

**FINANCIAL SERVICES
REGULATORY AUTHORITY OF ONTARIO**

**FINANCIAL STATEMENTS FOR THE YEAR ENDING MARCH 31,
2020**



Management's Responsibility for Financial Statements

The accompanying financial statements have been prepared by management accordance with Canadian public sector accounting standards and are the responsibility of management. The preparation of the financial statements necessarily involves the use of estimates based on management's judgment, particularly when transaction affecting the current accounting period cannot be finalized with certainty until future periods.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

Financial Services Regulatory Authority of Ontario's Board of Directors is responsible for ensuring that management fulfils its responsibilities. The Board has appointed an audit and finance committee from among its own members. The audit and finance committee meets periodically with senior management and the Office of the Auditor General of Ontario to discuss audit, internal control, accounting policy, and financial reporting matters. The financial statements are reviewed by the audit and finance committee before approval by the Board of Directors.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. The auditor's report outlines the scope of the auditor's examination and opinion.

A handwritten signature in black ink, appearing to read 'Mark White'.

Mark White
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Stephen Power'.

Stephen Power
EVP- Corporate Services

A handwritten signature in black ink, appearing to read 'Randy Nanek'.

Randy Nanek
Chief Financial Officer

Toronto, Ontario
June 23, 2020



INDEPENDENT AUDITOR'S REPORT

To the Financial Services Regulatory Authority of Ontario

Opinion

I have audited the financial statements of the Financial Services Regulatory Authority of Ontario (the Authority), which comprise the statement of financial position as at March 31, 2020 and the statements of operations, changes in net deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2020, and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority'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 the Authority either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Authority'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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority 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.

I 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 I identify during my audit.

Toronto, Ontario
June 23, 2020


Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Statement of Financial Position As at March 31, 2020 (\$000)

	Note(s)	March 31, 2020	March 31, 2019
ASSETS			
Current			
Cash	5	\$ 86,416	\$ 22,334
Trade and other receivables	6	12,912	675
Prepaid expenses		1,959	1,418
Total current assets		101,287	24,427
Capital assets	7	6,697	1,822
Total assets		\$ 107,984	\$ 26,249
LIABILITIES			
Current			
Trade and other payables	8	\$ 40,299	\$ 3,225
Deferred revenue	9	18,844	413
Loan payable	10	2,996	-
Total current liabilities		62,139	3,638
Employee future benefits	11	5,993	-
Loan payable	10	43,910	40,407
Other long term obligations		1,429	-
Total liabilities		113,471	44,045
NET ASSETS / (DEFICIT)			
Internally restricted net assets	12	5,000	-
Unrestricted net deficit		(10,487)	(17,796)
Total net deficit		(5,487)	(17,796)
Total liabilities and net deficit		\$ 107,984	\$ 26,249

See accompanying notes to the financial statements.

Commitments, Contracts and Contingencies (Note 17)

On Behalf of the Board:



Board Chair



Chair, Audit & Finance Committee

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Statement of Operations For the year ended March 31, 2020 (\$000)

		March 31, 2020 (Note 3(b))	March 31, 2019
Revenue			
Assessments		\$ 60,710	\$ -
Fees, licenses and registration		16,803	-
Interest income		757	251
	20	<u>78,270</u>	<u>251</u>
Expenses			
Salaries and benefits	11, 13	46,935	7,648
Services		10,519	2,932
Technology		3,439	3,824
Accommodations		5,322	4,333
Staff development		646	-
Travel		281	22
Amortization		1,381	-
Interest expense		969	378
Other operating expenses		1,015	25
		<u>70,507</u>	<u>19,162</u>
Less: Recoveries	14	<u>(3,749)</u>	<u>(3,901)</u>
		<u>66,758</u>	<u>15,261</u>
Restructuring Transactions			
Gain on restructuring	3(a)	<u>797</u>	<u>-</u>
		<u>797</u>	<u>-</u>
Excess / (deficiency) of revenue over expenses		<u>\$ 12,309</u>	<u>\$ (15,010)</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Statement of Changes in Net Deficit For the year ended March 31, 2020 (\$000)

	Note(s)	Internally Restricted Net Assets	Unrestricted Net Deficit	March 31, 2020 Total	March 31, 2019 Total
Net deficit, beginning of year		\$ -	\$ (17,796)	\$ (17,796)	\$ (2,786)
Excess / (deficiency) of revenues over expenses	12	5,000	7,309	12,309	(15,010)
Net assets / (deficit), end of year		<u>\$ 5,000</u>	<u>\$ (10,487)</u>	<u>\$ (5,487)</u>	<u>\$ (17,796)</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Statement of Cash Flows For the year ended March 31, 2020 (\$000)

