

# Building FSRA

A Regulator  
for our Times



Annual Report 2017-2018

**FSRA**

Financial Services Regulatory  
Authority of Ontario



## **The Financial Services Regulatory Authority of Ontario (FSRA)**

is a new, independent regulatory agency created to improve consumer and pension plan beneficiary protections in Ontario.

FSRA will be an innovative, flexible, self-funded regulator capable of responding to the dynamic pace of change in marketplace, industry and consumer expectations. When operational, FSRA will

- support business investment, competition and innovation;
- respond to changes in industry and consumer expectations; and
- better protect Ontarians who: buy insurance (property; casualty including auto; life; health; annuities and life-related investment products); do business with credit unions, loan and trust companies; use mortgage brokers; have pension plans

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# Chair's **MESSAGE**

**It is my pleasure to provide this inaugural Annual Report for the Financial Services Regulatory Authority (FSRA), which describes the organization's activities and accomplishments over our first nine months from June 2017 to March 2018.**

FSRA has an ambitious and exciting mandate to protect the interests of the public, promote innovation and competition, and enhance market integrity and stability. To achieve our legislated mandate, we intend to build a modernized, adaptive and innovative regulator which will:

- ✓ Achieve excellence in financial services regulation;
- ✓ Protect consumers, credit union members and pension plan beneficiaries by understanding their perspective and representing their interests;
- ✓ Promote market integrity and stability;
- ✓ Encourage industry innovation and competition for incumbents and new entrants;
- ✓ Play a key role in setting a regulatory direction which is in alignment with international best practices;
- ✓ Ensure efficient regulation; and
- ✓ Be a modern, sustainable, self-funded, organization.

While much work lies ahead as we prepare to become fully operational in 2019, FSRA has made significant progress in laying the foundations to become an effective, efficient and forward-thinking organization, with the systems, tools, skill and authority required to deliver on its mandate.

Since our appointment in late June 2017, founding board members Kathy Bouey, Judith Robertson and I have focused on key priorities:

- Appointing Mark White as FSRA's inaugural Chief Executive Officer;
- Working closely with the Ministry of Finance, the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO) to develop a comprehensive transition plan to assume regulatory functions currently delivered by FSCO and the prudential oversight function from DICO;
- Consulting with stakeholders in the affected financial services sectors;

- Building the organizational foundations to enable a successful transition, seamless business continuity, and capacity for transformation and modernization; and
- Liaising with the Government on legislation to clarify FSRA's mandate, structure, governance and rule-making abilities.

Four additional Board members were appointed in 2018. Blair Cowper-Smith, Brigid Murphy, Richard Nesbitt, and Lawrence Ritchie bring extensive expertise and experience in financial services and governance.

Our work has been informed by the Expert Panel review<sup>1</sup> and other reports, invaluable input from FSCO and DICO management, ongoing stakeholder consultations, and an environmental scan of regulatory and financial services best practices from other jurisdictions. We are committed to ongoing collaboration, consultation and transparency as we go forward.

We believe we are establishing a strong foundation and creating a clear path to achieving FSRA's objectives. At the same time, we recognize that achieving transformation will take time, including the continued development of our regulatory framework, processes and rules, making additional investments in technologies and systems, and creating a high performance culture with highly engaged employees.

The Board of Directors extends its deep appreciation to the Ministry of Finance and the Financial Services Regulation Modernization Secretariat for their commitment and support for the modernization and transformation of financial services regulation in Ontario. The Board of Directors also acknowledges and thanks FSCO, DICO and the FSRA transition team for their active and invaluable participation and input.

We wish to also acknowledge the important role that all staff at FSCO and DICO play to ensure great service and operational stability as we build to the future together.



**Bryan Davies**, Chair  
Financial Services Regulatory Authority Board of Directors  
July 10, 2018

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<sup>1</sup> Expert Panel Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal, and the Deposit Insurance Corporation of Ontario. <http://www.fin.gov.on.ca/en/consultations/fsco-dico/mandate-review-final-report.html>



# Chief Executive Officer's **MESSAGE**



**Financial services are an area of rapid change and are essential to our economy and to the citizens of Ontario.**

Ontarians expect and deserve innovative and transparent financial products and services that meet their needs, including high levels of service and business conduct. The companies and other financial intermediaries we will regulate seek to meet customer expectations in a rapidly changing business environment with new products, services and ways of working.

By collaborating with stakeholders to update our financial services regulatory framework and perform within it, FSRA will deliver on its mandate to improve choice, protect consumers, depositors and pension plan beneficiaries and support growth and innovation in a healthy financial services sector.

When operational, FSRA will be Ontario's new non-securities financial services regulator, comprising functions now performed within existing provincial regulators, as well as new functions to carry out the mandate and powers under the ***Financial Services Regulatory Authority of Ontario Act***.

