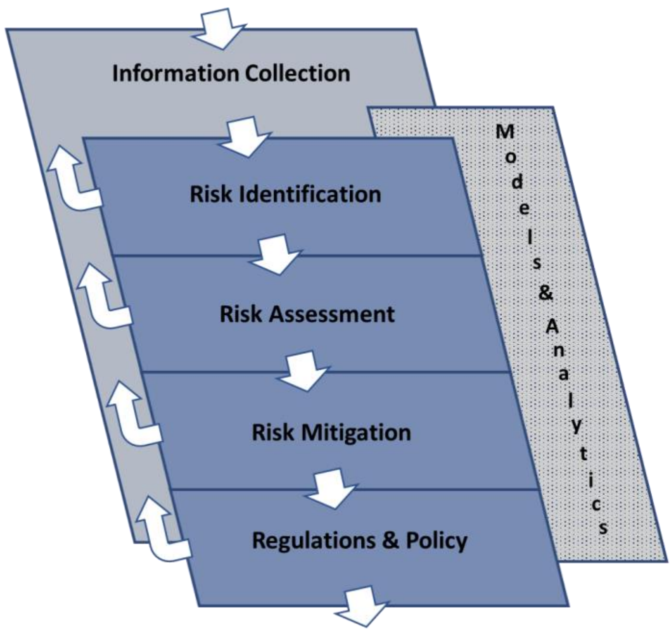
The systemic risk and national data collection provisions of the draft CMSA are designed to promote and protect the stability of Canada's financial system through the management of systemic risk related to capital markets. The systemic risk mandate as set out in the CMSA is to:

- monitor activity in capital markets, including by collecting, aggregating and analyzing information;
- detect, identify and mitigate systemic risk related to capital markets; and
- contribute, as part of Canada's financial regulatory framework, to the stability of the financial system.

The Transition Office has been focusing on CMSA implementation since 2016. Our work has advanced significantly, and processes are in place that would begin to support the initial administration of the CMSA systemic risk mandate. Considerable progress has been made in identifying priority commercial and regulatory data and data gaps, drafting and testing processes, assessing and back-testing indicators and models, and developing initial approaches to regulation. The financial market stresses that have resulted from the COVID-19 crisis serve to underscore the importance of the CMSA for the monitoring and mitigation of systemic risk in Canada's capital markets.

We are leveraging research and methodologies from international bodies and foreign regulators, learning from what others have already developed successfully and, where appropriate, adopting aspects that are suited to Canada's capital markets. The advancement of our work has benefitted significantly from a network of regulators, central bankers, and academics from around the world who have shown interest in supporting the establishment of a systemic risk mandate for Canada's capital markets.

Our implementation approach addresses five broad functional elements necessary to administer the systemic risk mandate under the CMSA. The diagram below depicts the five elements, and the flows and interactions between them as part of an integrated framework:



Information Collection: collect and store a comprehensive set of national capital markets data and information

Risk Identification: conduct systemic risk surveillance; identify and elevate potential risks for assessment

Risk Assessment: assess imminence and impact of systemic risks; conduct in-depth analysis

Risk Mitigation: develop, implement and monitor mitigation strategies for systemic risks

Regulations & policy: draft orders and regulations for information collection and risk mitigation; coordinate with other regulators

The following outlines the status of our work and progress during 2019-2020 for each of the functional elements.

Information Collection
Goals: Initial data and analytic capabilities are in place utilizing publicly available data sources and commercial subscription services. Data gaps are documented and prioritized.
Status: A robust technical environment has been established, including commercial data platforms that are providing an array of current and historical data to support research and monitoring needs.