	Note(s)	March 31, 2020	March 31, 2019
Cash flows from / (used in) operating activities:			
Excess / (deficiency) of revenue over expenses		\$ 12,309	(15,010)
Adjustments for non-cash expense items:			
Amortization of capital assets		1,381	-
Amortization of deferred lease inducements		134	-
Interest expense		969	378
Adjustment to adopt Public Sector Accounting Standards	4	374	-
		<u>15,167</u>	<u>(14,632)</u>
Changes in non-cash working capital:			
Trade and other receivables		(12,237)	(491)
Prepaid expenses		(541)	(1,379)
Trade and other payables		35,822	2,592
Deferred revenue		18,431	413
Employee future benefits	4, 11	5,619	-
Other long term obligations		<u>1,429</u>	<u>-</u>
		63,690	(13,497)
Cash flows used in capital activities:			
Purchase of capital assets		<u>(5,138)</u>	<u>(1,822)</u>
		(5,138)	(1,822)
Cash flows from / (used in) financing activities:			
Proceeds from loan advances		6,853	22,612
Repayment of loan advances and interest		<u>(1,323)</u>	<u>-</u>
		5,530	22,612
Net increase / (decrease) in cash position		64,082	7,293
Cash, beginning of year		<u>22,334</u>	<u>15,041</u>
Cash, end of year	5	<u>\$ 86,416</u>	<u>\$ 22,334</u>
Supplemental cash flow information			
Capital assets funded by Trade and other payables		<u>\$ 1,118</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

1. DESCRIPTION OF THE ORGANIZATION

The Financial Services Regulatory Authority of Ontario (FSRA or the Agency) was established under *the Financial Services Regulatory Authority of Ontario Act, 2016* (the FSRA Act) as a corporation without share capital.

FSRA was created to fulfill specified statutory objects, which include improving consumer and pension plan beneficiary protections in Ontario, and was established to replace the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO) as the regulator under various regulated sector statutes previously administered by those predecessors.

With the proclamation of certain provisions of the FSRA Act and regulated sector statutes, the Agency assumed substantially all of the regulatory authorities and responsibilities of FSCO and DICO on June 8, 2019. The transition involved the transfer of certain assets, liabilities and contractual obligations from FSCO to FSRA, the amalgamation of FSRA and DICO and the transfer of FSCO and DICO employees to FSRA.

FSRA regulates sectors subject to the following statutes: Insurance Act, Compulsory Automobile Insurance Act, Prepaid Hospital and Medical Services Act, Credit Unions and Caisses Populaires Act, 1994, Loan and Trust Corporations Act, Mortgage Brokerages, Lenders and Administrators Act, 2006, Pension Benefits Act, Pooled Registered Pension Plan Act, 2014; and Financial Professionals Title Protection Act, 2019 (currently unproclaimed).

As a regulatory agency of the Province of Ontario, FSRA is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). The significant accounting policies used to prepare these statements are summarized below.

(a) Revenue Recognition

Assessment revenues are from the insurance, pension, credit union and caisses populaires and the loan and trust sectors and are based on FSRA's approved operating budget for the fiscal period. Assessment revenues are recognized when the related operating costs are incurred.

Revenues from fees, licenses and registrations are recognized as revenue in the year to which they pertain.

Interest income is recognized as earned.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

(b) Capital Assets

Capital assets are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Third party and internal labour costs are capitalized under software in connection with the development of information technology projects.

Amortization is provided on a straight-line basis based upon the estimated useful lives of the assets as follows:

Office furniture and equipment	5 years
Leasehold improvements	over the term of the lease plus one renewal term
Software	3 to 10 years
Computer hardware	3 to 6 years

(c) Financial Instruments

All financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. FSRA's accounts receivable, other receivables, accounts payable and accrued liabilities, loan payable and other long term obligations are recorded at cost in the financial statements.

(d) Employee Benefits

Pension Costs

Certain employees of FSRA participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines FSRA's annual payments to the funds.

The plan sponsors are responsible for ensuring that the pension funds are financially viable. Any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of FSRA.

Payments made to the plans are recognized as an expense when employees have rendered the service entitling them to the contributions.

