Canadian Securities Regulation Regime Transition Office

Annual Report 2021-2022

CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN EN VALEURS MOBILIÈRES

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June 27, 2022

The Honourable Chrystia Freeland
Deputy Prime Minister and Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, ON K1A 0G5

Dear Minister,

We submit to you the final Annual Report of the Canadian Securities Regulation Regime Transition Office (Transition Office or CSTO) for the fiscal year ended March 31, 2022.

The Transition Office was established in July 2009 to lead and manage a transition from Canada's provincial system of capital markets regulation to a proposed new Canadian regulatory system. Through our nearly 13 years of existence, the nature of the project evolved considerably. The original plan was to establish a comprehensive federal system that would operate in participating provinces. The legislation proposed to establish that system was reviewed by the Supreme Court of Canada and found in December 2011 to be unconstitutional. The governments of Canada and, ultimately, seven provinces and one territory began work in 2013 on a jointly constituted Cooperative Capital Markets Regulatory System to administer both federal and provincial legislation. Despite early momentum, that project has been delayed and is not close to completion.

Since 2016, the Transition Office has been focused on building capacity to support administration of the systemic risk mandate under the proposed *Capital Markets Stability Act* (CMSA). Our work was sufficiently advanced to provide for initial administration of the CMSA's systemic risk provisions. We have also supported the Government of Canada on the proposed Cooperative Capital Markets Regulatory System, and on capital markets policy matters in other areas of federal interest.

Budget 2021 proposed funding of $12 million to enable the Transition Office to continue this work beyond the current fiscal year. The House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, *the Budget Implementation Act 2021, No. 1*, and a government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office was notified in October 2021 that the government would not propose the additional funding necessary to continue to operate, and we began working to wind up our operations by March 31, 2022.

We have substantially completed the wind up of the Transition Office and are no longer operational as of March 31, 2022. Accumulated work product related to CMSA implementation and other phases of policy development during the Transition Office's mandate has been transferred to the Government of Canada. As part of the wind up, Transition Office staff have been provided with severance and terminated, property has been disposed of, and obligations have been discharged or arrangements made for the discharge of the few obligations that remain at March 31, 2022. Once the remaining obligations have been discharged, residual Transition Office funds will be transferred to the Government of Canada pursuant to section 17(4) of the *Canadian Securities Regulation Regime Transition Office Act*.

We sincerely hope that the wind up of the CSTO does not end work to address systemic risk related to capital markets. The dispersal of our staff means that the capacity we built and the institutional memory we accumulated is now gone, so it will be necessary for any organization taking on this role to rebuild. This final Annual Report sets out our comments and recommendations on how the government could move forward.

I would like to thank the many talented and dedicated people who worked at the Transition Office since 2009. They applied their effort and skill to the challenging issues we faced as the project evolved, knowing that success was not certain, but nonetheless putting their hearts and souls into it.

I would also like to thank you and your predecessors for the opportunity you have given me to serve in the role of leading the Transition Office. I regret that we have been required to wind up without achieving our goals, but I am confident that we did the best we could in difficult and changing circumstances.

Yours sincerely,

Douglas M. Hyndman
Chair and Chief Executive Officer

OVERVIEW

The Canadian Securities Regulation Regime Transition Office (Transition Office or CSTO) was established by the Government of Canada to lead and manage the transition to a Canadian securities regulatory regime and a Canadian securities regulatory authority. We have supported the Government of Canada on matters related to capital markets, including the proposed federal *Capital Markets Stability Act* (CMSA), federal participation in the proposed Cooperative Capital Markets Regulatory System (Cooperative System), and capital markets policy in other areas of federal interest.

Canada's Parliament has a role in securities regulation regarding matters of genuine national importance and scope, including managing systemic risk related to Canada's capital markets and protecting the integrity of those capital markets through the deterrence and punishment of criminal conduct. The proposed CMSA would help strengthen the resilience of Canada's capital markets, financial system, and economy. The CMSA would provide powers to detect, monitor and manage systemic risks related to Canada's capital markets. It would also enable improved enforcement against criminal activity in our markets, better protect investors, and improve confidence in market integrity. The CMSA would apply throughout Canada and be administered in collaboration with the provinces and territories.

The Government of Canada has pursued the CMSA through the Cooperative System since 2013. The Cooperative System would see capital markets regulation for participating provinces and territories administered along with the CMSA in a single regulatory authority. The governments of British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, Yukon, and Canada have agreed to join the Cooperative System (Participating Jurisdictions). Work to develop the Cooperative System has been delayed as the participating governments took action to respond to the COVID-19 pandemic and prepare for economic recovery, as well as implementing reforms to provincial securities legislation.

The Transition Office has focused primarily on implementation of the national information collection and systemic risk provisions of the CMSA, building capacity to address priority data requirements and prepare for the administration of the CMSA systemic risk mandate, either as part of the Cooperative System or by an interim federal authority operating in advance of the launch of the Cooperative System.

Proposed funding in Budget 2021 to enable the Transition Office to operate beyond the current fiscal year was not approved by Parliament, and the Transition Office was notified in October 2021 that the government would not propose further funding. As a result, the Transition Office began to wind up its operations, and the wind-up is substantially complete at March 31, 2022.

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*

Mr. Grant led the Transition Office's systemic risk team, providing overall direction of the work to prepare for the successful administration of the proposed CMSA. Mr. Grant was also responsible for the Transition Office's infrastructure including information technology and telecommunications and managed the Transition Office's Toronto office.

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 led the Transition Office's legal team and its work on legislation, regulations, and policy. In addition to coordinating interactions with federal Departments of Finance and Justice on legislation and regulations, Ms. Mercier supported the Chair in managing the Office's relationship with the federal government, participating provincial governments and provincial securities regulators.

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 the Winnipeg law firm Thompson Dorfman Sweatman.

Jay Whitwham – *Chief, Finance and Administration*

Mr. Whitwham led the finance and administrative functions of the Transition Office, and also provided a broad capital markets perspective to Transition Office work in preparing for the administration of the CMSA.

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. Mr. Whitwham is a member of the Chartered Professional Accountants of British Columbia.