A catalogue containing over 200 groupings of existing capital markets data from Canadian regulators and other agencies is fully developed and updated semi-annually. Data gaps have been identified and prioritized. Procedures for adopting information-collection regulations and making requests for information under the CMSA are in place. Capital markets are being monitored through tracking of an extensive set of statistics on Canada's equity, fixed income, investment fund, foreign exchange, precious metals, and commodities markets, using public and commercial data.
2019-2020 Progress: Semi-annual updates of the data asset catalogue were completed and we continued to refine priority data needs for initial CMSA administration. We expanded our capabilities to extract data from commercial platforms and continued to tailor those platforms to our mandate. This data supports the development of various risk indicators and models, as well as in-depth research into potential sources of systemic risk.
Risk Identification
Goals: Risk indicators and models appropriate to Canadian capital markets are identified and in development. Preliminary analysis of priority risk topics is well-advanced and emerging trends are monitored.
Status: Structured processes for risk identification have been developed, based on a risk register framework consistent with IOSCO principles and approaches used by various regulators in other jurisdictions. A preliminary risk register for potential systemic risks is in place and being maintained. An initial series of risk indicators, market statistics, metrics, risk indices, and other models have been developed using Canadian data; these diagnostic tools are being continually refined and additional tools developed. Deeper analysis of various priority risk topics is progressing. For many of these risks, access to additional data will be needed to complete a full assessment.
2019-2020 Progress: We further developed our series of risk indicators and models for monitoring Canada's capital markets. This included:

• Capturing at least 25 years of Canadian time-series data and performing a structured analysis and review of approximately 60 systemic indicators. • Compiling a preliminary set of market statistics using public and commercial data. • Developing a set of metrics that can be applied to a variety of asset classes to measure risk within and between markets. • Building initial Canadian implementations of four systemic risk models being used by systemic risk regulators elsewhere to provide aggregated data and forward-looking risk measures. • Creating a straw model for an initial systemic risk dashboard. Briefings on a dozen key capital markets risk topics were developed and presented as part of interactive workshops with officials from Finance Canada.
Risk Assessment
Goals: Processes are established to assess the imminence of capital markets risks and estimate the potential impact on the Canadian economy.
Status: High-level risk assessment procedures have been drafted based on approaches advanced by other agencies including the IMF. The focus of the complete assessment is to estimate the likelihood of the risk occurring and to confirm that the risk could plausibly threaten the Canadian economy. These procedures will be tested and refined in 2020-2021.
2019-2020 Progress: Draft risk assessment procedures were completed during the year.
Risk Mitigation
Goals: Processes are established for designation of systemically important benchmarks, systemically important products (securities or derivatives), and systemically risky practices.
Status: A draft risk mitigation framework is now in place, designed to: • identify possible mitigation strategies; • assess these strategies individually and in combination; • recommend the most effective strategy;

• coordinate regulatory responses with other agencies; • monitor the effectiveness of regulatory responses and assess whether regulatory treatment is still required. Detailed procedures for assessing systemic importance of benchmarks and products have been developed. Procedures for assessing systemic riskiness of practices will be developed in 2020-2021.
2019-2020 Progress: Drafting of an overall framework for risk mitigation and monitoring was completed. Development of processes to administer specific aspects of the CMSA advanced in the following areas: Benchmarks: Drafting progressed on policy materials supporting CMSA benchmark provisions. Products: Conducted a pilot of procedures for testing the systemic importance of products. Practices: Completed an analysis of the Financial Stability Oversight Council's approach to oversight of non-bank financial institutions.
Regulation-Making & Policy
Goals: CMSA regulation-making process is documented and possible initial regulations are identified for development.
Status: Processes for making information requests and adopting regulations under the CMSA have been drafted. These draft processes will be further refined in consultation with Government of Canada officials in 2020-2021.
2019-2020 Progress: Draft processes were completed during the year.

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 assisting in the transition to and implementation of the CMRA and managing the merger of existing securities regulatory operations.

CMAIO became operational when 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 federal funding. The Transition Office also makes office space available and provides certain administrative support services at no cost to CMAIO.

The executive and staff of CMAIO are working closely with the participating regulatory organizations on CMRA integration. Further information on CMAIO's activities and progress is contained in its annual report, available at cmaio.ca.

Funding of $4.4 million was provided to CMAIO during 2019-2020. The Transition Office has provided $20.3 million in cumulative funding to March 31, 2020.