FSRA will not simply be a continuation of existing Ontario regulators. It will be a fundamentally transformed organization committed to an ongoing process of sustained and continuous improvement. FSRA will leverage skill sets, resources and learnings from FSCO and DICO. It will use rule-making and other guidance tools available to it, and adopt new regulatory techniques, technologies and processes, to streamline operations and provide effective supervisory oversight and regulation.

In the few weeks I have been at FSRA, I have been impressed by the interest, excitement and spirit of collaboration among those working to set up FSRA. The FSRA Board has made great progress in setting up our governance structure, developing a transition plan and establishing our organizational foundation. The Ministry of Finance has led the work to act on several key recommendations of the Expert Panel by updating our legislative framework and has provided ongoing support for the new agency.

The FSCO and DICO teams continue their important work while finding time to support the creation of FSRA. The industries FSRA will regulate and other external stakeholders have been generous with their time and supportive in their desire to see FSRA successfully established and well-positioned to be an effective regulator.

I would like to express my appreciation for this impressive collective effort.

FSRA's success as a modern, adaptive regulator will be shaped by its ability to anticipate, understand, help shape and respond to evolving stakeholder expectations. This dynamic process will enable FSRA to engage with stakeholders; to adapt and apply its regulatory and supervisory frameworks, policies and processes; and to deliver regulation that effectively balances public and industry interests. It will be characterized by:

- Frequent formal and informal stakeholder engagement, and the use of technology, data and analytics, to stay abreast of change;
- An experienced and empowered management team, combining industry insights and regulatory expertise, guided by an expert and independent board, and operating in a culture that prizes public service, effectiveness and efficiency;
- Flexibility and agility in regulatory processes, supported by rule-making and other tools which can deliver effective regulation and, where necessary, regulatory change;
- Regulatory frameworks which are principles-based, risk-focused and evidence-driven;
- Integration within a multi-dimensional regulator; and
- Continuing co-operation and coordination across evolving regulated sectors and across multiple regulators and jurisdictions.

Through the consultations I have undertaken in my short time in office, I believe FSRA has the support necessary for it to work toward these high aspirations and to achieve them over time.

This will not all be achieved at the FSRA launch date. This is the start of a continuing process, involving our employees and our external stakeholders at every turn. We will start by building on a foundation of good governance, establishing effective oversight and operations, and shaping our culture through professionalism, collaboration, openness and integrity.

Our initial focus is a smooth, successful transition of functions and people from existing agencies to FSRA to continue to serve our stakeholders. As we do so, we aspire to be an employer of choice to attract and retain existing and new talented and engaged employees.

As we ensure business continuity in our regulatory responsibilities, we will also embrace change in how we think about and execute upon our regulatory activities. FSRA is developing plans to invest in new technologies, systems and processes that will transform the way we regulate and better support stakeholders in how they provide and consume financial services. Where practicable, FSRA will streamline its work and reduce administrative burden, while enabling powerful capabilities for data-driven analytics to improve how we manage risk, deter fraud, strengthen compliance, identify trends and issues and protect the public interest.

As we look forward, we will seek to refine and re-evaluate our regulatory and supervisory objectives and work to build the right mechanisms, frameworks and processes to ensure we deliver on our ambitious mandate. The FSRA future will build on the many ideas, recommendations and consultations that have taken place, as well as upon new information from the transparent mechanisms for consultation and collaboration we are establishing and nurturing.

As we enter our first full year as an organization, I am excited about the opportunity to work with government, industry, existing regulators and other partners and stakeholders to establish, build and initiate FSRA.



**Mark White**

Chief Executive Officer

Financial Services Regulatory Authority

July 10, 2018



# The Case for **CHANGE**

*“With financial services and pensions sectors changing at a rapid pace...Ontario needs a regulatory authority that is flexible, innovative, and in possession of expertise appropriate to match the consistently evolving financial environment. We call not for amendments, revisions or improvements to the existing regulatory framework and apparatus, but for the replacement of the current regulatory structure and approach with a more nimble and accountable one...”<sup>2</sup>*

In Canada and across the world, the financial services sector is experiencing significant change and disruption with the emergence of new technologies, business models, products, and services.

Consumers deserve high levels of service, easy access to information, fair pricing and protection against fraud.

Regulators must balance the needs of consumers and of industry to become more agile and adaptive. New approaches, enabled by legislative changes and policy tools to support rulemaking, oversight, and enforcement are being implemented around the world.

A well-functioning financial services sector is foundational to a successful economy<sup>3</sup>. Ontario’s financial services sector directly accounts for more than 270,000 jobs and 14 per cent of its GDP, with another 115,000 jobs in supporting industries such as consulting, accounting, and legal and technology services<sup>4</sup>. To ensure ongoing success, the rapid pace of change in the sector and economy demands regulatory flexibility, evolution and support to protect consumers and pension plan beneficiaries while enabling innovation and growth.