COMMENTS AND RECOMMENDATIONS FOR FUTURE ACTION

Introduction

As the CSTO has come to the end of its mandate, we think it is important to share with the government and Canadians some highlights of what we have learned and our recommendations for going forward. With the growing importance of the capital markets to the stability of Canada's financial system and economy, it is essential that the federal government exercise its jurisdiction over the capital markets, which has twice been confirmed by the Supreme Court of Canada, by proceeding with the CMSA. Below, we make three specific recommendations to the federal government:

1. Introduce and seek Parliament's approval of the CMSA as soon as possible
2. Create a new federal entity to administer the data collection and systemic risk mitigation provisions of the CMSA
3. Expand the mandate of the proposed financial crimes agency to include leading Canada's enforcement efforts for capital markets offences

A Brief Retrospective

Through the CSTO's nearly 13 years of existence, the nature of our project evolved considerably (*see* Table 1).

The original plan in 2009 was to establish a federal securities regulatory system that would operate in participating provinces. The legislation proposed to establish that system, the draft *Canadian Securities Act*, was reviewed by the Supreme Court of Canada and found in December 2011 to be largely unconstitutional. However, the Court specifically identified data collection and management of systemic risk as being matters of federal responsibility. The Court also noted that the federal and provincial governments could choose to cooperate to exercise their combined legislative authority through a common administrative structure.

Through 2012, the government considered various options for moving forward, either alone or in cooperation with willing provinces. The governments of Canada and, ultimately, seven provinces and one territory began work in 2013 on a jointly constituted Cooperative Capital Markets Regulatory System (Cooperative System) to administer both federal and provincial legislation. Despite early momentum, work on the provincial legislation necessary to implement that project has been delayed, as the participating governments take action to respond to the COVID-19 pandemic, prepare for economic recovery and implement reforms to provincial securities legislation.

Since 2016, the CSTO has worked mainly on preparing for the administration of the federal aspect of the system, specifically data collection and monitoring and mitigating systemic risk related to capital markets under the proposed CMSA.

Table 1 — Phases of CSTO Work

2009-2011	Work to develop a draft *Canadian Securities Act* (based on recommendations of the Expert Panel on Securities Regulation) and a transition plan to establish a Canadian Securities Regulatory Authority	Ended when Supreme Court of Canada found draft *Canadian Securities Act* mostly beyond federal jurisdiction
2012-2013	Work on federal options; discuss cooperative approach with provinces	Agreement-in-principle signed with ON and BC in September 2013
2014-2015	Work with participating provinces on legislation, regulations, and integration plans for Cooperative Capital Markets Regulatory System	Integration role assumed in 2016 by a new organization representing all participating governments (later dissolved in 2022)
2016-2021	Prepare for implementation of federal *Capital Markets Stability Act* ➢ Primary focus on data collection and systemic risk provisions; criminal work left for later ➢ Developed model for dealing with systemic risk related to capital markets ➢ Designed to work either within Cooperative System or in a federal agency	CSTO work ended after Parliament voted down further funding

Although the CSTO is no longer operational, the need remains to collect comprehensive data about the activity in capital markets nationally and to monitor and mitigate systemic risk related to capital markets. There is also an acute need to strengthen enforcement against criminal activity in the capital markets, which was an objective of both the original federal proposal and the proposed Cooperative System.

Capital Markets and Systemic Risk

The 2008 global financial crisis (GFC) showed that systemic risks related to capital markets can threaten the stability of the financial system. It also revealed that the federal government lacks adequate tools to protect Canadians from the economic damage that can be caused by financial instability originating in or transmitted by the capital markets. Canada's vulnerability to this type of risk has continued to increase as the role of capital markets in the financial system has grown. Threats can originate internally within the financial system as we saw during the GFC or from external events as we saw during the 2020 pandemic-induced "dash for cash." The latter event showed how quickly stresses can spread through the capital markets and how costly government intervention to stabilize them can be.

In the aftermath of the GFC, Canada worked with global counterparts to design regulatory interventions that would strengthen the surveillance and management of systemic risks related to capital markets. However, Canada's ability to implement the global recommendations, and thereby respond to systemic risks, has been limited by the lack of federal legislation to enable national data collection and systemic risk mitigation.

For example, Canada is the only country that collects over-the-counter derivatives data only at a sub-national level. The data collected at the provincial level cannot be readily aggregated to provide a national picture and its deficiencies make it of limited use for monitoring systemic risk. The transparency sought to be created by a new global reporting regime has not been achieved for our country.

In addition, Canada does not collect standardized information related to repurchase agreements and other securities lending transactions, both critical sources of short-term funding for financial institutions and other market participants. In expert evidence provided for the Supreme Court review of the CMSA, these markets were identified as systemically important. The evidence also identified data gaps for these markets, and for over-the-counter derivatives, exchange traded derivatives, private-label securitization, and non-bank financial intermediation.

In its 2019 Financial System Stability Assessment of Canada, the International Monetary Fund largely echoed its recommendations from five years earlier: "Develop a comprehensive systemic risk surveillance framework, supported by a more unified approach to data collection; address data gaps, particularly related to cross-sectoral exposures, unregulated non-bank financial intermediation, and funding market activities." The IMF also noted "A single body in charge of systemic risk oversight would be the first-best solution." Stresses in the capital markets during the COVID pandemic have demonstrated more than ever the necessity for a national view into capital markets and powers to manage any systemic risks.

The CSTO recently analyzed the causes of the 2008 GFC as part of our work to prepare for implementing the CMSA. We identified that many of the risks that led to the GFC still exist. In some cases, regulatory changes adopted globally have moved risks around rather than reducing them. Counterparty risks for some types of derivatives are now concentrated in a few central clearing agencies, which are now too big to fail. Tightened capital requirements have caused some risks to shift from the banking sector to non-bank financial intermediation, where it is subject to fewer prudential standards and less oversight.

The CSTO identified more than 20 capital markets related risks that could threaten the stability of the financial system and harm the broader Canadian economy. These are the most prominent of those risks:

- **climate change** will disrupt industries and affect asset values; adaptation to climate change and transition from fossil fuels will primarily be funded through the capital markets
- **cyber attacks** can paralyze markets, damage the economy, and shake confidence
- **heavy reliance on short-term funding** of long-term assets exposes firms to fluctuations in the cost and availability of credit
- **high corporate and household debt** levels create the risk of cascading failures
- **financial assets** are now managed by a small number of large firms that wield enormous market influence
- **regulatory reforms** developed in response to the GFC have been only partially implemented; some of those that have been implemented have had unintended consequences
- **financial benchmarks** have proliferated and become deeply imbedded in the capital markets, where they are used to value derivatives and other financial contracts and to determine holdings by a wide variety of asset managers; despite the risks benchmarks create, there is very little oversight of how they are administered or used
- **crypto assets** have grown to over US$2 trillion and continue to function as speculative investment schemes rather than as currencies; their role in distributed finance and securities lending has created links throughout the capital markets and broader financial system
- **derivatives** still pose many of the same risks they did leading up to the global financial crisis

While each risk is individually concerning, the systemic threat is compounded because there is a great deal of overlap between them. Risks are likely to remain elevated in the aftermath of the massive COVID-related fiscal and monetary interventions and the inflationary environment that has followed. At the time of writing in June 2022, we also see heightened international risks from the Ukraine war and resulting volatility in commodity markets, which the Bank of England has identified as a threat to financial stability. With the CSTO's team now gone, we are unable to offer any analysis of the potential impact on Canada of these latest events.

