

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**DEPOSIT INSURANCE RESERVE FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2024**



Deposit Insurance Reserve Fund

Management's Responsibility for Financial Reporting

Pursuant to section 2 (1) of the *Financial Services Regulatory Authority of Ontario Act, 2016* and section 224 (1) of the *Credit Unions and Caisses Populaires Act, 2020*, the Financial Services Regulatory Authority of Ontario ("FSRA") is responsible for the administration of the Deposit Insurance Reserve Fund ("DIRF").

FSRA management ("Management") is responsible for the integrity and fair presentation of the accompanying financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit Organizations ("PSAS-GNFPO"). The preparation of the financial statements involves the use of Management's judgement and best estimates, where appropriate.

Management is also responsible for developing and maintaining financial controls, information systems, and practices to provide reasonable assurances on the reliability of financial information and the safeguarding of its assets.

As required by section 10.2 of the *Financial Services Regulatory Authority of Ontario Act, 2016*, FSRA's Board of Directors established a Statutory Funds Advisory Committee to advise the Board on matters related to the DIRF. The Audit, Finance and Risk Committee of the Board of Directors assists the Statutory Funds Advisory Committee with these responsibilities by reviewing the financial statements before they are approved by the Board of Directors.

The financial statements for the DIRF 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 PSAS-GNFPO. The Auditor's report follows.

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
Executive Vice President - Corporate Services

Toronto, Ontario
July 16, 2024



INDEPENDENT AUDITOR'S REPORT

To the Financial Services Regulatory Authority of Ontario

Opinion

I have audited the financial statements of the Deposit Insurance Reserve Fund (the Fund), which comprise the statement of financial position as at March 31, 2024, and the statements of operations and fund surplus, remeasurement gains and losses 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 Fund as at March 31, 2024 and the results of its operations, its remeasurement gains and losses 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 Fund 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.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and my auditor's report thereon, in the Financial Services Regulatory Authority of Ontario 2023-2024 Annual Report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

I obtained the Financial Services Regulatory Authority of Ontario 2023-2024 Annual Report prior to the date of this auditor's report. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I 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 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 Fund'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 Fund either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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
July 16, 2024

Shelley Spence, CPA, CA, LPA
Auditor General

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

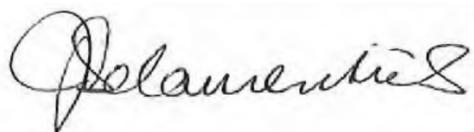
**Deposit Insurance Reserve Fund
Statement of Financial Position
As at March 31, 2024**

(\$000)	Note(s)	March 31, 2024	Restated March 31, 2023 (Note 2)
ASSETS			
Current			
Cash		414	1,830
Investments	3	470,501	409,851
Premium receivable	4	38,539	36,987
Investment income receivable		1,227	773
Other receivables	5	-	116
Total assets		<u>510,681</u>	<u>449,557</u>
LIABILITIES AND FUND SURPLUS			
Current			
Accounts payable and accrued liabilities		77	1,087
Total liabilities		<u>77</u>	<u>1,087</u>
Fund surplus from operations		511,298	449,881
Accumulated remeasurement losses		(694)	(1,411)
Fund surplus		<u>510,604</u>	<u>448,470</u>
Total liabilities and fund surplus		<u>510,681</u>	<u>449,557</u>


See accompanying notes to the financial statements

Contingencies (Notes 9 &10)

On Behalf of the Board:



Joanne De Laurentiis
Board Chair



Brent Zorgdrager
Chair, Audit, Finance and Risk
Committee

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2024**

(\$000)	Note(s)	March 31, 2024	Restated March 31, 2023 (Note 2)
Revenue			
Premium revenue	2, 4	41,085	39,665
Investment income	2, 3, 5	20,403	10,524
Other revenue	2, 7	181	202
		<u>61,669</u>	<u>50,391</u>
Expenses			
Provision for deposit insurance loss	6	252	1,772
		<u>252</u>	<u>1,772</u>
Excess of revenue over expenses		61,417	48,619
Fund surplus from operations, beginning of year		<u>449,881</u>	<u>401,262</u>
Fund surplus from operations, end of year		<u>511,298</u>	<u>449,881</u>