FSRA Non-Pension Post-Employment Benefits

The cost of non-pension benefits for eligible pensioners are paid by the Government of Ontario and is not included in these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

DICO Non-Pension Post-Employment Benefits

Following the restructuring transactions described in Note 3, FSRA provides future non-pension post-employment benefits to provide extended health, dental and life benefits to former DICO employees and retirees who meet eligibility requirements. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and expensed as employment services are rendered. Adjustments to these costs arising from changes in estimates and actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employees. The plan was withdrawn on June 7, 2019 and former DICO employees retiring after June 8, 2021 will not be eligible for benefits under this arrangement.

Use of Estimates

Management has made estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual amounts could differ from these estimates. The infectious coronavirus ("COVID-19") pandemic has added to the FSRA's measurement uncertainty primarily due to a reduction of available information with which to make significant assumptions related to critical estimates as compared to those estimates reported at March 31, 2019. Items subject to such estimates include the allowance for doubtful debts, useful lives of capital assets, accrued liabilities, employee future benefits and allocation of costs between industry sectors.

Due to the COVID-19 pandemic, additional uncertainty exists in relation to client's ability to pay their amounts owing. Note 19 expands on the potential effects of COVID-19 in subsequent financial periods.

3. RESTRUCTURING TRANSACTIONS

(a) On March 3, 2015, the government announced an Expert Advisory Panel ("Panel") to conduct the review of the mandates of the Financial Services Commission of Ontario (FSCO), Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO). The Panel conducted a public consultation on the issues being examined and issued a Final Report on March 31, 2016, recommending the establishment of a new financial services regulator in Ontario.

On June 29, 2017, certain provisions of the Financial Services Regulatory Authority of Ontario Act, 2016 (FSRA Act), came into force. Under this Act, the Minister of Finance may authorize an order to transfer substantially all the FSCO's operations to FSRA.

On December 6, 2018, the Restoring Trust, Transparency and Accountability Act, 2018 (Bill 57) received Royal Assent and provided for the amalgamation of DICO with FSRA.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

The transition to FSRA was successfully completed on June 8, 2019. This was effected after the completion of the Minister of Finance's transfer order, the proclamation of certain sections under the FSRA Act and related regulated sector statutes and DICO's amalgamation with FSRA.

On that date, FSRA assumed substantially all of FSCO's regulatory responsibilities, as well as certain assets, liabilities and contractual obligations. At the same time, responsibility for the administration of the Pension Benefit Guarantee Fund (PBGF) was transferred to the Chief Executive Officer of FSRA. The assets and liabilities of the PBGF are not part of the assets and liabilities of FSRA and are not recognized in these financial statements.

On June 8, 2019, DICO was also amalgamated with FSRA and its regulatory responsibilities, assets and liabilities were transferred to the Agency. At the same time, FSRA received the Deposit Insurance Reserve Fund (DIRF) by virtue of its amalgamation with DICO, including the transfer of the assets and liabilities previously held by DICO as insurer for credit union and caisses populaires deposits. The assets and liabilities of the DIRF are not part of the assets and liabilities of FSRA and are not recognized in these financial statements.

The net liabilities assumed by FSRA on June 8, 2019 have been recognized at book value and adjusted to comply with Public Sector Accounting Standards where required.

The value of these assets and liabilities assumed at June 8, 2019 were as follows:

	FSCO	DICO	Total
(\$000)		(Note 4)	
Due from Province	\$ 5,760	\$ -	\$ 5,760
Due from DIRF (Note 4)	-	14,035	14,035
Trade and other receivables	11,727	20	11,747
Prepaid expenses	375	96	471
Capital assets	4,444	146	4,590
Trade and other payables	(1,458)	(2,048)	(3,506)
Deferred revenue	(17,930)	(5,566)	(23,496)
Employee future benefits	(2,121)	(4,676)	(6,797)
Other long term obligations	-	(1,434)	(1,434)
Unrealized actuarial gains	-	(199)	(199)
Net assets transferred	\$ 797	\$ 374	\$ 1,569
Adjustments to the carrying amount of Employee future benefits to comply with the adoption of Public Sector Accounting standards (Note 4)	-	(374)	(573)
Gain / (loss) on restructuring	\$ 797	\$ -	\$ 797

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

- (b) The Statement of Operations includes the following amounts for initial administrative and operational costs related to start-up activities that incurred prior to FSRA's launch on June 8, 2019:

(\$000)	June 7, 2019	March 31, 2019
Revenue		
Interest income	\$ 76	\$ 251
Expenses		
Salaries and benefits	2,206	7,648
Services	2,376	2,932
Technology	666	3,824
Accommodations	980	4,333
Staff development	76	-
Travel	12	22
Amortization	71	-
Interest expense	150	378
Other operating expenses	11	25
	6,548	19,162
Less: Recoveries	(979)	(3,901)
	5,569	15,261
Deficiency of revenue over expenses	\$ (5,493)	\$ (15,010)

4. IMPACT OF THE ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

Management assessed the impact of PSAS-GNFPO adoption on DICO's opening balance sheet items not constituting part of the DIRF, in particular the impact on recognition, measurement, and presentation of each item.

After this assessment, the DICO balances not forming part of the DIRF were all transferred at book values to FSRA, except for the liability of the DICO non-pension post-employment benefits which is included in employee future benefits. A restatement of the non-pension post-employment benefits obligation on June 8, 2019 was required as a different discount rate and attribution period of benefits is used under PSAS.

Under IFRS this benefits obligation was valued at \$3,105 on June 7, 2019, with unrealized actuarial gains of \$199 (\$3,304 in total). An actuarial firm was engaged to restate the obligation balance on June 8, 2019 under PSAS. The restatement incorporated a change in discount rate to use FSRA's applicable cost of borrowing at that date, as well as a change in the attribution period of benefits to retirement age. DICO used the Canadian Institute of Actuaries discount

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

rate model linked to corporate bond yield and an attribution period to full eligibility age for benefits as per IFRS IAS 19.

The restated opening balance is \$3,678, an increase of \$374. As a result, the amount receivable from DIRF to FSRA was adjusted from \$13,661 to \$14,035 (refer to Note 3 (a)).

5. CASH

Cash includes \$93 (2019 - \$nil) in funds held in the Agency's role as a provider of administrative and support services for various organizations (see Note 14). These funds are held in separate bank accounts and are not available for general use.

6. TRADE AND OTHER RECEIVABLES

(\$000)	Notes	March 31, 2020	March 31, 2019
Trade receivables		\$ 10,108	\$ 52
HST recoverable		1,410	623
Due from Ministries of the Province of Ontario	15 (a)	718	-
Due from the Pension Benefit Guarantee Fund	15 (b)	676	-
		<u>\$ 12,912</u>	<u>\$ 675</u>

7. CAPITAL ASSETS

Capital assets consist of the following:

(\$000)	March 31, 2020			March 31, 2019
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Software	\$ 4,887	\$ 1,096	\$ 3,791	\$ -
Computer hardware	2,406	575	1,831	1,822
Leasehold improvements	40	24	16	-
Office furniture and equipment	78	74	4	-
Construction in progress	1,055	-	1,055	-
	<u>\$ 8,466</u>	<u>\$ 1,769</u>	<u>\$ 6,697</u>	<u>\$ 1,822</u>

Construction in progress represents capital expenditures for leasehold improvements that are not yet complete. Amortization of these assets will commence when construction is complete and the assets are ready for their intended use. Leasehold improvements are amortized over the term of the lease plus one renewal term.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

8. TRADE AND OTHER PAYABLES

(\$000)	Notes	March 31, 2020	March 31, 2019
Accounts payable and accruals		\$ 13,979	\$ 3,225
Deferred lease inducements		97	-
Current portion of employee benefits	11 (b)	476	-
Due to Ministries of the Province of Ontario	15 (a)	23,927	-
Due to Deposit Insurance Reserve Fund	15 (b)	765	-
Due to Infrastructure Ontario	15 (c)	1,055	-
		<u>\$ 40,299</u>	<u>\$ 3,225</u>

On June 8, 2019 FSRA assumed a deferred lease inducement related to its current offices as part of the restructuring transaction described in Note 3(a). The inducement is being amortized over the term of the lease which expires on October 31, 2020. Amortized lease inducements of \$134 (2019 - \$nil) were recorded as a reduction of accommodation expense during the year.