Other Cooperative System Implementation 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 integration of existing regulatory operations into the CMRA. The Transition Office is also contributing to those integration areas having interdependencies with CMSA administration.

COVID-19 Impact

In late February 2020, we began to consider and prepare for the possibility that the spread of the COVID-19 virus would disrupt our ability to operate from our Toronto and Vancouver offices. We transitioned staff to working remotely from home on March 16th. With our cloud-based IT infrastructure and robust video-conferencing platform, the transition was seamless and we have maintained normal operation throughout.

OUTLOOK

The Participating Jurisdictions announced in May 2018 that the Cooperative System would not be operational in fall 2018, as previously planned. The Participating Jurisdictions are committed to implementing the Cooperative System in a manner that is respectful of non-participating jurisdictions, and that provides certainty to market participants. Government officials are reviewing the timelines for the launch of the Cooperative System to ensure a smooth and secure transition for market participants.

The Transition Office remains focused on developing capacity for the administration of the systemic risk mandate under the draft *Capital Markets Stability Act,* while also supporting federal participation in the Cooperative System. We have a strong core team in place and will continue to build on the capabilities already in place.

FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2020, together with comparative budget and prior year figures.

(in thousands of dollars)	2020 Budget	**2020 Actual**	2019 Actual
Operating expenses	5,976	**5,077**	4,846
Funding of Capital Markets Authority Implementation Organization	4,800	**4,436**	4,130
Total expenses	10,776	**9,513**	8,976
Interest income	511	**540**	483
Government of Canada funding	-	**-**	11,400
Net results of operations	(10,265)	**(8,973)**	2,907
Cash (used in) provided by operating activities		**(8,909)**	2,882
Acquisition of tangible capital assets		**(15)**	(24)
Decrease in cash and cash equivalents		**(8,924)**	2,858
Cash and cash equivalents		**20,647**	29,571
Net financial assets		**20,227**	29,213
Accumulated surplus		**20,435**	29,408

Fiscal 2019-2020 Review

The Transition Office is preparing for the successful administration of the systemic risk mandate under the draft federal *Capital Markets Stability Act* and supporting Finance Canada on matters related to the CMSA and the Cooperative System. The Transition Office also provides funding and other support to the Capital Markets Authority Implementation Organization, 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. CMAIO is responsible for assisting in the transition to and implementation of the CMRA and managing the merger of existing securities regulatory operations.

We have a team of risk specialists and legal staff focused on developing capabilities for the administration of the CMSA systemic risk mandate. Our objective is to establish processes and capabilities to address priority data requirements and be prepared to respond effectively to potential systemic risks once the CMSA is adopted.

Net Results of Operations vs. Fiscal 2018-2019 Actual

Transition Office expenses for the year ended March 31, 2020 totalled $9,513,000, up from $8,976,000 for the same period a year earlier. The current year expenses reflect higher compensation and benefits costs and an increase in CMAIO funding over the prior year.

Operating expenses increased to $5,077,000 from $4,846,000 in the previous year. The main factor was an increase in compensation and benefits expense from a year earlier.

Compensation and benefits expense was $3,306,000, up from $3,127,000 in the previous year. The increase reflects annual compensation adjustments and the addition of a payroll tax on compensation for staff located in British Columbia. The Transition Office averaged 16 full-time equivalent staff positions during fiscal 2019-20, unchanged from one year ago.

Occupancy expense increased to $918,000 from the prior year's $869,000. The current year increase was a result of higher lease rates due to market conditions.

External services expense decreased to $379,000 from $413,000 in the previous year. Staff recruiting costs contributed to higher costs a year earlier.

Travel and consultation, data and technology, and administration expenses totalled $441,000, up from $399,000 a year ago. The increase was the result of greater travel activity, upgraded video-conferencing services, and website redevelopment.

Amortization expense was $33,000, down slightly from the prior year's $38,000 as a result of lower capital expenditures.

Funding of $4,436,000 was provided to CMAIO, up from $4,130,000 a year earlier. CMAIO's rate of expenditure has been reduced over the last two fiscal years due to uncertainty over Cooperative System launch timelines.