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<sup>2</sup> Final Report of the Expert Panel Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal, and the Deposit Insurance Corporation of Ontario, March 2016

<sup>3</sup> Conference Board of Canada: Partners in Growth: 2017 Report Card on Canada and Toronto’s Financial Services Sector

<sup>4</sup> Conference Board of Canada: Partners in Growth: 2017 Report Card on Canada and Toronto’s Financial Services Sector

Over the last five years, Ontario's financial services regulatory environment has been assessed in a number of reviews. Reflecting extensive research and consultation, the resulting reports included written submissions by organizations and individuals, sector-specific roundtable discussions, and open dialogue during informal meetings with regulators, financial services stakeholders, and investor advocates.

- International Monetary Fund: In early 2014, the IMF issued *a report on the current state of financial services in Canada*. It noted that current regulatory systems in Ontario lack the resources and financial capacity to proactively, consistently and effectively administer necessary oversight.
- Auditor General of Ontario: Following an extensive audit of FSCO's activities, the *2014 Annual Report of the Office of the Auditor General of Ontario* identified gaps and risks in FSCO's regulatory functioning and suggested that, given the wide scope of responsibility, FSCO consider ways to transfer some responsibility to self-governing industry associations and other regulatory bodies.
- Expert Panel: Appointed by the Minister of Finance in 2015, the Expert Panel conducted a *mandate review of three agencies important to the financial well-being of Ontarians: FSCO, the Financial Services Tribunal (FST), and DICO*. Its work was informed by a government mandate to make recommendations to modernize financial regulation and improve consumer protection, by wide-ranging stakeholder consultations and by best practices in other jurisdictions. Its findings highlighted key shortcomings in the rapidly changing regulatory environment and called for the creation of a new, independent and integrated regulator called the Financial Services Regulatory Authority.

FSRA presents a tremendous opportunity for Ontario to build a forward-thinking, progressive regulator that builds on the foundation of existing agencies to respond to a dynamically changing environment.

## Environmental Scan

A comprehensive environmental scan<sup>5</sup> identified a number of trends that are impacting regulated sectors, each with specific implications for financial services regulators:

-  **Ongoing consolidation** among major market players
-  **Non-traditional market entrants:** The nature of competition will change and the degree of competitiveness will accelerate, compelling regulators to balance a level playing field with fostering continued innovation
-  **New technologies:** The transformation of business models, customer experiences, operations, and regulatory compliance will require future regulators to be forward-looking, proactive, and collaborative
-  **Blurred sectors:** Regulating and establishing consistent standards for “horizontal” activities and for characteristics which are common across all industry sectors will be critical
-  **Integration:** A “regulator of the future” must thoughtfully consider its scope, capabilities, and interaction model with other regulatory bodies; it cannot operate in a vacuum
-  **Rising expectations:** As regulated sectors innovate to meet high expectations, a robust and agile regulator is needed to adequately protect customers and investors

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5 The scan involved interviews with current and former employees, as well as online research, of industry associations, regulated entities and other regulators in multiple jurisdictions including the Ontario Securities Commission; Capital Markets Regulatory Authority; Office of the Superintendent of Financial Institutions; Autorité des marchés financiers, Québec; Australian Securities and Investment Commission; and Financial Conduct Authority, United Kingdom.

# GOVERNANCE

## Mandate

The *Financial Services Regulatory Authority of Ontario Act* (2016) came into force on June 29, 2017. It establishes FSRA's role in regulating the regulated sectors, sets out powers in the administration and enforcement of the Act and Sector Statutes, and outlines the basic governance and accountability structure.

When operational, FSRA is expected to administer the following statutes and financial services sectors at launch:

- Insurance Act
- Compulsory Automobile Insurance Act
- Prepaid Hospital and Medical Services Act
- Credit Unions and Caisses Populaires Act
- Loan and Trust Corporations Act
- Mortgage Brokerages, Lenders and Administrators Act, 2006
- Pension Benefits Act

The FSRA Act sets out its intended objects. Those of general application are:

- to regulate and generally supervise the regulated sectors;
- to contribute to public confidence in the regulated sectors;
- to monitor and evaluate developments and trends in the regulated sectors;
- to cooperate and collaborate with other regulators where appropriate;
- to promote public education and knowledge about the regulated sectors;
- to promote transparency and disclosure of information by the regulated sectors;
- to deter deceptive or fraudulent conduct, practices and activities by the regulated sectors; and
- to carry out such other objects as may be prescribed.

FSRA's intended objects with respect to non-pension financial services sectors are:

- to promote high standards of business conduct;
- to protect the rights and interests of consumers; and
- to foster strong, sustainable, competitive and innovative financial services sectors.

FSRA's intended objects with respect to pension plans are:

- to promote good administration of pension plans; and
- to protect and safeguard the pension benefits and rights of pension plan beneficiaries.

## Rule-Making Authority

The legislative framework will enable FSRA to become a modern and adaptive regulator with a critical new capacity – rule-making. Proactive, flexible, forward-looking regulatory tools such as rule-making provide FSRA with the ability to be nimble and flexible in order to anticipate and respond to changes in industry, and to support innovation and growth.