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Remeasurement Gains and Losses
For the year ended March 31, 2024**

(\$000)	March 31, 2024	March 31, 2023
Accumulated remeasurement losses, beginning of year	(1,411)	(1,387)
Unrealized gains (losses) attributed to portfolio investments	717	(52)
Realized losses reclassified to the statement of operations and fund surplus	-	28
Accumulated remeasurement losses, end of year	(694)	(1,411)

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Cash Flows
For the year ended March 31, 2024**

(\$000)	Note(s)	March 31, 2024	Restated March 31, 2023 (Note 2)
Cash flows from operating activities:			
Excess of revenue over expenses		61,417	48,619
Adjustments for non-cash expense items:			
Amortization of bond premiums		56	730
Realized losses on disposal of investments		-	28
		<u>61,473</u>	<u>49,377</u>
Changes in non-cash working capital:			
Premium receivable		(1,552)	(1,748)
Investment income receivable		(454)	(164)
Other receivables	5	116	(116)
Account payables and accrued liabilities		(1,010)	(853)
Other payables	5	-	(143)
		<u>(2,900)</u>	<u>(3,024)</u>
		<u>58,573</u>	<u>46,353</u>
Cash flows used in investing activities:			
Purchases of investments		(7,946,663)	(6,299,241)
Proceeds from sale of investments		7,886,674	6,252,492
		<u>(59,989)</u>	<u>(46,749)</u>
Net (decrease) increase in cash		(1,416)	(396)
Cash position, beginning of year		1,830	2,226
Cash position, end of year		<u>414</u>	<u>1,830</u>

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

1. REPORTING ENTITY

Statutory authorities

The Financial Services Regulatory Authority of Ontario (“FSRA”) was established under the *Financial Services Regulatory Authority of Ontario Act, 2016* (the “FSRA Act”) without share capital. On December 6, 2018, the *Restoring Trust, Transparency and Accountability Act, 2018* received Royal Assent and provided for the amalgamation of the Deposit Insurance Corporation of Ontario (“DICO”) with FSRA.

On June 8, 2019, the amalgamation was completed pursuant to the provisions of the FSRA Act. On this date, FSRA became responsible for providing deposit insurance and prudential and market conduct regulation of Ontario’s credit unions and caisses populaires (“Credit Unions”). By virtue of its amalgamation with DICO, FSRA assumed the responsibility to administer the Deposit Insurance Reserve Fund (the “DIRF” or the “Fund”).

In accordance with sections 224 (1) and 224 (3) of the *Credit Unions and Caisses Populaires Act, 2020* (the “CUCPA”), FSRA administers the DIRF with the power to manage, invest and disburse the money in the DIRF in accordance with the CUCPA.

As defined by Public Sector Accounting Standards for Government Not-For-Profit Organizations (“PSAS-GNFPO”), FSRA controls the DIRF. FSRA has elected to not consolidate controlled entities. Therefore, the DIRF’s financial statements have not been consolidated with FSRA’s financial statements. A summary of the DIRF’s financial information has been disclosed in the notes to FSRA’s financial statements.

Purpose and operation

In accordance with the CUCPA, the DIRF may be used to pay the following:

- Deposit insurance claims;
- Costs associated with the orderly winding up of Credit Unions in financial difficulty;
- Financial assistance to a Credit Union under administration in its continued operation, or to assist with the orderly winding up of Credit Unions in financial difficulty;
- An advance or grant for the purpose of paying lawful claims against a Credit Union in respect of any claims of its members for withdrawal of deposits;
- Assets acquired or liabilities assumed from Credit Unions under the above circumstances; and
- Fees in respect of credit agreements entered into by FSRA to provide financial assistance to the Credit Union sector.