Capital Markets Stability Act

The need for national legislation to deal with systemic risks in the capital markets became apparent in 2008 during the GFC. The 2011 Supreme Court of Canada decision on the draft *Canadian Securities Act* acknowledged this aspect of capital markets regulation as being within federal jurisdiction. Work on the CMSA began in 2012 and the current draft was essentially completed in 2015. The Supreme Court ruled it constitutionally valid in 2018.

While provincial securities regulators can provide some oversight of systemic risk related to capital markets, there are significant gaps in nationally relevant data about the capital markets, which they cannot adequately fill as the mandates of provincial regulators are confined to their respective provinces; regulating systemic risk requires a national perspective, not just the adding up of various provincial perspectives. This was emphasized by the Supreme Court of Canada in both its decisions. The Court noted in its 2018 decision that:

> *“While provinces have the capacity to legislate in respect of systemic risk in their own capital markets, they do so from a* ***local*** *perspective and therefore in a manner that cannot effectively address* ***national*** *concerns which transcend their own respective concerns.” [paragraph 114]*
>
> *“Put simply, the management of systemic risk across Canadian capital markets must be regulated federally, if at all.” [Paragraph 115]*
>
> *"The preservation of the integrity and stability of the Canadian economy is quite clearly a matter with a national dimension, and one which lies beyond provincial competence.” [paragraph 116]*

The proposed CMSA would help strengthen the resilience of Canada’s capital markets, financial system, and economy. The CMSA contains powers, not already provided for by other federal laws, to detect, monitor and manage systemic risks related to capital markets. The powers are designed for targeted intervention in limited circumstances to fill regulatory gaps and to complement provincial and territorial securities regulation —the CMSA is not a full scheme of market regulation. It would require the administrator to coordinate with other financial authorities to achieve effective regulation and avoid imposing an undue regulatory burden. The CMSA would apply throughout Canada and would have to be administered in collaboration with provinces and territories.

The key elements of the CMSA are:

- Information collection
    - Systemic risk management requires active surveillance of the capital markets. No existing regulator is capable of assembling and analyzing comprehensive national capital markets data, which is critical for proper monitoring of systemic risk.
    - The administrator of the CMSA would be empowered to collect information about capital markets activities through either direct requests or filing requirements imposed by regulation.
    - We expect the administrator of the CMSA would obtain data from three primary sources: purchasing from commercial data vendors; sharing arrangements with other regulators; and, where necessary, mandatory reporting from market participants.

- Systemic risk
    - As the Supreme Court determined, only federal legislation can enable effective management of systemic risks across Canadian capital markets. It is imperative that someone at the federal level be responsible for identifying, monitoring, assessing, and mitigating systemic risks originating in or transmitted through the Canadian capital markets.
    - The proposed CMSA contains powers to designate and regulate systemically important financial benchmarks, systemically important products (securities and derivatives), and systemically risky practices. These powers are limited and tailored to addressing potential systemic risks so as not to unduly infringe on provincial securities regulation.
    - There are also powers to make certain urgent orders in a crisis and administrative orders to protect markets and enforce compliance with regulatory requirements.

- Criminal offences for capital markets misconduct
    - The proposed CMSA contains updated and improved capital markets offences, which would replace offences currently in the *Criminal Code*, as well as some new offences.
    - It also includes new investigative tools tailored to evidence gathering challenges in capital markets.
    - These powers and evidence-gathering tools would be made available to Canadian law enforcement and prosecutorial agencies to better enforcement outcomes.

The primary focus of the CSTO's work was on the information collection and systemic risk provisions but the criminal provisions are also very important, as discussed below.

The CSTO developed a comprehensive framework for monitoring and mitigating potential systemic risks related to capital markets. Assessments of risks would be based on quantitative and qualitative measures and various models to measure the potential negative impact on the Canadian economy if the risks come to fruition. Mitigation solutions would be developed collaboratively with other regulators – using the most effective regulatory tools for each specific risk.

Significant elements of our work included:

- Identifying priority commercial and regulatory data and data gaps; drafting and testing processes to identify, assess, and mitigate systemic risks; creating, assessing, and back-testing indicators and models; and designing initial approaches for developing regulations
- Leveraging research and methodologies from international bodies and foreign regulators; learning from what others have already developed successfully; and adopting aspects that are suited to Canada's capital markets

- Benefitting from a network of regulators, central bankers, and academics from around the world who showed interest in supporting the management of systemic risk in Canada’s capital markets

In the course of our work, we identified a set of revisions that we recommend be made to the draft CMSA either before it is introduced or soon after it is adopted. Some of the revisions would be technical changes to remove uncertainties in the scope of the regulatory powers and make them fit better with how our analysis shows they would likely be used. The most significant revision would be to add a new regulatory power to deal with large, external risks like climate change that are covered by the definition of systemic risk related to capital markets but could be addressed more effectively than by using the currently included regulatory powers for benchmarks, products, and practices.

This points to a more general issue: capital markets evolve rapidly and the risks that can threaten their stability evolve at least as quickly. Periodic amendments to the CMSA will certainly be needed as time goes on to respond to threats that we cannot anticipate today.

There is much yet to do to complete and fully implement the CMSA, but our work to prepare for administration of the information collection and systemic risk provisions was well advanced at the time of our wind up.

Criminal Enforcement

Despite numerous studies and proposals over many years aimed at improving criminal enforcement in capital markets, Canadians continue to be exposed to market crimes that are perpetrated without much fear of prosecution. Most Canadians have investments in the market, either directly or through pension plans, so they suffer the consequences of insider trading, market manipulation, misrepresentation, and fraud. Cases like Bre-X and Nortel were notorious but many more have flown below the radar.