The framework includes:

- specific categories of rule-making authority, with flexibility in its approach to regulating insurance, pensions, and mortgage brokers;
- the ability to establish a funding framework, similar to the authority currently given to the Ontario Securities Commission; and
- a process by which FSRA can make and enforce rules, in lieu of regulations, which would involve substantial public consultation and Ministerial approval.

## Governance

FSRA is established as a self-funded regulatory agency with a Board of Directors consisting of members who are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The Authority is accountable to the Minister and, through the Minister, to the Ontario Legislature.

The FSRA Board has dual roles. It is responsible for the governance and stewardship of the organization. It may also propose rules to the Minister of Finance in respect of any matter over which an Act gives FSRA rule-making authority.

Under the Act, the Board appoints a Chief Executive Officer who shall, subject to the supervision and direction of the Board, be responsible for the management and administration of the Authority, and for exercising the powers and duties conferred or assigned to the CEO under the Act and the regulated sector statutes. Mark White was appointed FSRA's inaugural Chief Executive Officer, effective May 7<sup>th</sup>, 2018.

The Act provides that the Authority is to be composed of at least three and not more than 11 Members. Appointments are made in accordance with the Agencies and Appointments Directive and the procedures of the Public Appointments Secretariat of the Government of Ontario. One Member is designated as Chair by the Lieutenant Governor in Council on the recommendation of the Minister.

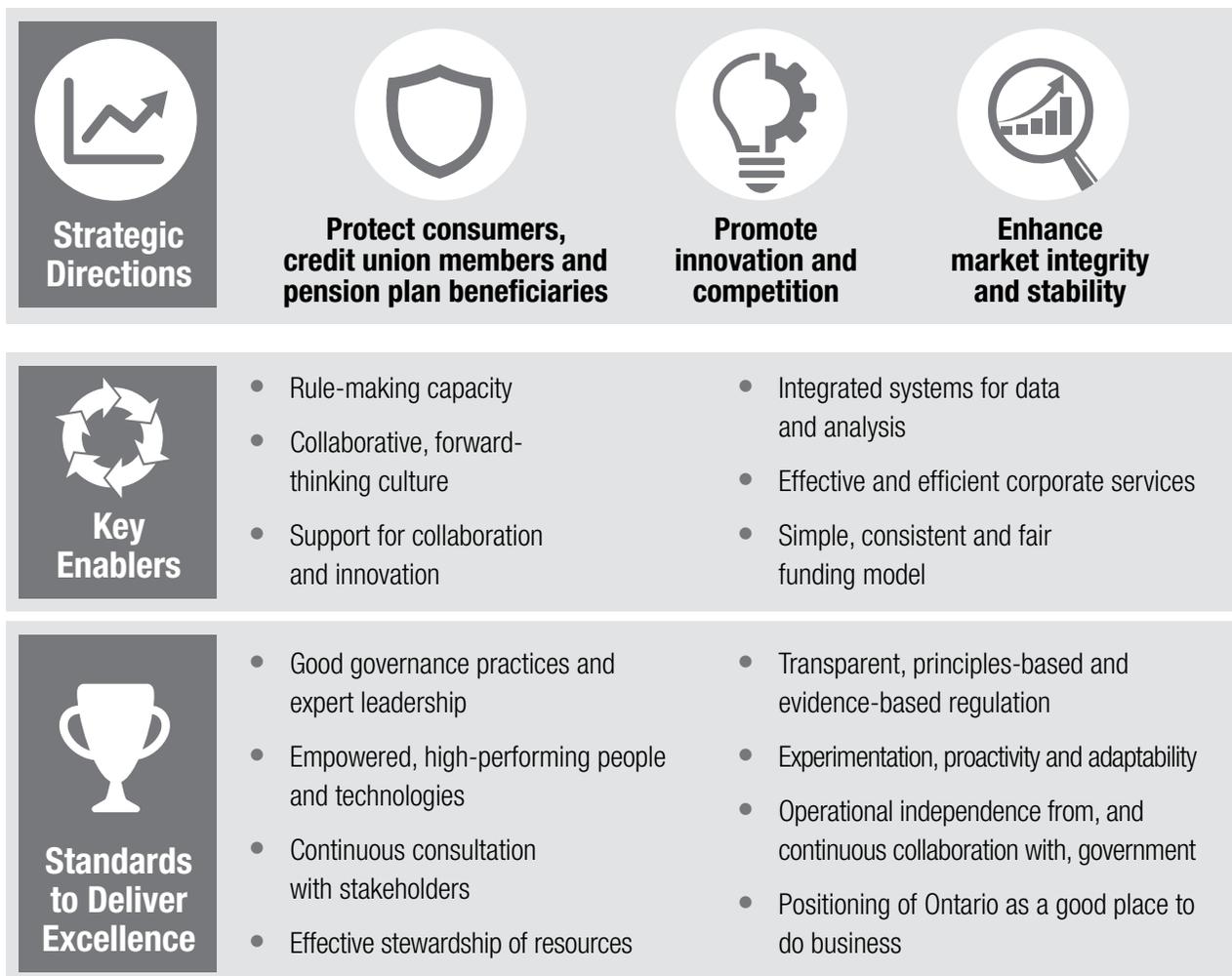
## Board of Directors, as of March 31, 2018