9. DEFERRED REVENUE

Deferred revenue represents payments received for fees, licences and registrations that cover more than the current fiscal year and for assessments that relate to the next fiscal year. The deferred portion is recognized as revenue when the applicable future licence year occurs and when the next fiscal year for the assessment occurs. The changes in the deferred revenue balances during fiscal 2019-20 are summarized as follows:

(\$000)	Balance, beginning of year	Transferred at restructuring	Received during year	Recognized during year	Balance, end of year
Insurance agents, adjusters and corporations	\$ -	\$ 6,086	\$ 5,266	\$ (5,335)	\$ 6,017
Mortgage brokers	-	7,856	10,572	(9,548)	8,880
Credit unions and caisse populaires	-	5,566	608	(6,006)	168
Health service providers	-	2,788	1,608	(2,814)	1,582
Other	413	1,200	1,119	(535)	2,197
	<u>\$ 413</u>	<u>\$ 23,496</u>	<u>\$ 19,173</u>	<u>\$ (24,238)</u>	<u>\$ 18,844</u>

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

10. LOAN AGREEMENT

On August 29, 2017, the FSRA entered into a non-revolving Loan Agreement with Her Majesty the Queen in the right of Ontario as represented by the Minister of Finance to borrow up to \$20 million for covering initial administrative and operational costs related to its start-up activities.

On March 31, 2018, the Loan Agreement was amended to increase the amount of the non-revolving Loan Agreement up to \$40 million and acknowledge that amendments would be required to convert the non-revolving loan facility into a long-term loan facility.

The amended agreement was completed on August 26, 2019 and increased the maximum principal amount of the loan to \$60 million by adding three additional non-revolving loan facilities.

The amended agreement also includes long-term loan facilities to refinance each of the four non-revolving loans (Term loan 1, Term loan 2, Term loan 3 and Term loan 4). The term loans will be advanced as the non-revolving facilities come due and will be equal to the principal and accrued interest balance of the non-revolving loans at their repayment dates.

The non-revolving and term loan facilities available under the agreement are as follows:

(\$000s)	Principal available	Advance Period	Rollover Date Into Term Loans	Facility or Term Loan balance at March 31, 2020
Facility 1 / Term loan 1	\$40,000	August 29, 2017 to August 26, 2019	August 29, 2019	\$40,053
Facility 2 / Term loan 2	\$12,500	August 26, 2019 to March 31, 2020	April 1, 2020	\$6,853
Facility 3 / Term loan 3	\$4,500	April 1, 2020 to March 31, 2021	April 1, 2021	N/A
Facility 4 / Term loan 4	\$3,000	April 1, 2021 to March 31, 2022	April 1, 2022	N/A

Term loan 1 matures on August 29, 2039 and bears interest at 2.71% per annum. The loan is repayable in equal quarterly installments beginning November 29, 2019. Interest expense and loan repayments on Term loan 1 were \$969 (2019 - \$378) and \$1,323 (2019 - \$nil) respectively for the year.

On March 31, 2020, FSRA drew \$6,853 under Facility 2 and the undrawn balance of the Facility expired. Facility 2 was repaid on April 1, 2020 with proceeds from Term loan 2 which was

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

advanced on April 1, 2020. Term loan 2 will mature on April 1, 2039 and will bear interest at 2.81% per annum. The loan is repayable in equal quarterly installments beginning July 2, 2020.

11. EMPLOYEE BENEFITS

(a) Pension Plan

Eligible FSRA employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF). FSRA's contribution to the PSPF and OPSEU-PF for the year was \$2,908 (2019 - \$109), which is included in salaries and benefits in the Statement of Operations.

(b) Employee Future Benefits

(\$000)	Notes	March 31, 2020	March 31, 2019
DICO non-pension post employment benefits		\$ 3,619	\$ -
DICO supplemental pension benefits		842	-
Legislated severance entitlements		1,910	-
Other employee future benefits		98	-
Total employee future benefit liability		6,469	-
Less: Due within one year and included in Trade and other payables	8	(476)	-
		<u>\$ 5,993</u>	<u>\$ -</u>

(i) DICO Non-Pension Post-Employment Benefits

Following the restructuring transactions described in Note 3(a), FSRA became the sponsor of a defined benefit plan for retirement benefits other than pensions for former employees of DICO. The plan provides extended health and dental as well as life insurance to eligible employees.

Total benefit payments to retirees during the year were \$146. The plan is unfunded and requires no contributions from employees.

The retirement benefit liability at March 31, 2020 includes the following components:

(\$000)	March 31, 2020
Accrued benefit obligation	\$ 3,305
Unamortized actuarial gains	314
Retirement benefit liability	<u>\$ 3,619</u>

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

The most recent actuarial report was prepared at March 31, 2020. Unamortized actuarial gains will be amortized on a straight-line basis over the expected average remaining service of the related employee group which is 1.25 years, as former DICO employees retiring after June 8, 2021 will not be eligible for benefits under this arrangement. The amortization of these gains will begin in fiscal 2020-2021.