Interest income increased to $540,000 from $483,000 a year earlier. The increase reflects higher short-term interest rates over the previous year, partially offset by lower average cash balances in the current year.

Government of Canada funding of $11,400,000 was received and recognized in the Statement of Operations in fiscal 2018-2019. The Transition Office did not receive Government of Canada funding in the current year.

The net result of operations for the year was a $8,973,000 deficit. The Transition Office closed the year with an accumulated surplus of $20,435,000 at March 31, 2020. The previous year's net results of operations was a surplus of $2,907,000, with an accumulated surplus of $29,408,000 at March 31, 2019.

Net Results of Operations vs. Fiscal 2019-2020 Budget

Total expenses of $9,513,000 for the year ended March 31, 2020 were 12% below budget expenses of $10,776,000. Unutilized contingency and lower than planned funding of CMAIO were the primary factors.

Operating expenses of $5,077,000 were 15% lower than budget of $5,976,000, reflecting the unutilized contingency together with lower expenses for compensation and benefits and external services.

Compensation and benefits expense of $3,306,000 was 4% below the $3,436,000 budgeted. The average staff complement was under budget for the year.

Occupancy expense of $918,000 was 3% below the $942,000 budget due to lower maintenance expenditures.

External services expense was $379,000, 26% less than the budget of $511,000. External services utilization was lower than anticipated due to uncertainty over Cooperative System launch timelines.

Travel and consultation, data and technology, and administration expense totalled $441,000, 2% below the $450,000 budget amount. Data and technology costs were lower as we extended our capabilities with existing commercial data services and did not add new services as planned. This was partially offset by higher travel activity during the course of the year.

Amortization expense of $33,000 was 11% lower than the $37,000 budget as the result of lower than planned capital expenditures.

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

Funding of $4,436,000 was provided to CMAIO, 8% below the $4,800,000 budgeted. The funding amount was under budget as CMAIO adjusted activities due to uncertainty over Cooperative System timelines.

Interest revenue of $540,000 exceeded the budget of $511,000, reflecting higher than anticipated rates on deposit balances for most of the year.

Cash Flow

Cash decreased by $8,924,000 in the twelve months ended March 31, 2020, compared with a $2,858,000 increase for the same period last year. The year-over-year change reflects Government of Canada funding of $11,400,000 in the prior year.

Cash of $8,909,000 was utilized for operating activities during the year, reflecting the year's operating deficit net of movements in non-cash items. Cash of $2,882,000 was provided by operating activities a year earlier.

Cash paid for capital asset acquisitions was $15,000 for the year, down from $24,000 in the prior year.

The Transition Office closed the year with a $20,647,000 cash position, down from $29,571,000 a year ago.

Financial Position

The Transition Office had net financial assets of $20,227,000 at March 31, 2020, a decrease from $29,213,000 a year earlier. Net financial assets comprise cash and cash equivalents of $20,647,000 and amounts receivable of $115,000, offset by accounts payable and accrued liabilities of $535,000.

Together with non-financial assets of $208,000, the Transition Office closed the year with an accumulated surplus of $20,435,000, down from the previous year's $29,408,000 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 29, 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the Canadian Securities Regulation Regime Transition Office (the Transition Office), which comprise the statement of financial position as at 31 March 2020, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Transition Office as at 31 March 2020, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Transition Office in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Transition Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Transition Office or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Transition Office's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Transition Office's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Transition Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Transition Office to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Lana Dar

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

Vancouver, Canada
29 June 2020

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

(in thousands of dollars)	**2020**	2019
Financial Assets		
Cash and cash equivalents (note 3)	**20,647**	29,571
Amounts receivable	**115**	126
Total financial assets	**20,762**	29,697
Liabilities		
Accounts payable and accrued liabilities	**535**	484
Total liabilities	**535**	484
Net financial assets	**20,227**	29,213
Non-financial assets		
Tangible capital assets (note 6)	**35**	53
Prepaid expenses	**173**	142
Total non-financial assets	**208**	195
Accumulated surplus	**20,435**	29,408