<b>Name</b>	<b>Term</b>
<b>Kathryn Bouey</b>	June 29, 2017 to June 28, 2019
<b>Blair Cowper-Smith</b>	February 28, 2018 to February 27, 2020
<b>Bryan Davies (Chair)</b>	June 29, 2017 to June 28, 2019
<b>Brigid Murphy</b>	February 28, 2018 to February 27, 2020
<b>Richard Nesbitt</b>	February 28, 2018 to February 27, 2020
<b>Lawrence E. Ritchie</b>	March 12, 2018 to March 11, 2020
<b>Judith Robertson</b>	June 29, 2017 to June 28, 2019

# Strategic **FRAMEWORK**

FSRA's initial strategic framework outlines key directions focused on delivering on FSRA's mandate; key enablers to ensure effective, adaptive, agile and modernized financial services regulation; and standards of excellence to drive strong, positive organizational culture and performance.

This initial strategic framework will be reviewed and updated in 2018-2019 in consultation with FSCO and DICO staff, the Ministry of Finance, market participants and other stakeholders.



## Strategic Directions

FSRA will implement new regulatory systems, tools, and processes in order to deliver on our mandate.



### **1** Protect consumers, credit union members and pension plan beneficiaries

FSRA will seek to understand the interests of consumers, credit union members and pension plan beneficiaries to enhance their confidence and understanding as they engage with regulated entities

- A dedicated ***Consumer Office to capture the public voice*** and ensure the public interest is well-understood by FSRA and other stakeholders – ensure actions and rules ***balance all stakeholder interests***, including industry and public interests through:
  - Research
  - Outreach and engagement
  - Data analytics
  - Consumer Advisory Panel
- Better ***information and education*** capability to help people understand and benefit from products and services, especially new offerings
- Enhanced ***fraud prevention*** and ***enforcement capabilities***
- Strong, enforceable ***rules*** and codes of conduct for sectors



## 2 Promote innovation and competition

FSRA will foster a strong, sustainable and dynamic financial services sector

- **Reduce the regulatory burden** for businesses – e.g. through more efficient licensing/registration systems
- Financial products and services are changing – **offering consumers greater choice and value** and industry opportunities to provide better service – industry input is essential
- Efficiently and quickly **identify trends** and changes – **proactively respond** and advise government
- **Rule-making** authority should enable FSRA to act more quickly, and to encourage and support world-class competitiveness



## 3 Enhance market integrity and stability

FSRA will promote the integrity and stability of Ontario's financial services system through

- Application of **modern technologies and processes** to regulate more efficiently and to have **better data** to monitor and assess risk
- Improved transparency and coordination with other regulators
- Ability to **detect and act** on issues earlier
- **Principles-based and integrated:** integrated where possible across jurisdictions and across different sectors (e.g. treating consumers fairly; requirements for registrants)
- **Investigations and enforcement:** if empowered, opportunity to have more efficient investigations and more effective enforcement
- Greater **information sharing** across jurisdictions and regulatory classifications



# Performance **HIGHLIGHTS**

## **Description of Activities Over the Year**

Since its appointment, the initial Board of Directors has moved quickly to establish the organization, develop a transition plan to assume regulatory functions currently under the auspices of FSCO and DICO, and lay the groundwork for future modernization and transformation. This work, culminating in the Board's *April 2018 Progress Report*, included seven key areas of activity.

1. Leadership and expertise
2. Planning for transition
3. Starting up and building organizational capacity
4. Listening and learning: consulting with stakeholders
5. Legislative framework
6. Envisioning the regulator of the future: enhanced information technology and business processes
7. Defining a regulatory framework and priorities

## **1. LEADERSHIP AND EXPERTISE**

A top priority for the Board was the recruitment of FSRA's Chief Executive Officer. To lead our efforts to shape a robust, world-class regulatory framework for Ontario, we sought a highly experienced and skilled leader with expertise across multiple sectors. Mark White brings a sophisticated understanding of regulatory environments and financial services, proven strategic and operational skills, and a strong track record of progressive leadership, innovation and organization building.

The addition of four highly capable, expert board members has further strengthened our capacity for strong, effective governance and oversight, as well as a deep understanding of many of the sectors FSRA will regulate.

## **2. TRANSITION PLANNING**

Working closely with the Ministry of Finance, FSCO, and DICO, FSRA developed and continues to refine and act on a transition plan to assume substantially all of the regulatory functions currently delivered by FSCO and DICO.