The proposed CMSA includes a set of criminal offences related to capital markets and some new investigation powers to help in enforcing them. Several of the offences (fraud, misrepresentation, manipulation, insider trading) are modernized and improved versions of offences currently in the *Criminal Code*. New offences include manipulation of a benchmark, breach of trust by a fund manager or dealer, and retaliation against a whistleblower. New powers to compel production of information provide avenues to obtain evidence needed to investigate offences like insider trading and corporate misrepresentation.

However, this new legislation will achieve little or nothing without a new approach to white collar criminal investigation and prosecution.

The skills and processes required to investigate financial crime cannot easily be developed in a traditional policing organization. Continuing to rely primarily on the RCMP to perform this function for Canada does a disservice to the RCMP and, more important, to Canada's capital markets and investors.

The government has announced plans to establish a new Canada Financial Crimes Agency and, in Budget 2022, has provided funding for initial work to develop and design the new agency. This work seems to be mainly focused on anti-money laundering and anti-terrorist financing (AML/ATF) enforcement, but the description does refer to financial crime more generally.

We suggest that it would make sense for the financial crimes agency to lead Canada's enforcement efforts for capital markets offences, along with AML/ATF, tax evasion, and corruption of foreign public officials. These areas require similar expertise and investigation techniques, and individual cases can involve violations in more than one of these areas. An insider trading or market manipulation case might well involve tax evasion or money laundering, for instance.

The Way Forward

Adoption of the CMSA has already been deferred for many years and its absence leaves Canada exposed, as we saw in the early stages of the COVID pandemic. The capital markets are a blind spot for the federal government, jeopardizing efforts to manage the economy, protect financial stability, and manage the transition to a sustainable future.

Prior to the September 2013 agreement with the provinces on the Cooperative System, the CMSA was contemplated to be standalone federal legislation administered by a federal agency. The current draft is structured to operate within the proposed Cooperative System, but it contains provisions to enable federal administration before the Cooperative System is established. The CSTO did substantial work to prepare for administering the CMSA under any structure the government might choose.

We recommend that the government introduce and seek Parliament's approval of the CMSA as soon as possible. If feasible, the revisions described above should be made before introduction but, if not, they could be made as amendments in the next year or two.

We also recommend that the government create a new federal entity to administer the CMSA. Its mandate would be to fill capital markets data gaps, be the definitive source of information about the Canadian capital markets, and identify and mitigate systemic risks. It could participate with other federal financial agencies in the Senior Advisory Committee and in the Heads of Agencies and its Systemic Risk Surveillance Committee. Consistent with the CMSA, its role would be designed to complement, not duplicate or conflict with, the work of other federal and provincial agencies.

We recognize that the federal government might be reluctant to attempt another foray into capital markets regulation in the face of opposition from some provinces, but it is the purpose of the federal government to deal with matters best handled at the national level. As confirmed twice by the Supreme Court of Canada, systemic risk related to capital markets is such a matter.

A new federal entity would have no conflicting responsibilities or priorities and could focus solely on identifying and mitigating systemic risks related to capital markets, meeting the needs of other members of the federal family for capital markets data, complementing data gathered by provincial regulators, and ensuring that Canada meets international commitments to improve capital markets information collection and mitigate systemic risk. It could provide the government with a view on possible implications for the stability of the financial system that might arise from either external events or the government's own monetary, fiscal, or regulatory policies.

The cost of establishing a new federal entity would be miniscule when compared with the costs and disruptions of dealing unprepared with the next financial crisis. Leaving this important area of federal responsibility untended, or trying to do it on the cheap, would be the quintessential example of being penny wise and pound foolish.

As the CSTO's mandate comes to an end, we strongly urge the government to move ahead with the CMSA to:

- fill critical data gaps
- mitigate systemic risks, complementing the work of provincial regulators and other federal authorities
- enable the federal government to fulfil international commitments to the G7, G20, and Financial Stability Board
- begin to strengthen investigation and prosecution of capital markets crimes, to protect Canadians and to safeguard Canada's international reputation

The CMSA is needed now more than ever to protect the financial wellbeing of all Canadians.

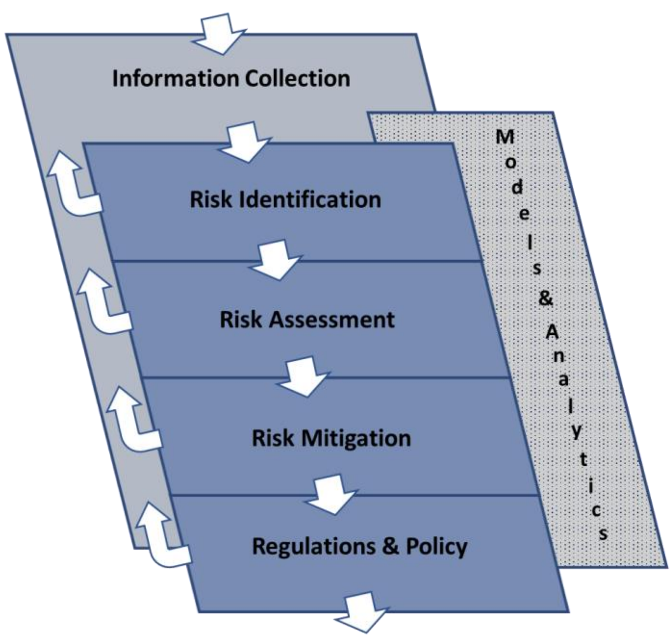
REPORT ON 2021-2022 ACTIVITIES

CMSA Administration

The work of the Transition Office has been focused since 2016 on implementation of the CMSA's national information collection and systemic risk provisions. Our work has advanced significantly, and processes are in place 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.

We have leveraged 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. 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

Transition Office activities during the latter half of the year shifted from CMSA implementation to preparation for the pending wind-up, with the completion of CMSA implementation work already in process and the transfer of our accumulated work product to the Government of Canada. As part of the wind-up, the team of systemic risk specialists and legal staff who have developed this work, and their collective institutional knowledge, departed the Transition Office on January 21, 2022.

The following outlines the status of our work and progress during 2021-2022 for each of the five 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 catalogue containing over 200 groupings of existing capital markets data from Canadian regulators and other agencies is fully developed and updated to February 2019. Data gaps have been identified and prioritized. Procedures for making requests for information under the CMSA are established, and a template for draft information requests has been developed. A capital markets monitoring framework is developed utilizing an extensive set of statistics on Canada's equity, fixed income, investment fund, foreign exchange, precious metals, and commodities markets, based on public and commercial data.
2021-2022 Progress: CMSA information requests were developed that could be used to begin to fill key data gaps about Canada's repurchase agreement (repo) markets. The information would match what other jurisdictions (including the US, UK, and EU) collect, and information the Financial Stability Board has identified as necessary for systemic risk monitoring. Most of this information is not collected in Canada today. These initial detailed information requests would provide a comprehensive view of Canada's repo markets and would inform future regulation-making for regular disclosure, if deemed necessary. They also serve as a template to fill other priority data gaps in areas such as securities lending, non-bank financial intermediation, over-the-counter derivatives, benchmarks, climate change, cyber security, exempt markets, ETFs, and specific information about fixed income and equities markets.