FSRA is responsible for the operation and prudent management of the DIRF. Pursuant to section 10.2 of the FSRA Act, the Board of Directors of FSRA has established a Statutory Funds Advisory Committee (the “SFAC”) to advise the Board on matters related to the

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

oversight of FSRA's management of the DIRF.

The investments of the DIRF are managed by the Ontario Financing Authority (the "OFA"), on a fee-for-service basis which is paid by the Fund from investment income.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with PSAS-GNFPO as issued by the Public Sector Accounting Board ("PSAB"). Management has used the following significant accounting policies in the financial statements and notes preparation.

(a) Adoption of Section PS 3400 Revenue ("PS 3400")

Effective April 1, 2023, the DIRF adopted PS 3400 on a retroactive basis with restatement of the prior period. Key aspects of PS 3400 include differentiating revenue arising from exchange transactions that include performance obligations and non-exchange transactions that do not have performance obligations.

PS 3400 applies to the DIRF's premium revenue and other revenue. These revenues arise from non-exchange transactions, and are recognized when the DIRF has the authority to claim or retain an inflow of economic resources and identifies a past transaction or event that gives rise to an asset. Revenue is measured at the amount of cash received or receivable.

Other revenue is not impacted by PS 3400 adoption.

PS 3400 adoption has a significant impact on the DIRF's premium revenue. Previously, premium revenue was recognized by amortizing a Credit Union's annual premium over its fiscal year. The unamortized portion as at the DIRF's fiscal year-end was reported as deferred premium revenue on the Statement of Financial Position. PS 3400 requires the DIRF to recognize premium revenue upon issuance of the annual premium invoice to the Credit Union.

The comparative financial statements for fiscal 2023 have been restated to reflect accounting policy changes under PS 3400 with respect to premium revenue recognition. The amount of adjustment for each financial statement line item affected by the adoption of PS 3400 is illustrated in the table below.

Impact on liabilities and accumulated fund surplus:

<u>As at April 1, 2022</u>	<u>As previously reported</u>	<u>PS 3400 Adjustments</u>	<u>Restated</u>
Deferred premium revenue	26,993	(26,993)	-
Fund surplus from operations	374,269	26,993	401,262

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

For the year ended March 31, 2023	As previously reported	PS 3400 Adjustments	Restated
Deferred premium revenue during year	1,329	(1,329)	-
Premium revenue	38,336	1,329	39,665
As at March 31, 2023	As previously reported	PS 3400 Adjustments	Restated
Deferred premium revenue	28,322	(28,322)	-
Fund surplus from operations	421,559	28,322	449,881

(b) Financial instruments

All financial instruments are included on the Statement of Financial Position and are measured either at fair value or at cost as follows:

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the Statement of Remeasurement Gains and Losses until realized. Fair value is determined by using the appropriate classification in the fair value hierarchy.
- Accounts receivable, accounts payable and accrued liabilities are valued at costs that approximate their fair value given their short-term maturities. Deposit insurance advance receivable is valued at the lower of cost and net recoverable value (Note 2 (c)).
- Fair value measurements are classified using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:
 - Level 1 – unadjusted quoted market prices in active markets for identical assets or liabilities;
 - Level 2 – observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
 - Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(c) Revenue recognition

Premium revenue is determined in accordance with section 110 of *Ontario Regulation 105/22* made under the CUCPA and the rules set out in the *Differential Premium Score Determination* (“DPSD”) document published by FSRA on its website. The annual premium

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

payable by a Credit Union is calculated by using the Credit Union's differential premium score calculated according to the DPSD rules to determine a premium rate, and applying the rate to its insured deposits.

Premiums are invoiced annually within 90 days of the Credit Unions' fiscal year ends. Premium revenue is recognized upon issuance of the annual premium invoice to a Credit Union.

Investment income is measured using the effective interest rate method and recognized when earned.

When the DIRF is used to make an advance to a Credit Union for the purposes permitted by the CUCPA, a deposit insurance advance receivable is initially recorded at cost. Valuation allowances are used to reflect the advance receivable at the lower of cost and net recoverable value. Any recoveries of the valuation allowances are reported as recovery of provision for deposit insurance loss revenue. Recovery of provision for deposit insurance loss is recognized when payment is received from the Credit Union, or when the recoverable amount can be reasonably determined and ultimate collection of payment is reasonably assured.