As described in FSRA's *April 2018 Progress Report*, this work is well underway and continues to evolve.

We are deeply committed to a consistently positive employee experience and high-performance, collaborative culture. FSRA is developing comprehensive human resources policies, approaches and supports to enable the transition and to help FSRA attract and retain talented, engaged and energized staff aligned with the organization's vision. We are working closely with FSCO, DICO, government partners and bargaining agents on a smooth and successful transfer of people and functions.

During the interim period, until FSRA is fully operational, FSCO and DICO will continue to exercise their statutory duties. FSRA will continue to conduct joint planning and coordination with the Ministry of Finance, FSCO and DICO on transition planning and on key initiatives to "hit the ground running" at transfer and provide continuity of regulation.

Effective communications, two-way dialogue, and an open, transparent approach to information sharing have shaped our approach to planning and business continuity. Workshops, consultation sessions and joint working groups have been established to support coordinated, aligned work across FSRA, FSCO, DICO and Ministry of Finance. A key focus will be on ensuring consistent and timely communications with stakeholders.

### **3. STARTING UP AND BUILDING ORGANIZATIONAL CAPACITY**

In the first nine months, FSRA has focused on building the organizational foundations to enable a successful transition, seamless business continuity, and capacity for transformation and modernization. This included initial by-laws and policies to ensure accountability for business affairs; on-boarding of an initial transition team to build new capabilities for FSRA in parallel to sustaining operations at FSCO and DICO; support for transition-related communications to FSCO and DICO staff; the launch of a corporate website at [www.fsrao.ca](http://www.fsrao.ca); and securing office space for FSRA staff and the initial transition team.

A key priority for the transition team is working with the Ministry of Finance, FSCO and DICO, on defining the requirements for foundational corporate administrative and operational processes and systems (currently largely provided by the Ontario Public Service) to support a standalone organization and add new and enhanced capabilities to support transformation. This includes systems, processes and capacity to support highly efficient, streamlined and effective corporate services functions such as human resources, finance and information technology.

In parallel to the strong focus on ensuring business continuity through the transition, FSRA is developing a longer-term plan to upgrade and/or develop the information

technology systems, business processes and infrastructure required to support a nimble, agile, flexible and modern regulator.

#### **4. LISTENING AND LEARNING: CONSULTING WITH STAKEHOLDERS**

Collaboration and dialogue with stakeholders is a fundamental value for FSRA. The Board is consulting extensively with stakeholders in the financial services sector, regulators from diverse jurisdictions and sectors, technology and business leaders, and the FSCO and DICO management teams.

As well, we've explored current best practices and perspectives in Canada and across the world. Building on the findings of numerous reports such as the Expert Panel and Ontario Auditor General, this input has helped us to better understand the dynamic pace of change in marketplace, industry and consumer expectations and shape our priorities going forward.

#### **5. LEGISLATIVE FRAMEWORK**

FSRA is working closely with the Ministry of Finance, with the support of its Financial Services Regulation Modernization Secretariat, on legislation to further clarify FSRA's mandate, structure, governance and rule-making abilities.

#### **6. ENVISIONING THE REGULATOR OF THE FUTURE: ENHANCED INFORMATION TECHNOLOGY AND BUSINESS PROCESSES**

Significant investments in technologies and business processes are required for FSRA to become an agile, innovative and proactive regulator capable of delivering on its mandate. While this cannot be completed before launch, to achieve more advanced enforcement capabilities over time, FSRA will implement new systems, tools, and processes for data gathering and analytics, compliance monitoring, and risk management. To drive change in the regulatory arena, FSRA plans to focus on building and integrating new technologies, processes, and capabilities to provide a foundation for core regulatory transformation. When implemented, online data collection, data and analytics to assess risk and inform rule-making priorities, and enhanced communication with market participants will be essential to reducing the regulatory burden and operating more efficiently and effectively.

FSRA is developing a robust digital transformation strategy, for implementation over multiple years, to thoughtfully design and implement efficient, innovative and leading edge processes and systems that will facilitate sustained improvements in regulation.

## 7. DEFINING A REGULATORY FRAMEWORK AND PRIORITIES

As we set up operations and lay the groundwork for future transformation, FSRA is focusing on adopting a transparent, risk-based and evidence-driven approach to regulation. We are committed to being responsive to opportunities and challenges, proactive in seeking to improve what we do and how we do it, and agile in adapting to continuous change and sustaining good risk management and continuous improvement.

Collaboration, consultation and engagement will be at the core of all we do. As we prepare for launch as a self-funded, standalone entity, a key focus is on clarifying and operationalizing FSRA's rule-making authority.

Rule-making authority will require meaningful collaboration with the Ministry of Finance and other key stakeholders. When combined with new and enhanced functions and capabilities, this will enable FSRA to:

- Be more responsive to current and emerging opportunities, issues and regulatory gaps;
- Bring decision-making closer to regulatory operations and enhance it through more data-driven analytics; and

- Develop a more dynamic approach to innovation enablement.