We also refreshed our analysis of investment funds' use of benchmarks, which had previously led us to conclude that at least two dozen benchmarks are systemically important for the well-functioning of Canada's capital markets.
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 International Organization of Securities Commissions' principles, and approaches used by various regulators in other jurisdictions. A preliminary risk register for potential systemic risks is in place. An initial series of risk indicators, market statistics, metrics, risk indices, and other models have been developed using Canadian data. Progress has been made on deeper analysis of various priority risk topics. For many of these risks, access to additional data will be needed to complete a full assessment.
2021-2022 Progress: Construction was completed on a preliminary set of 56 forward-looking early-warning indicators from an inventory of some 250 indicators used by systemic risk regulators and central banks around the world. These indicators are presented in a heat-map designed to identify and track the build-up of financial vulnerabilities over many years leading up to a potential crisis. A chief aim of the indicators is to prompt further investigation and to help target regulatory measures to mitigate or forestall potential crises before they materialize. Additional analytics were also developed to extract trends and seasonal and stochastic patterns that focus our empirical work and support our extensive risk identification process. These indicators focus on real world vulnerabilities and extrapolations that can be used in forward-looking, agent-based "what-if" scenarios. A comprehensive academic paper was completed describing our criteria for indicator selection, exploratory data analysis, our methodology for risk color coding, how we measure and interpret the build-up of risk over time, four complementary visualizations of our risk data, how we decompose indicators to understand trends, seasonality, and autocorrelation, stationarity, and time series modelling. We also provided Finance Canada with a high-level assessment of the conditions that led to the implosion of Archegos Capital Management in the US, and at the associated regulatory blind spots.

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.
2021-2022 Progress: Testing was completed on the procedures we developed last year to assess the systemic importance of products based on the factors listed in the CMSA. These procedures were tested against repurchase agreements and ETFs, and procedures were revised based on the testing. Repurchase agreements are systemically important to Canada's financial system, and yet these markets remain largely unregulated.

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 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; and, • 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 have yet to be developed.
2021-2022 Progress: As a result of our work to prepare for the Transition Office wind up, we did not have the capacity to move forward with planned development of a draft process for assessing systemically risky practices, expanding on the factors listed in the CMSA.

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.
2021-2022 Progress: An analysis of benchmark regulation both domestically and internationally was completed, which would inform the regulation of systemically important benchmarks under the CMSA, including benchmark administrators and submitters. The CSA recently developed a regulatory regime for benchmarks. While described as a comprehensive regime, the CSA has designated only one benchmark as systemically important – CDOR, which is currently administered by Refinitiv Benchmark Services (UK) Limited and is now proposed to be discontinued within the next few years. The CSA hasn't indicated that they intend to regulate any of the other thousands of benchmarks relied on by the Canadian capital markets to function properly. An initial draft analysis of the causes of the 2008 global financial crisis was also completed. This analysis presents the main causes of the 2018 global financial crisis, the sources of systemic risk associated with each cause, the regulatory interventions recommended by international regulatory bodies, and the international and Canadian implementation progress made in response. It also includes a description of the current, residual risk exposure in Canada given the regulatory responses implemented to date and the current state of the Canadian capital markets.

As part of the review of Budget 2021 by the Senate Committee on Banking, Trade and Commerce, the Transition Office Chair & CEO presented to the committee on the work of the Transition Office. The presentation to the committee outlined:

- The mandate of the Transition Office
- Critical functions that capital markets play in Canada's economy including investing for retirement and large purchases; financing governments, businesses, and households; improving competitiveness and creating new business opportunities; and managing risks
- The vulnerability of capital markets to financial shocks, with federal fiscal and monetary intervention being the only instruments currently available to the government in periods of turmoil
- How the proposed federal *Capital Markets Stability Act* would provide the government with important national information collection powers to fill critical data gaps, powers

to intervene in the capital markets to manage and possibly prevent future financial crises, and enhancements to the *Criminal Code* to improve criminal enforcement

In its report, the committee acknowledged the importance of detecting, assessing, and mitigating systemic risks that may exist due to current and future market-wide vulnerabilities, and expressed concern that work on the CMSA be completed.

Capital Markets Authority Implementation Organization

The Capital Markets Authority Implementation Organization (CMAIO), the multi-jurisdictional interim body responsible for operational aspects of the Cooperative System integration, paused its operations effective March 31, 2021 after completing all the integration work that could be performed until the Cooperative System enabling legislation is further advanced by the participating governments. Since 2016, the Transition Office has provided federal funding to support CMAIO's activities, together with office space and certain administrative support services at no cost.

After completion of the pause in operations and CMAIO's fiscal 2021 reporting requirements, CMAIO's Board of Directors engaged the participating governments on the future role of the corporation. As the resumption of transition work appears to be several years away, and that work might not require an interim entity like CMAIO, it was agreed that the corporation should be dissolved. CMAIO was dissolved effective January 28, 2022.

The Transition Office provided additional governance and corporate support services to CMAIO following the pause in operations, including assisting CMAIO in preparing for dissolution. Funding of $200,000 was provided to CMAIO by the Transition Office during the year, in support of CMAIO's activities up to the January 28, 2022 date of dissolution.

Further information on CMAIO is available at cmaio.ca.

Other Cooperative System Implementation Support

Until August 2021, the Transition Office provided the services of the Implementation Lead to assist the team of government officials and the committee of executives from regulators of the participating jurisdictions on matters related to the integration of existing regulatory operations under the Cooperative System. The role of the Implementation Lead ended at that time due to ongoing delays in Cooperative System implementation.

COVID-19 Impact

Transition Office staff have worked remotely from home since March 2020. Our cloud-based technical infrastructure and robust video-conferencing capabilities enabled a seamless transition, and our work was uninterrupted.

FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2022, together with comparative budget and prior year figures.