The actuarial valuation is based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, salary increases, and employee turnover and mortality. The assumptions used reflect management's best estimates. The discount rate used to determine the accrued benefit obligation is 2.71%.

The total expense related to retirement benefits other than pensions is \$88 (2019 - \$nil) and includes \$28 (2019 - \$nil) of current year benefit expense and \$60 (2019 - \$nil) for interest expense. These costs have been included in salaries and benefits in the Statement of Operations.

(ii) DICO Supplemental Pension Benefits

Following the restructuring transactions described in Note 3 (a), FSRA assumed an obligation for a supplemental defined contribution pension plan that was established to provide pension benefits to certain former DICO employees for income in excess of registered pension limits.

Interest expense of \$17 (2019 - \$nil) was recorded in respect of this obligation and is included in salaries and benefits in the Statement of Operations.

As the plan is a defined contribution plan, FSRA assumes no actuarial or investment risk.

(iii) Legislated Severance

The legislative severance portion of the employee future benefits obligation was calculated using a discount rate of 2.71% and estimated average years to retirement of 10.5 years. These assumptions are management's best estimates. The total expense related to legislated severance is \$(5) (2019 - \$nil) and is included in salaries and benefits in the Statement of Operations.

(iv) Other Employee Future Benefits

Other employee future benefits includes other future compensation entitlements earned. The total cost for the year for all other employee future benefits is \$12 (2019 - \$nil) and is included in salaries and benefits in the Statement of Operations.

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Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

12. INTERNALLY RESTRICTED NET ASSETS

FSRA has established a \$5,000 operating reserve. The primary purpose of the reserve is to fund FSRA's operations in the event of revenue shortfalls and unanticipated expenditures or to cover the discrepancy between the timing of revenue and expenses.

13. DIRECTOR'S REMUNERATION

The Board of Directors are part-time appointees and the amounts paid to the Directors are established in an Order in Council. Remuneration paid to members of the Board of Directors during the year was \$231 (2019 - \$442). During the year, the number of board members remained consistent with the prior year at seven.

14. RECOVERIES

FSRA provides administrative and other support services to a number of organizations and recovers the costs of providing these services from the organizations in accordance with the memorandum of understanding or agreement signed with the respective organizations. Details of these recoveries are as follows:

(\$000)	Notes	March 31, 2020	March 31, 2019
General Insurance Statistical Agency		\$ 483	\$ -
Canadian Association of Pension Supervisory Authorities		232	-
Canadian Council of Insurance Regulators		303	-
Canadian Insurance Services Regulatory Organization		121	-
Mortgage Broker Regulators' Council of Canada		180	-
Province of Ontario lease payments	15 (a)	979	3,901
Province of Ontario co-operative offering statements program	15 (a)	88	-
Motor Vehicle Accident Claims Fund	15 (a)	611	-
Financial Services Tribunal	15 (a)	76	-
Pension Benefits Guarantee Fund	15 (b)	676	-
		<u>\$ 3,749</u>	<u>\$ 3,901</u>

Cash includes \$93 held to provide administrative and other support services to the Canadian Insurance Services Regulatory Organization.

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Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

15. RELATED PARTY TRANSACTIONS

FSRA is wholly-owned by the Province of Ontario through the Ministry of Finance and is therefore a related party to other organizations that are controlled or subject to significant influence by the Province of Ontario. Transactions with related parties are outlined below.

All related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

(a) Ministries of the Province of Ontario

During the course of the year, the FSRA entered into the following transactions with the various Ministries of the Province of Ontario:

- (i) Received \$27,373 (2019 - \$nil) from the Ministry of Finance under an Asset and Liability Transfer Agreement related to the restructuring transactions described in Note 3(a). The amount was based on a preliminary estimate of the net liabilities assumed by FSRA as part of the restructuring. The final value of cash to be transferred in respect of this transactions is \$5,760. The excess payment of \$21,613 is included in trade and other payables in the Statement of Financial Position.
- (ii) Borrowed an additional \$6,853 (2019 - \$22,612) under the Loan Agreement with the Ministry of Finance described in Note 10. During the year total interest expense for borrowings under this agreement was of \$969 (2019 - \$378).
- (iii) Paid \$3,944 (2019 - \$nil) to the Ministry of Finance for expenditures that it made in respect of the regulated sectors for the operation of Dispute Resolution Services and the Financial Services Tribunal. The amount also includes expenditures that the Ministry of Finance made in respect of preparing FSRA to carry out its regulatory function.