(d) Use of estimates and assumptions

In preparing the financial statements, Management is required to make judgements, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and disclosures. Estimates and assumptions may change over time as new information becomes available. Accordingly, actual results may differ from the estimates and assumptions.

Areas where estimates and assumptions are made include deposit insurance advance receivable, accounts payables and accrued liabilities, provision for deposit insurance loss, and disclosure of contingencies.

3. INVESTMENTS

A DIRF Investment Policy has been maintained to ensure that the investments are managed in compliance with applicable regulations and that an appropriate balance between capital preservation, liquidity, and reasonable yield is maintained.

FSRA and the OFA have entered into an Investment Management Agreement for the OFA to manage the DIRF investments. The SFAC has the oversight responsibility to oversee management in its monitoring of the performance of the OFA.

The DIRF investments consist of discount notes and government bonds.

(\$000)	March 31, 2024		March 31, 2023	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Discount notes	405,607	405,607	346,939	346,939

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

Government bonds	64,894	65,588	62,912	64,323
Total investments	470,501	471,195	409,851	411,262

(\$000)	Fair Value Hierarchy	March 31, 2024 Fair Value	March 31, 2023 Fair Value
Discount notes	Level 1	405,607	346,939
Government bonds	Level 2	64,894	62,912
Total		470,501	409,851

No investments moved between hierarchy levels during the fiscal year.

Investment income of \$20,403 is reported on the Statement of Operations and Fund Surplus (2023 - \$10,524). As of March 31, 2024, unrealized losses of \$694 are reported on the Statement of Remeasurement Gains and Losses (2023 - \$1,411).

The discount notes had yields in the range of 4.960% to 5.120% (2023 - 4.417% to 4.802%). The government bonds had yields in the range of 0.738% to 4.558% (2023 - 0.438% to 3.867%).

4. PREMIUM RECEIVABLE AND PREMIUM REVENUE

As prescribed in section 110 of *O. Reg 105/22*, the premium rates range from \$0.75 to \$2.25 per one thousand dollars of insured deposits.

Premium receivable of \$38,539 represents primarily the annual premiums invoiced as of March 31, 2024, to Credit Unions with a December 31 fiscal year-end, for the year from January 1 to December 31, 2024 (2023 - \$36,987).

5. RELATED PARTY TRANSACTIONS

FSRA is a related party due to its obligation to administer the DIRF, in addition to the DIRF being controlled by FSRA. FSRA collects deposit insurance premiums and files HST return on behalf of the DIRF, and the two entities pay certain expenses on behalf of each other. Any unsettled receivable and payable balances as at the year-end are netted and reported on the Statement of Financial Position as other receivables or other payables. There are no unsettled receivable and payable balances as at March 31, 2024 (2023 - other receivables of \$116).

The OFA is a related party in its capacity as the DIRF investment manager. Investment management fees of \$143 were paid to the OFA in fiscal 2024 (2023 - \$126). The fees are netted from investment income on the Statement of Operations and Fund Surplus.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

6. PROVISION FOR DEPOSIT INSURANCE LOSS

FSRA is permitted by the CUCPA (Note 1) to use the DIRF to provide financial assistance to a Credit Union under administration to thereby assist in its continued operation or to assist with the orderly winding up of a Credit Union, if FSRA determines that its FSRA Act objects, including minimizing losses to depositors and to the DIRF and supporting the stability of the Credit Union sector, can be furthered by providing such assistance.

Pursuant to section 294 of the CUCPA, 1994, PACE Savings & Credit Union Limited ("PACE") was placed under administration in September 2018 by FSRA's predecessor, DICO, to protect members from failed board governance and misconduct by certain former executives.