Work is underway on an initial fee rule which will drive FSRA's funding going forward, including the costs of technological, personnel and process improvements.

FSRA will work with market participants to identify innovative, technology-enabled initiatives to provide flexibility in regulatory requirements and shape future priorities and innovations. An initial area of focus has been working on concepts to advance regulatory innovation with the Ontario Securities Commission and the Ministry of Finance.

Longer term, FSRA will refine its regulatory framework and priorities based on further clarification of its mandate, and on continuing robust consultation with stakeholders.

### **Achievements fulfilling expectations set out in the applicable agency mandate letter**

As a new agency in its initial start-up phase, FSRA did not receive an agency mandate letter in 2017-18.



# Financial **PERFORMANCE**

## **Financial Results**

FSRA was incorporated effective June 29, 2017 and the financial results from operations covered the period from June 29, 2017 to March 31, 2018.

To support FSRA's start up activities, the Minister of Finance provided FSRA with an up to \$40 million non-revolving loan facility through March 31, 2019. It is anticipated that the non-revolving loan facility, currently due April 1, 2020, will be converted into a long term loan facility before maturity to permit FSRA to recover such amounts from industry over time through fees and assessments.

With the implementation of a new fee rule, FSRA will commence recovering its start-up expenses.

Through March 31, 2018, FSRA drew \$17.4 million against the loan facility and incurred net expenses of \$2.8 million. Funds on hand amounted to \$15 million at March 31, 2018 after accounting for changes in working capital.



Office of the Auditor General of Ontario  
Bureau de la vérificatrice générale de l'Ontario

***Independent Auditor's Report***

To the Financial Services Regulatory Authority of Ontario

I have audited the accompanying financial statements of the Financial Services Regulatory Authority of Ontario, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in net debt, and cash flows for the period from June 30, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Services Regulatory Authority of Ontario as at March 31, 2018 and the results of its operations and its cash flows for the period from June 30, 2017 to March 31, 2018 in accordance with Canadian public sector accounting standards.

Toronto, Ontario  
June 12, 2018

A handwritten signature in black ink, appearing to read 'Bonnie Lysyk', is written in a cursive style.

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

Financial Services Regulatory Authority of Ontario

**STATEMENT OF FINANCIAL POSITION**

[ in thousands of dollars ]

As at March 31, 2018	Note(s)	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash		15,041
HST Recoverable		178
Accounts Receivable		6
Prepaid Expenses		39
<b>Total Current Assets</b>		<b>15,264</b>
<b>Total Assets</b>		<b>15,264</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts Payable and Accrued Liabilities		633
<b>Total Current Liabilities</b>		<b>633</b>
Loan Payable	3 and 7	17,388
Interest Payable	3 and 7	29
<b>Total Liabilities</b>		<b>18,050</b>
<b>Net Debt</b>		<b>(2,786)</b>
<b>Total Liabilities and Net Debt</b>		<b>15,264</b>

*See accompanying notes*

On behalf of the Board of the Commission



Chair



Board Member

Financial Services Regulatory Authority of Ontario

**STATEMENT OF OPERATIONS AND CHANGES IN NET DEBT**

[ in thousands of dollars ]

For the period from June 30, 2017 (commencement of operations) to March 31, 2018	Note(s)	\$
<b>REVENUE</b>	4	
Interest Income		23
<b>EXPENSES</b>		
Salaries and wages	5 and 7	580
Employee benefits	7	35
<b>Services</b>		
Consultants and advisors		1,646
Legal		247
Accommodation		215
Other		57
Total Services		2,165
Interest expense	3 and 7	29
		2,809
<b>Deficiency of revenue over expenses</b>		<b>2,786</b>
Net Debt, beginning of year		---
<b>Net Debt, end of year</b>		<b>2,786</b>

*See accompanying notes*

Financial Services Regulatory Authority of Ontario

**STATEMENT OF CASH FLOWS**

[ in thousands of dollars ]

For the period from June 30, 2017 (commencement of operations) to March 31, 2018	Note(s)	\$
<b>OPERATING ACTIVITIES</b>		
Deficiency of revenue over expenses for the year		(2,786)
Changes in non-cash operating items		
Increase in prepaid expenses		(39)
Increase in HST receivable		(178)
Increase in accounts receivable		(6)
Increase in interest payable		29
Increase in accounts payable and accrued liabilities		633
<b>Cash (used in) operating activities</b>		<b>2,347</b>
<b>FINANCING ACTIVITIES</b>		
Loan advances	3	17,388
<b>Cash provided by financing activities</b>		<b>17,388</b>
<b>Net increase in cash</b>		<b>15,041</b>

*See accompanying notes*

Financial Services Regulatory Authority of Ontario

## NOTES TO FINANCIAL STATEMENTS

March 31, 2018

### 1. DESCRIPTION OF THE ORGANIZATION

The Financial Services Regulatory Authority of Ontario ["FSRA"] was established under the Financial Services Regulatory Authority of Ontario Act, 2016 as a corporation without share capital. The FSRA's mandate is to improve, through regulation, consumer and pension plan beneficiary protections in Ontario.