FSRA will recover this amount from the regulated sectors through the fiscal 2020-2021 assessments and has included the amount in trade and other receivables in the Statement of Financial Position at March 31, 2020.

- (iv) Seconded employees from the Ontario Public Sector to support its start-up and IT activities. During the year, FSRA expensed \$171 (2019 - \$895) as salary and benefit costs and \$1,380 (2019 - \$nil) as services costs in connection with these seconded employees.
- (v) Co-location, connectivity and related charges in support of information technology services at the Guelph Data Centre and IT user per seat costs. Expenses for these services of \$671 (2019 - \$544) have been included in technology costs in the Statement of Operations.
- (vi) Received payments from the Province in support of the lease payment for 5160 Yonge Street. On July 1, 2018, FSRA assumed the lease for these premises from the Financial

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

Services Commission of Ontario. During the year the Province paid FSRA \$979 (2019 - \$3,901) in respect of this lease. These amounts have been included as recoveries in the Statement of Operations.

- (vii) Provided administrative and other support services for the Province's co-operating offering statements program, Motor Vehicle Accident Claim Fund and the Financial Services Tribunal as described in Note 14. Trade and other receivables includes \$718 (2019 - \$nil) in respect of these services.

(b) Funds Administered by FSRA

The Chief Executive Officer of FSRA is responsible for the administration of the Pension Benefit Guarantee Fund (PBGF) and FSRA is responsible for the administration of the Deposit Insurance Reserve Fund (DIRF).

(i) Pension Benefit Guarantee Fund

During the year FSRA provided administrative and other support services to the Pension Benefit Guarantee Fund as described in Note 13. Trade and other receivables includes \$676 (2019 - \$nil) in respect of these services.

(ii) Deposit Insurance Reserve Fund

In accordance with part 10.2 (3) of FSRA Fee Rule 2019-001, credit unions and caisses populaires were not individually assessed for their share of FSRA's budgeted operating costs in respect of FSRA's first assessment period. Instead, the aggregate assessment of all credit unions and caisses populaires for FSRA's applicable budgeted operating costs for the period was fully satisfied through a one-time withdrawal by FSRA from the DIRF in an amount equal to the aggregate assessment, net of the regulatory portion included in the credit unions and caisses populaires for premiums received during FSRA's first assessment period. The net aggregate assessment is \$2,318 (2019 - \$nil). This amount has been included in assessments in the Statement of Operations.

FSRA also collected deposit insurance premiums from credit unions and caisses populaires and paid certain expenses on behalf of the Deposit Insurance Reserve Fund. Trade and other payables includes a net amount of \$765 (2019 - \$nil) in respect of these items.

(c) Infrastructure Ontario (an Ontario Crown Agency)

During the year FSRA engaged Infrastructure Ontario to oversee leasehold improvements to its new offices. The Agency incurred \$1,055 (2019 - \$nil) under this arrangement. This amount has been recognized as capital assets and trade and other payables in the Statement of Financial Position.

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Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

During fiscal 2018-2019 FSRA paid Infrastructure Ontario \$33 for leasing options analysis. No such costs were incurred during the current year.

16. FINANCIAL INSTRUMENTS

FSRA's financial instruments are exposed to certain financial risks including credit risk, interest risk and liquidity risk.

Credit risk

Credit risk is the risk that FSRA will suffer financial loss due to a third party failing to meet its financial or contractual obligations to FSRA. The Agency is exposed to credit risk on its trade and other receivables balances. FSRA manages its credit risk by closely monitoring its receivable balances and maintains reserves for potential credit losses on trade receivables. The carrying amount of these financial assets represents the maximum credit exposure.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. FSRA is subject to interest rate risk on its loan payable. The interest rates on the non-revolving loan facilities are based on the 90 day Ontario Treasury Bill rate and the term loans have fixed interest rates for their entire terms. FSRA is currently subject to limited interest rate risk (refer to Note 10).

Liquidity risk

Liquidity risk is the risk the Agency will not be able to meet its cash flow obligations as they fall due. The Agency mitigates liquidity risk by establishing and holding an operating reserve (see Note 12) and by monitoring cash activities and expected outflow to ensure that it has sufficient resources readily available to meet its liabilities when due.

Trade and other payables at March 31, 2020 mature within six months.