(in thousands of dollars)	2022 Budget	**2022 Actual**	2021 Actual
Operating expenses before wind-up costs	5,209	**5,284**	5,278
Wind-up costs	2,494	**2,521**	-
Funding of Capital Markets Authority Implementation Organization	200	**200**	7,046
Total expenses	7,903	**8,005**	12,324
Interest income	37	**33**	103
Net results of operations	(7,866)	**(7,972)**	(12,221)
Cash used in operating activities		**(8,181)**	(12,121)
Acquisition of tangible capital assets		**-**	(18)
Decrease in cash and cash equivalents		**(8,181)**	(12,139)
Cash and cash equivalents		**327**	8,508
Net financial assets		**237**	7,987
Accumulated surplus		**242**	8,214

FISCAL 2021-2022 REVIEW

The Transition Office has been preparing for the successful administration of the systemic risk mandate under the proposed federal *Capital Markets Stability Act,* and supporting Finance Canada on matters related to the CMSA and the Cooperative System. The Transition Office has also provided funding and other support to the Capital Markets Authority Implementation Organization, a not-for-profit corporation that was responsible for operational aspects of Cooperative System integration. CMAIO paused its operations effective March 31, 2021, and the corporation was dissolved on January 28, 2022.

Federal Budget 2021 included proposed additional Transition Office funding of $12 million, necessary to enable the Transition Office to operate beyond the current fiscal year. In June 2021, the House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, *the Budget Implementation Act 2021, No. 1*, and a government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office was notified in October 2021 that the government would not propose the additional funding necessary for it to continue to operate, and began working to wind up operations by March 31, 2022.

The Transition Office has substantially completed its wind up and is no longer operational as of March 31, 2022. Accumulated work product related to CMSA implementation and other phases of policy development during the Transition Office's mandate has been transferred to the Government of Canada. As part of the wind up, Transition Office staff have been provided with severance and terminated, property has been disposed of, and obligations have been discharged or arrangements made for the discharge of the few obligations that remain at March 31, 2022. Once the remaining obligations have been discharged, residual Transition Office funds will be transferred to the Government of Canada pursuant to section 17(4) of the Act.

NET RESULTS OF OPERATIONS

The Transition Office had a deficiency of $7,972,000 for the year ended March 31, 2022, down from the prior year's $12,221,000 deficiency. Operating costs before wind-up costs were comparable to a year earlier. CMAIO funding was down substantially from the prior year, following its pause in operations effective March 31, 2021.This was partially offset by costs of the winding up the Transition Office in the current year.

The deficiency for the year ended March 31, 2022 was in line with the budget amount for the year.

Compensation and benefits

Vs prior year: Compensation and benefits expense was $3,459,000, down from $3,647,000 a year earlier. The decrease reflects lower average staff levels from a year earlier, partially offset by annual compensation adjustments and an increase in unutilized vacation. The Transition Office averaged 15 full-time equivalent staff positions in fiscal 2022, compared with an average of 18 staff in the prior year.

Vs budget: Compensation and benefits expense of $3,459,000 was 3% below the $3,558,000 budgeted. The lower expense level was the result of phased timing of staff terminations as part of the Transition Office wind up, with terminations taking place in two phases – the first in late January 2022 and the second on March 31, 2022. This was partially offset by higher than expected unutilized vacation during the year.

Occupancy

Vs prior year: Occupancy expense increased to $1,126,000 from the prior year's $929,000, with scheduled increases in lease rates along with the Transition Office no longer being eligible for a commodity tax rebate available in prior years. The Transition Office did not qualify for the commodity tax rebate in the current year as it was not in receipt of any government funding during the year or the two previous years.

Vs budget: Occupancy expense of $1,126,000 was 4% above the $1,083,000 amount budgeted. The expense amount exceeded the budget for the year as the Transition Office was no longer eligible for the commodity tax rebate that had been included in the budget. An unplanned operating cost recovery and lower maintenance costs were partial offsets.

Data and technology

Vs prior year: Data and technology expense of $335,000 was up from $291,000 in the previous year. Data analytic capabilities were expanded with additional commercial data subscriptions in mid-2020. The increase in current year data and technology expense reflects a full year's cost of the additional subscriptions and increases in unit pricing, together with the Transition Office no longer being eligible for the commodity tax rebate that was available in prior years.

Vs budget: Data and technology expense of $335,000 was 10% higher than the $305,000 budget. The excess over budget reflects unplanned price increases for commercial data subscriptions and the Transition Office no longer being eligible for the commodity tax rebate that had been budgeted.

External services

Vs prior year: External services expense declined to $263,000 from $345,000 in the previous year. The decrease was due primarily to lower outsourced back-office support costs in the current year, following the pause in CMAIO's operations effective March 31, 2021. The Transition Office had been absorbing back-office support costs for CMAIO under its funding agreements.

Vs. budget: External services expense of $263,000 was 36% above the $194,000 budget amount, mainly due to higher than expected professional services utilization during the year.

Travel and consultation

Vs prior year: Travel and consultation expense increased to $59,000 from $14,000 a year earlier. The current year expense reflects higher travel activity from a year earlier, and the write-off of non-transferrable prepaid flight credits purchased for normal operation before the pandemic that were not fully utilized prior to the Transition Office wind-up due to pandemic-related travel curtailment.

Vs budget: Travel and consultation expense of $59,000 was 3.5 times above the budget amount due to higher than anticipated travel activity in preparation for wind-up and the write-off of the unutilized flight pass credits.

Administration

Vs prior year: Administration expense of $25,000 was 4% higher than the previous year's $24,000. Ancillary wind-up related office expenses contributed to the increase.

Vs budget: Administration expense of $25,000 was 17% under the $30,000 budget. The budget assumed additional expenses from a partial return of staff to the office in the second half of the year. This did not occur following the emergence of the Delta variant and then the Omicron variant.

Amortization

Vs prior year: Amortization expense of $17,000 was down from last year's $28,000 as capital expenditures were curtailed due to the Transition Office wind up.

Vs budget: Amortization expense of $17,000 was 35% below the $26,000 budget amount, reflecting the curtailed capital spending during the year.

Wind-up costs

Vs prior year: Wind-up costs were incurred in the current year only, totalling $2,521,000.

Vs budget: The Transition Office did not have additional approved funding at the time the budget was finalized, and therefore a provision for potential wind-up costs was included in the budget. Wind-up costs were largely in line with the budget, with the $2,521,000 total being 1% higher than the estimated amount in the budget.