FSRA assumed the responsibility to administer PACE since its amalgamation with DICO in June 2019. During fiscal years 2022 and 2023, FSRA, as the administrator of PACE, worked toward implementing a purchase & assumption transaction (the "P&A Transaction") resolution strategy in accordance with the provisions of the CUCPA 1994 and FSRA's statutory objects.

On April 20, 2022, PACE (acting through FSRA as its administrator) as the vendor, Alterna Savings and Credit Union Limited ("Alterna") as the purchaser, and FSRA, in its capacity as administrator of the DIRF, entered into a P&A Transaction Agreement documenting Alterna's agreement to acquire most of the assets and liabilities of PACE to enable Alterna to continue to operate PACE's core business (Note 10 (a)).

The P&A Transaction closed on June 30, 2022. The PACE legal entity remained under administration by FSRA until August 24, 2022, on which date it was placed in liquidation (Note 10 (b)).

In fiscal 2024, \$252 was incurred for the DIRF to reimburse Alterna to fulfill the DIRF's payment obligations under the P&A Transaction Agreement and the Limited Guarantee (Note 10 (a)). This amount comprises Alterna's claims of \$28 under paragraph 15.3 (k) of the P&A Transaction Agreement for costs required to remediate pre-closing non-compliance with anti-money laundering laws, and \$224 for loan deficiency claims under the Loss Sharing Agreement (Note 10 (a)) for the period from January 2023 to March 2024.

These DIRF disbursements are intended to be recovered from PACE liquidation and the amount was initially recorded at cost as deposit insurance advance receivable. Since the collectability of the receivable was undeterminable as at March 31, 2024, a valuation allowance for the entire amount has been established to write off the receivable. The valuation allowance of \$252 is reported on the Statement of Operations and Fund Surplus as provision for deposit insurance loss.

In fiscal 2023, \$1,772 was paid from the DIRF to fund PACE for professional fees for advisory services with respect to the P&A Transaction and the orderly winding up of the

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

PACE legal entity. The professional fees were expenses of PACE, however, the DIRF paid for these fees as a form of financial assistance to PACE under administration, as well as to assist with the orderly winding up of the PACE legal entity.

These fees were initially recorded as deposit insurance advance receivable, which FSRA anticipated to recover from PACE liquidation. A valuation allowance as provision for deposit insurance loss for the entire amount was established to write off the receivable as at March 31, 2023, due to collectability of the receivable being undeterminable.

7. OTHER REVENUE

Other revenue consists of recoveries from loans collected from liquidated Credit Unions in the amount of \$181 (2023 - \$202). These loans were previously written off.

8. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the DIRF if a counterparty to a financial instrument fails to meet its contractual obligations. The DIRF is exposed to credit risk relating to the investments, deposit insurance advance receivable, and premium receivables.

Management minimizes DIRF investment credit risk by investing in high-quality financial instruments permitted by legislation and by limiting the amount invested in any one counterparty. The risks of net investment losses and not receiving investment income are considered minimal. An allowance of \$252 (2023 - \$1,772) on the DIRF's deposit insurance advance receivable from PACE has been established (Note 6). The risk of not collecting premium receivables is considered low due to the importance of deposit insurance to Credit Unions, Management's effective collection measures and that payment is an obligation under the CUCPA. As of March 31, 2024, there were no significant premium receivables that were past due or impaired.

(b) Liquidity risk

Liquidity risk is the risk that the DIRF will not be able to meet its cash flow obligations as they fall due. As at March 31, 2024, the DIRF had an investment balance of \$470.5 million (2023 - \$409.9 million). The Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs. On December 19, 2023, FSRA entered into a one-year credit facility (the "Facility") with the OFA of \$2.0 billion, with an option to extend twice for one year each, to be able to provide financial assistance to Credit Unions that could require financial support. The Facility is revolving to allow for flexible drawdowns and repayments over its term. No amounts were drawn on the Facility during the fiscal period.

(c) Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the DIRF. Short-term financial instruments (accounts receivable and

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

payable) are not subject to significant market risk. Capital preservation is the primary investment objective of the DIRF, and all assets are invested in low-risk securities. Market risk to the DIRF is considered low.