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

(in thousands of dollars)	2020 Budget	**2020 Actual**	2019 Actual
Operating expenses			
Compensation and benefits	3,436	**3,306**	3,127
Occupancy	942	**918**	869
External services	511	**379**	413
Data and technology	235	**216**	199
Travel and consultation	165	**179**	155
Administration	50	**46**	45
Amortization	37	**33**	38
Contingency	600	**-**	-
Total operating expenses	5,976	**5,077**	4,846
Funding of Capital Markets Authority Implementation Organization (note 5)	4,800	**4,436**	4,130
Total expenses	10,776	**9,513**	8,976
Revenue			
Interest income	511	**540**	483
Net results of operations before Government of Canada funding	(10,265)	**(8,973)**	(8,493)
Government of Canada funding (note 4)	-	**-**	11,400
Net results of operations	(10,265)	**(8,973)**	2,907
Accumulated surplus at beginning of year	29,408	**29,408**	26,501
Accumulated surplus at end of year	19,143	**20,435**	29,408

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)	2020 Budget	**2020 Actual**	2019 Actual
Net results of operations	(10,265)	**(8,973)**	2,907
Acquisition of tangible capital assets	(60)	**(15)**	(24)
Amortization of tangible capital assets	37	**33**	38
Acquisition of prepaid expenses	(142)	**(173)**	(142)
Use of prepaid expenses	142	**142**	124
(Decrease) increase in net financial assets	(10,288)	**(8,986)**	2,903
Net financial assets at beginning of year	29,213	**29,213**	26,310
Net financial assets at end of year	18,925	**20,227**	29,213

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)	**2020**	2019
Operating activities		
Cash received from:		
Government of Canada funding (note 4)	**-**	11,400
Interest on deposits	**540**	483
Total cash received	**540**	11,883
Cash paid for:		
Compensation and benefits	**(3,187)**	(3,203)
Facilities, services and supplies	**(1,826)**	(1,668)
Funding of Capital Markets Authority Implementation Organization (note 5)	**(4,436)**	(4,130)
Total cash paid	**(9,449)**	(9,001)
Cash (used in) provided by operating activities	**(8,909)**	2,882
Capital activities		
Acquisition of tangible capital assets	**(15)**	(24)
Cash used in capital activities	**(15)**	(24)
(Decrease) increase in cash and cash equivalents	**(8,924)**	2,858
Cash and cash equivalents at beginning of year	**29,571**	26,713
Cash and cash equivalents at end of year	**20,647**	29,571

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

Notes to the Financial Statements

March 31, 2020

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 the 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 and Accumulated Surplus in the period when the funding is authorized by the Minister of Finance. Refer to note 4.

(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 and Accumulated Surplus 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

(in thousands of dollars)	**2020**	2019
Funds on deposit – operating	451	129
Funds on deposit – interest bearing	20,196	29,442
Total cash and cash equivalents	**20,647**	**29,571**

The average yield on interest bearing deposits during the year was 2.15% (2019 – 1.98%). There are no restrictions on funds on deposit.

4. Government of Canada funding

The Transition Office received no Government of Canada funding during the year. Funding of $11.4 million was received in the prior year. Aggregate funding received under the Act since July 2009 totals $107.5 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 currently advanced to CMAIO on a monthly basis. Cumulative funding of $20.3 million has been provided to CMAIO as at March 31, 2020.

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

(in thousands of dollars)	Computer & Telecom Equipment	Office Furniture	Leasehold Improve-ments	**2020**	2019
Cost					
Opening balance	282	104	143	**529**	505
Acquisitions	15	-	-	**15**	24
Closing balance	297	104	143	**544**	529
Accumulated amortization					
Opening balance	232	101	143	**476**	438
Amortization	32	1	-	**33**	38
Closing balance	264	102	143	**509**	476
Net book value	**33**	**2**	**-**	**35**	53

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 $98,000 (2019 - $88,000) 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 and Accumulated Surplus.

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:

(in thousands of dollars)	2020-21	2021-22	2022-23	Total
Lease payments	1,017	1,129	845	2,991

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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