Wind up costs include the following ($000's):

Staff severance	1,522
Lease termination costs	838
Remaining term for data and communications services	60
Professional services	58
Tangible capital asset disposal costs	35
Total before loss on disposal	2,513
Loss on disposal of tangible capital assets	8
Total wind-up costs	2,521

Staff severance comprises contractual amounts due to 14 Transition Office staff members on the termination of their employment.

Leases on Transition Office premises in Toronto and Vancouver had a remaining term to December 31, 2022. The leases were terminated effective March 31, 2022 by agreement with the landlord, with the Transition Office paying lease termination costs equal to the remaining rent obligation on the leases.

Professional services costs comprise outplacement services for terminated staff and fees for external legal support related to the wind up.

Certain data and communications services contracts had remaining committed amounts at March 31, 2022. Payments in settlement of remaining committed amounts have been included in wind-up costs.

Tangible capital assets had no residual value, with the remaining net book value at March 31, 2022 being written off and the loss on disposal being included in wind-up costs.

The Transition Office was required to dispose of office furniture and equipment on termination of its office leases. It was possible to donate some of the furniture, but there is a glut of office furniture as a result of the pandemic and costs were incurred for the removal and disposal of the remainder. The Transition Office was not required to remove leasehold improvements on the termination of the office leases.

Electronic equipment was disposed of at no cost to the CSTO. As part of staff severance agreements, the 14 staff who were terminated as a result of the wind up retained the personal computing equipment that had previously been assigned to them. Other electronic equipment was donated to the Electronic Recycling Association to be repurposed or recycled.

Funding of Capital Markets Authority Implementation Organization

Vs prior year: Funding of $200,000 was provided to CMAIO, down significantly from $7,046,000 a year earlier. CMAIO's operations were paused on March 31, 2021. Current year funding supported the completion of CMAIO's fiscal 2021 reporting requirements and its engagement of the participating governments regarding the future role of the corporation. As the resumption of transition work appears to be several years away, and that work might not require an interim entity like CMAIO, it was agreed that the corporation should be dissolved. CMAIO was dissolved on January 28, 2022.

Funding a year earlier provided for CMAIO's operating costs for the year plus its costs of pausing its operations effective March 31, 2021, including contractual severance paid to staff for whom roles could not be found at participating provincial regulators.

Vs budget: CMAIO funding of $200,000 was in line with the $200,000 budget amount.

Interest income

Vs prior year: Interest income fell to $33,000 from $103,000 a year ago. The decrease is primarily due to the significant lower average cash balances from the prior year.

Vs budget: Interest income of $33,000 was 11% below the $37,000 budget amount, primarily due to expenditure timing during the year.

CASH FLOW

Cash decreased by $8,181,000 in the twelve months ended March 31, 2022, compared with a $12,139,000 decrease for the same period last year.

Cash of $8,181,000 was utilized for operating activities during the year, reflecting the year's operating deficit net of movements in non-cash items. Cash utilized for operating activities was $12,121,000 a year earlier. The significant reduction in CMAIO funding requirements following its March 31, 2021 pause of operations was the primary factor in the lower cash usage, partially offset by the costs of winding up the Transition Office in the current year.

No cash was paid for capital asset acquisitions in the current year, compared with $18,000 a year ago.

The Transition Office closed the year with a $327,000 cash position, down from $8,508,000 a year ago.

FINANCIAL POSITION

The Transition Office had net financial assets of $237,000 at March 31, 2022, a decrease from $7,987,000 a year earlier. Net financial assets at the end of the year are comprised entirely of cash. Net financial assets a year earlier were comprised of cash and cash equivalents of $8,508,000 and amounts receivable of $111,000, offset by accounts payable and accrued liabilities of $632,000.

The Transition Office closed the year with an accumulated surplus of $242,000, down from $8,214,000 at the close of the previous year.

The Transition Office has substantially completed its wind up and is no longer operational as of March 31, 2022. Once its few remaining obligations have been discharged, residual Transition Office funds will be transferred to the Government of Canada pursuant to section 17(4) of the Act.

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	Jay G. Whitwham
Chair and Chief Executive Officer	*Chief, Finance and Administration*

Vancouver, Canada

April 19, 2022

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 2022, 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 2022, 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.

Emphasis of Matter—Wind-up of Operations

We draw attention to Note 2 of the financial statements, which describes the wind-up of operations of the Transition Office. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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
19 April 2022

FINANCIAL STATEMENTS AND NOTES

Statement of Financial Position

As at March 31

(in thousands of dollars)	**2022**	2021
Financial Assets		
Cash and cash equivalents (note 5)	**327**	8,508
Amounts receivable	**-**	111
Total financial assets	**327**	8,619
Liabilities		
Accounts payable and accrued liabilities	**90**	632
Total liabilities	**90**	632
Net financial assets	**237**	7,987
Non-financial assets		
Tangible capital assets (note 6)	**-**	25
Prepaid expenses	**5**	202
Total non-financial assets	**5**	227
Accumulated surplus	**242**	8,214

Wind-up of operations (note 2)

Contractual obligations (note 11)

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)	2022 Budget	**2022 Actual**	2021 Actual
Operating expenses			
Compensation and benefits	3,558	**3,459**	3,647
Occupancy	1,083	**1,126**	929
Data and technology	305	**335**	291
External services	194	**263**	345
Travel and consultation	13	**59**	14
Administration	30	**25**	24
Amortization	26	**17**	28
Wind-up costs (note 8)	2,494	**2,521**	-
Total operating expenses	7,703	**7,805**	5,278
Funding of Capital Markets Authority Implementation Organization (note 7)	200	**200**	7,046
Total expenses	7,903	**8,005**	12,324
Revenue			
Interest income	37	**33**	103
Net results of operations	(7,866)	**(7,972)**	(12,221)
Accumulated surplus at beginning of year	8,214	**8,214**	20,435
Accumulated surplus at end of year	348	**242**	8,214

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)	2022 Budget	**2022 Actual**	2021 Actual
Net results of operations	(7,866)	**(7,972)**	(12,221)
Acquisition of tangible capital assets	(20)	**-**	(18)
Amortization of tangible capital assets	26	**17**	28
Loss on disposal of tangible capital assets	19	**8**	-
Acquisition of prepaid expenses	-	**(5)**	(202)
Use of prepaid expenses	202	**202**	173
Decrease in net financial assets	(7,639)	**(7,750)**	(12,240)
Net financial assets at beginning of year	7,987	**7,987**	20,227
Net financial assets at end of year	348	**237**	7,987