(d) Fair value sensitivity

The fair value sensitivity of discount notes as at March 31, 2024 is \$840 for a 1.00% change in rates (2023 - \$825). The fair value sensitivity of government bonds as at March 31, 2024 is \$913 for a 1.00% change in rates (2023 - \$909).

There have been no changes in risks and policies to mitigate the risks.

9. GENERAL DEPOSIT INSURANCE CONTINGENCIES

The Fund may be exposed to deposit insurance claims and other obligations required by the CUCPA as a result of existing conditions or situations involving uncertainty. In its capacity as the prudential regulator, FSRA performs regular risk assessments to review the risk profiles of the Credit Unions, including the adequacy of capital and liquidity levels, effectiveness of governance, and potential impact of market, economic, and other applicable conditions. Situations and conditions for potential insurance losses for high-risk and moderate-high-risk Credit Unions are assessed.

It is undeterminable at this time if any deposit insurance obligations, other than those described in Note 6, exist that will likely result in losses to the DIRF. A specific provision can only be established when conditions exist that will likely result in DIRF losses attributable to an individual Credit Union and the amount can be reasonably estimated.

10. PACE SAVINGS & CREDIT UNION LIMITED

(a) PACE Purchase and Assumption Transaction with Alterna Savings & Credit Union Limited

As described in Note 6, on April 20, 2022, a P&A Transaction Agreement was entered into by PACE as the vendor, Alterna as the purchaser, and FSRA in its capacity as administrator of the DIRF. Under this agreement, Alterna assumed PACE's employees, members, certain deposit accounts, certain loan portfolios, and PACE's head office and branches. As a critical part of the P&A Transaction, PACE members continued to be served by PACE's employees and branches. The P&A Transaction closed on June 30, 2022.

Under the P&A Transaction, certain assets and liabilities were excluded (the "Excluded Items") and remained with the PACE legal entity. The Excluded Items primarily comprised PACE's investment shares, profit shares, membership shares, prepaid card business, and PACE's claims and litigation against the officers, directors, and their insurers related to the matters that resulted in the administration of PACE (the "Recovery Litigation Claims").

As part of the P&A Transaction, FSRA provided a Limited Guarantee to Alterna in which it

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

guarantees certain payment obligations of PACE under the P&A Transaction Agreement and other related agreements including the Loss Sharing Agreement.

The Loss Sharing Agreement (“LSA”) was executed when the P&A Transaction closed. Under this LSA, PACE is required to make deficiency payments to Alterna for losses Alterna incurs on the retail and commercial loans it acquired from PACE as part of the transaction. The deficiency payments will be equal to 50% of Alterna’s losses on retail loans and 100% of its losses on commercial loans, with such losses being calculated after taking into account the loss provisions accrued by PACE and included in the calculation of the purchase price of such portfolio assets. The Limited Guarantee also extends to any payments arising from PACE’s representations and warranties under the P&A Transaction Agreement.

Deficiency payments for commercial loans will cover a period of up to five (5) years after the closing date of the P&A Transaction. For retail loans with a fixed maturity date, deficiencies will cover a period of up to twelve (12) months after the maturity date of the loan period. For all other retail loans, the coverage period will be up to three (3) years after the closing date of the P&A Transaction.

FSRA’s liability, solely as the administrator of the DIRF, to Alterna under the Limited Guarantee is limited to the assets of the DIRF. Under the Limited Guarantee, the DIRF’s total exposure to losses from deficiency payments and representations and warranties, and other obligations is limited to \$155 million.

The Limited Guarantee will remain in effect until six (6) months after PACE’s payment obligations under the P&A Transaction Agreement and other related agreements are, as discussed above, terminated.

As at March 31, 2024, \$252 was claimed by Alterna under the Limited Guarantee (Note 6. 2023 – Nil).

(b) Liquidation of PACE Legal Entity

The Excluded Items, including the Recovery Litigation Claims, the prepaid card business, and certain excluded liabilities, remained in the PACE legal entity after the closing of the P&A Transaction.