The FSRA was incorporated effective June 29, 2017. These financial statements include results of operations of the FSRA from June 30, 2017 (commencement of operations).

The fiscal year ending March 31, 2018 is the FSRA's inaugural year of operation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management of the FSRA 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

Revenue recognition methods will be established once FSRA has developed and received Minister of Finance approval of its fee rules. The implementation of its fee rules is expected by April 1, 2019.

#### (b) 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. The FSRA's accounts receivable, accounts payable and accrued liabilities and loan payable are recorded at cost in its financial statements.

#### (c) Use of Estimates

Management can make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from these estimates. Significant items subject to estimates include accrued liabilities.

### 3. 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 the purpose of covering initial administrative and operational costs related to its start-up activities.

The Loan Agreement permitted the FSRA to draw advances (Advance Period End Date) until March 31, 2018. All amounts plus interest drawn under the Loan Agreement are due on April 1, 2019 (Maturity Date), unless otherwise agreed to by both parties.

Interest expense on advances is calculated at the annual interest rate equal to the ninety-day Ontario Treasury Bill Rate as of each quarterly interest reset date, plus 0.25 percent. The average interest rate during the year was 1.39%.

On March 31, 2018, the Loan Agreement was amended (Amending Agreement) to:

- increase the amount of the non-revolving Loan Agreement up to \$40 million,
- amend the Advance Period End Date to March 31, 2019,
- amend the Maturity Date to April 1, 2020, and
- acknowledge that amendments will be required to convert the non-revolving loan facility into a long-term loan facility.

There was no change in the basis of the interest expense calculation between the Agreements.

As at March 31, 2018, the FSRA borrowed \$17.4 million. Interest expense amounted to \$29,000.

#### **4. REVENUE**

Under the Financial Services Regulatory Authority of Ontario Act, 2016 (Act), the FSRA may make rules in respect of any matter over which the Act gives authority in respect of fees, sector assessments and other charges (Fees).

As at March 31, 2018, sections of the Act related to Fees, have received royal assent, but have not yet been proclaimed. Sections of the Act related to Fees are expected to be proclaimed when the FSRA becomes operational on April 1, 2019.

#### **5. DIRECTOR'S REMUNERATION**

The Agencies & Appointments Directive requires the disclosure of remuneration paid to directors. For the year ended March 31, 2018, director's remuneration amounted to approximately \$350,000. The Board of Directors are part-time appointees and the amounts paid to the Directors are established in an Order in Council. During the year, the Board of Directors took a more active and direct senior role in the management of FSRA's activities as there was limited staff on hand to support the start-up activities.

## 6. FINANCIAL INSTRUMENTS

### Interest rate risk:

Financial assets and liabilities are not exposed to significant interest rate risk due to their short term nature.

### Liquidity risk:

Exposure to liquidity risk is minimal as the FSRA has sufficient cash to settle all current liabilities.

## 7. RELATED PARTY TRANSACTIONS

### (a) Metrolinx (an Ontario Crown Agency)

During the course of the year, the FSRA entered into a sub-lease agreement with Metrolinx.

The FSRA paid Metrolinx \$215,000 related to rent and common area costs.

### (b) The Province of Ontario

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

- (i) A \$40 million Loan Agreement with the Ministry of Finance to cover initial administrative and operational costs. During the year, FSRA borrowed \$17.4 million and incurred loan interest of \$29,000.

- (ii) Seconded employees from the Province to support its start-up activities. During the year, the FSRA reimbursed the Province \$218,000 related to salary and benefit costs.

## 8. LEASE COMMITMENTS

FSRA has entered into an operating lease agreement for office space and is committed to operating lease payments of \$201,000 to March 31, 2019.

## 9. SUBSEQUENT EVENT

Subsequent to the year end, the Minister of Infrastructure assigned the premise lease at 5160 Yonge Street in Toronto (currently occupied by the Financial Services Commission of Ontario (FSCO)) from Infrastructure Ontario to the FSRA, effective July 1, 2018. The lease assignment covers the period July 1, 2018 to March 31, 2019.

The FSRA will receive funding from the Minister of Finance to fully cover the cost of the FSCO premise lease. Lease payments for the assignment period, including operating expenses and taxes, are expected to amount to approximately \$3,900,000.

# Building FSRA

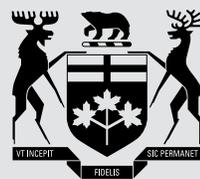
**A Regulator  
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Annual Report  
2017-2018

**Financial Services  
Regulatory Authority**

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