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)	**2022**	2021
Operating activities		
Cash received from:		
Interest on deposits	**33**	103
Total cash received	**33**	103
Cash paid for:		
Compensation and benefits	**(3,961)**	(3,569)
Facilities, services and supplies	**(1,540)**	(1,609)
Funding of Capital Markets Authority Implementation Organization (note 7)	**(200)**	(7,046)
Wind-up costs (note 8)	**(2,513)**	-
Total cash paid	**(8,214)**	(12,224)
Cash used in operating activities	**(8,181)**	(12,121)
Capital activities		
Acquisition of tangible capital assets	**-**	(18)
Cash used in capital activities	**-**	(18)
Decrease in cash and cash equivalents	**(8,181)**	(12,139)
Cash and cash equivalents at beginning of year	**8,508**	20,647
Cash and cash equivalents at end of year	**327**	8,508

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

Notes to the Financial Statements

March 31, 2022

1. Nature of operations

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 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 draft federal *Capital Markets Stability Act*.
2. Advising the Government of Canada on matters related to the *Capital Markets Stability Act* and the Cooperative System.
3. Supporting other aspects of Cooperative System implementation.

The Government of Canada is entitled to any residual interest in the Transition Office after the payment of its debts and liabilities, or after the making of adequate provision for the payment of its debts and liabilities.

2. Wind-up of operations

Federal Budget 2021 included proposed additional Transition Office funding of $12 million. In June 2021, the House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, *the Budget Implementation Act 2021, No. 1* and a government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office was notified in October 2021 that the government would not propose the additional funding necessary for it to continue to operate, and began working to wind up its operations by March 31, 2022.

The wind-up of the Transition Office is substantially complete as of March 31, 2022 and the Transition Office is no longer operational. Transition Office staff have been provided with severance and terminated, property has been disposed of, and obligations have been discharged or arrangements made for the discharge of the few obligations that remain at March 31, 2022. Once the remaining obligations have been discharged, residual Transition Office funds will be transferred to the Government of Canada pursuant to section 17(4) of the Act.

Refer to note 8 for information on costs related to the wind-up of the Transition Office.

3. Significant accounting policies

(a) Basis of presentation

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(b) Operating expenses

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

(c) Funding of Capital Markets Authority Implementation Organization

Funding provided to the Capital Markets Authority Implementation Organization ("CMAIO") 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 7.

(d) 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 5.

(e) Financial instruments

i) *Cash and cash equivalents*
Cash and cash equivalents are measured at fair value.

ii) *Amounts receivable*
Amounts receivable are measured at cost.

iii) *Accounts payable and accrued liabilities*
Accounts payable and accrued liabilities are measured at cost.

(f) 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.

(g) 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.

4. Government of Canada funding

The Transition Office received no Government of Canada funding during the year or the prior year. Aggregate funding received under the Act since July 2009 totals $107.5 million. Refer to Note 1.

5. Cash and cash equivalents

(in thousands of dollars)	**2022**	2021
Funds on deposit – operating	**327**	255
Funds on deposit – interest bearing	**-**	8,253
Total cash and cash equivalents	**327**	8,508

The average yield on interest bearing deposits during the year was 0.65% (2021 – 0.65%).

6. Tangible capital assets

(in thousands of dollars)	Computer & Telecom Equipment	Office Furniture	Leasehold Improve-ments	**2022**	2021
Cost					
Opening balance	315	104	143	**562**	544
Acquisitions	-	-	-	**-**	18
Disposals	(315)	(104)	(143)	**(562)**	-
Closing balance	-	-	-	**-**	562
Accumulated amortization					
Opening balance	291	103	143	**537**	509
Amortization	16	1	-	**17**	28
Disposals	(307)	(104)	(143)	**(554)**	-
Closing balance	-	-	-	**-**	537
Net book value	**-**	**-**	**-**	**-**	25

Leasehold improvements were fully amortized and have been written off to reflect the termination of future lease requirements. Other tangible capital assets had no residual value and were disposed of at a loss of $8 thousand. This amount is included in Wind-up costs in the Statement of Operations and Accumulated Surplus.

7. Funding of Capital Markets Authority Implementation Organization

The Capital Markets Authority Implementation Organization was a not-for-profit entity incorporated on behalf of the participating jurisdictions as an interim body until establishment of the Capital Markets Regulatory Authority ("CMRA") as proposed under the MOA.

In August 2016, the Transition Office entered into an agreement to provide up to $30 million in aggregate funding to support CMAIO's operations prior to the CMRA being established. The Transition Office also made office space available and provided 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.

Delays in the development of legislation to create the Cooperative System led CMAIO to pause its operations effective March 31, 2021. With CMAIO not being operational, its ongoing funding needs were reduced significantly and the funding agreement no longer suited the nature and scope of its activities. As a result, the Transition Office and CMAIO agreed to terminate the funding agreement and replace it with a new funding agreement. The new funding agreement became effective July 1, 2021, and made aggregate funding of $350 thousand available to CMAIO for its ongoing costs.

After completion of the pause in operations and CMAIO's fiscal 2021 reporting requirements, CMAIO's Board of Directors engaged the participating governments on the future role of the corporation. As the resumption of transition work appears to be several years away, and that work might not require an interim entity like CMAIO, it was agreed that the corporation should be dissolved. CMAIO was dissolved effective January 28, 2022.

The Transition Office provided funding of $50 thousand to CMAIO under the original funding agreement for the period April 1, 2021 to June 30, 2021. An additional $150 thousand in funding was provided to CMAIO under the new funding agreement for the period July 1, 2021 to the January 28, 2022 date of CMAIO's dissolution. This amount is net of unutilized funds returned to the Transition Office by CMAIO prior to its dissolution. The new funding agreement terminated on CMAIO's dissolution.

8. Wind-up costs

The following wind-up costs were incurred for the year ended March 31, 2022, as reflected in the Statement of Operations and Accumulated Surplus ($ thousands):

Staff severance	1,522
Lease termination costs	838
Remaining term for data and communications services	60
Professional services	58
Tangible capital assets disposal costs	35
Total before loss on disposal	2,513
Loss on disposal of tangible capital assets	8
Total wind-up costs	2,521

9. 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. 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 credit risk compared to the prior year and no changes in risk management practices used by the Transition Office to manage risk.

10. 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 $180 thousand (2021 - $98 thousand) 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.

11. Contractual obligations

The Transition Office had entered into lease agreements for its Toronto and Vancouver office premises, each with a term to December 31, 2022. By mutual agreement with the respective landlords, the leases were terminated effective March 31, 2022, with the Transition Office paying $838 thousand in remaining scheduled costs under the original term of the leases.