On August 24, 2022, pursuant to an order of the Ontario Superior Court of Justice (the “Court”), the PACE legal entity was ordered to be wound up pursuant to section 240 of the CUCPA and KPMG was appointed as liquidator to wind up the PACE legal entity, including realizing its assets and distributing the proceeds therefrom to its creditors and capital providers in accordance with applicable law governing priorities. Costs associated with the PACE wind-up may, to the extent PACE has insufficient resources to pay its senior creditors and such costs, be borne by the DIRF if FSRA determines that such assistance is required for the orderly wind-up of PACE. No costs associated with PACE liquidation were paid by the DIRF in fiscal 2024 (2023 – Nil).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

PACE's investment shares, profit shares, and membership shares are part of the Excluded Items and remain an obligation of PACE if it has sufficient assets after paying higher ranking claims, including FSRA's claims against PACE filed with KPMG in the liquidation claims process described below. The investment, profit, and membership shares provided risk-bearing capital to PACE that are not insured by the DIRF, and as such, any losses to PACE members arising from owning these shares do not impact the DIRF.

On September 22, 2023, the Court approved the PACE liquidation Claims Process Order, and KPMG, in its capacity as court-appointed liquidator of PACE, was authorized to conduct a claims process for the purpose of identifying and determining claims against PACE. FSRA filed its claims on November 22, 2023. The claims impacting the DIRF are in the following five categories:

- (i) \$25,000 PACE's contribution to an investor litigation settlement, funded by the DIRF in fiscal 2022.

On June 24, 2021, PACE, acting through FSRA as its administrator, entered into a confidential settlement of certain claims by investors in preferred shares that were distributed by PACE's subsidiary, PACE Securities Corporation, and issued by another subsidiary, PACE Financial Limited, and by an unaffiliated entity (First Hamilton Holdings). This settlement agreement received court approval in October 2021. PACE's contribution to the settlement was determined to be \$25,000. FSRA used the DIRF to provide financial assistance to PACE by funding the settlement amount under an unsecured non-interest-bearing promissory note based on the provisions of the CUCPA and the FSRA Act.

- (ii) \$5,892 professional fees incurred by PACE for advisory services with respect to the P&A Transaction in fiscal years 2022 (\$4,120) and 2023 (\$1,772), funded by the DIRF as a form of financial assistance advance to PACE.
- (iii) \$28 Alterna claims under s. 15.3(k) of the P&A Transaction Agreement (Note 6).
- (iv) \$184 Alterna claims under the LSA for the period from January to September 2023.
- (v) Potential future Alterna claims under the Limited Guarantee submitted by Alterna after November 22, 2023.

Categories (i) to (iii) have been expensed to the DIRF in the respective fiscal years as provision for deposit insurance loss. Category (iv), and \$40 under category (v) representing the LSA claims that Alterna submitted to FSRA after November 22, 2023 for loan deficiencies for the period from October 2023 to March 2024, have been expensed to the DIRF in fiscal 2024 as provision for deposit insurance loss (Note 6). Any amounts recovered under these categories will be recoveries of provision for deposit insurance loss. Due to the ongoing claims process which has yet to be finalized, the recoverable amount of provision for deposit insurance loss is undeterminable at this time.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2024 (In thousands of dollars)

(c) Potential PACE Class Action Claim

During fiscal 2024, a former PACE member (the “member”) holding Class A Profit Shares and Class B Special Shares filed a motion in the Ontario Superior Court of Justice (“Commercial List”) seeking leave to issue a class action against FSRA and its CEO.

The motion alleges that between October 25, 2018, and November 29, 2019, the member purchased a number of securities (“investment shares”) in the authorized capital of PACE while it was under the administration of FSRA, and the member did not receive an offering statement prior to the purchases.

The member further alleges that others also purchased investment shares of PACE between September 28, 2018, and August 24, 2022, and were also not provided offering statements.

The member requires leave of the Court to bring the action. Both the Liquidator and FSRA will be opposing the motion which is scheduled to be heard on July 2, 2024.