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Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

17. COMMITMENTS CONTRACTS AND CONTINGENCIES

FSRA has entered into a lease agreement for new office spaces which commences on November 1, 2020 for an initial term of 10 years, with two five year renewal options.

The minimum annual payments for current and new office lease space is as follows for the years ending March 31:

2021	\$ 4,955
2022	\$ 4,452
2023	\$ 4,548
2024	\$ 4,648
2025	\$ 4,752
Thereafter	\$ 29,411

The Agency also entered into an arrangement with a crown agency of the Province of Ontario, Infrastructure Ontario, to spend \$12,000 on the construction of leasehold improvements at its new offices in the year ending March 31, 2021.

18. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

19. COVID-19 IMPACT

The COVID-19 pandemic has had a material impact on the global economy. In response to the pandemic, and to support the sectors the Agency regulates during this difficult time, FSRA used its discretion and has deferred the issuance of its fiscal 2020-2021 fee assessments until such time as it gives the regulated sectors subject to such assessments at least 15 days notice.

FSRA entered into a lease for new office space which commences on November 1, 2020. The pandemic has delayed the completion of leasehold improvements at this new location. . Management estimates that the delay could result in additional payments of up to \$2,600 in respect of overholding its current office lease during this delay, which have not been reflected in Note 17 above.

FSRA's financial position continues to remain strong. The Agency ended fiscal 2019-2020 with \$86,416 in cash, against current liabilities of \$62,139, and available loan facilities of \$4,500, to fund operations and expenditures for the next fiscal year. Management intends to monitor the situation closely and will adjust operations as needed to prudently manage costs and expenditures in the next fiscal period.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2020 (\$000)

20. OTHER INFORMATION

FSRA regulates five distinct sectors: insurance, pensions, credit unions and caisses populaires, mortgage brokers and loan and trust. The five sectors are governed by different statutes and regulations.

Direct and indirect costs are allocated to each sector. Direct costs are allocated based on the sector activities causing FSRA to incur those costs. Indirect costs include costs for the CEO Office, Corporate Services, Public Affairs and other common costs. These indirect costs are allocated to the sectors based on their pro-rata share of direct costs.

The following table summarizes revenue, direct and indirect costs for each sector during the year ended March 31, 2020. Corporate costs represent indirect costs incurred for initial administrative and operational costs related to start-up activities that occurred prior to FSRA's launch on June 8, 2019 and an increase in net assets due to the restructuring transactions described in Note 3(a).

For the year ended March 31, 2020 (\$000)												
Sectors	Insurance						Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Corporate	Total
Subsectors	Auto Products	P&C Conduct	P&C Prudential Regulation	Health Service Providers	Life Conduct & Life Health	Total Insurance						
Revenue												
Assessments	\$ 10,490	\$ 15,698	\$ 383	\$ -	\$ 1,469	\$ 28,040	\$ 21,715	\$ 10,737	\$ -	\$ 218	\$ -	\$ 60,710
Fees, licenses and registration	-	810	-	2,919	4,079	7,808	45	11	8,937	-	2	16,803
Interest income	-	-	-	-	-	-	-	-	-	-	757	757
Total Revenue	10,490	16,508	383	2,919	5,548	35,848	21,760	10,748	8,937	218	759	78,270
Cost												
Direct Cost	5,976	10,920	277	2,320	4,165	23,658	14,085	5,668	4,277	102	1,028	48,818
Indirect Costs	1,898	3,364	81	879	853	7,075	3,897	2,233	1,894	42	6,548	21,689
Less: Recoveries	(132)	(268)	(7)	(53)	(80)	(540)	(981)	(99)	(120)	(2)	(2,007)	(3,749)
	7,742	14,016	351	3,146	4,938	30,193	17,001	7,802	6,051	142	5,569	66,758
Less: Mortgage Broker & Corporate Contributions to Common Costs	(511)	(909)	(22)	(236)	(229)	(1,907)	(1,048)	(601)	2,886	(13)	683	-
Total Cost	7,231	13,107	329	2,910	4,709	28,286	15,953	7,201	8,937	129	6,252	66,758
Restructuring transactions	-	-	-	-	-	-	-	-	-	-	797	797
Excess / (deficiency) of revenue over expenses	\$ 3,259	\$ 3,401	\$ 54	\$ 9	\$ 839	\$ 7,562	\$ 5,807	\$ 3,547	\$ -	\$ 89	\$ (4,696)	\$ 12,309