

FSRA

Financial Services Regulatory
Authority of Ontario

2020-2021 ANNUAL REPORT

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Executive Summary

This year marks the end of the Financial Services Regulatory Authority’s (FSRA or “the Authority”) first full year of operations. FSRA once again had an ambitious agenda. We continued to advance the objectives we identified as a new organization – regulatory efficiency and effectiveness – as well as implement forward-looking, transformative priorities.

The arrival of COVID-19 at the end of last fiscal disrupted our operations and those of FSRA’s regulated sectors. It also affected the public, credit union members, pension plan beneficiaries, investors, consumers, and other stakeholders. Our employees have continued to work from home and provide support and stability to our regulated sectors. In addition, we continued to adjust regulatory measures enacted at the outset of the pandemic. This included: extending and/or waiving deadlines for certain regulatory filings and licence renewals; issuing guidance to protect and enhance the fair treatment of consumers; and deferring non-critical reviews and consultations.

The 2020-2023 Annual Business Plan (ABP) formed the basis of this year’s “business-as-usual” objectives and activities. The ABP included 7 cross-sectoral and 15 sector-specific priorities. These focused on improving safety, fairness and choice for consumers through principles-based and outcomes-focused regulation. The priorities were aligned with FSRA’s mandate, mission and strategic directions.

Despite the challenges posed by the pandemic, FSRA achieved significant success in the year. The Authority delivered against all its planned priorities. Notable achievements for the year included:

- Convening our first Residents’ Reference Panel on Automotive Insurance in Ontario. It aimed to provide advice on how to make the Ontario auto insurance system clearer, easier to understand and more transparent for consumers.
- Developing the Financial Professionals Title Protection Rule (FPTP Rule) and supporting guidance. The proposed rule outlines the parameters for implementing the financial planners and financial advisors (FP/FA) title protection framework.
- Issuing several pieces of pension guidance in response to key issues identified by the sector.
- Publishing a new set of service standard principles and accompanying standards. These support FSRA’s commitment to transparency and efficiency.
- Reviewing 30% of remaining guidance inherited from legacy regulators. This supports FSRA’s burden reduction objectives.

To achieve its objectives, FSRA continued to consult publicly and engage the Stakeholder Advisory Committees (SACs), Technical Advisory Committees (TACs) and Consumer Advisory Panel (CAP). This included discussions around priorities and emerging issues of importance, such as FSRA’s COVID-19 response plans.

Message from the Chair

It is my pleasure to present the 2020-2021 Annual Report for the Financial Services Regulatory Authority of Ontario. The report provides an overview of the organization's activities and accomplishments in its first full year of operations.

FSRA continued to transition operations from its legacy regulators. We initiated new policies and processes required to transform FSRA into a more efficient and effective regulator, all amidst a global pandemic.

Over the past year, the Board worked closely with the FSRA management team to maintain our focus on the 22 priorities set out in the 2020-2023 Annual Business Plan. At the same time, we had to ensure we responded to the challenges presented by the pandemic. In addition to achieving success against all priorities, FSRA implemented over a dozen regulatory measures in response to COVID-19. These efforts were designed to continue to protect consumers while supporting the regulated sectors.

The Board remains committed to openness, transparency and collaboration with FSRA's stakeholders. Stakeholder engagement through public consultation is an essential part of this commitment. In October 2020, the Board conducted targeted consultations with the Stakeholder Advisory Committees and the Consumer Advisory Panel on the proposed Statement of Priorities and the Budget for 2021-2022. These efforts will ensure that FSRA's activities continue to reflect the needs of our stakeholders and our mandate – to improve financial safety, fairness and choice for consumers and other users of financial services in Ontario.

I would also like to recognize the Ministry of Finance for collaborating with FSRA in advancing several important regulatory and public policy objectives this year. On behalf of the Board, I thank the Ministry and of course our Minister and the Government for the continued confidence they have placed in the Authority.

During the course of the year, we were pleased to welcome to the Board Stewart Lyons and Dexter John. They were both appointed to three-year terms. Together, they bring to FSRA's governance deep experience in innovative technologies and transformation, leadership, and risk management. We also said farewell to our colleague Brigid Murphy, who served with distinction for over three years.

I too am retiring from the Board at the end of June, having served as FSRA's founding Chair for the past four years. I am delighted that the Government has appointed Joanne De Laurentiis, one of our colleagues, to assume the Chair role. Joanne brings a wealth of experience to the position and, as an active Board member for the past two years, assumes the role with great knowledge of the important work underway at the Authority. I would like to thank Mark White, our CEO and all the management and FSRA staff for pursuing that important work with such enthusiasm and dedication, and would like to thank my colleagues on the Board for their commitment to overseeing the continued evolution of financial services regulation in Ontario.

Bryan Davies

Chair

Financial Services Regulatory Authority of Ontario Board of Directors

Message from the CEO

I am pleased to share a summary of the Financial Services Regulatory Authority of Ontario's accomplishments for the fiscal year 2020-2021. In our first full year of operations, we continued to focus on the broader objectives of regulatory efficiency and effectiveness. We also turned our attention to those priorities that further our forward-looking vision – a regulator that supports financial safety, fairness and choice for Ontarians.

The continuation of COVID-19 presented challenges for FSRA and its regulated entities. Despite disruptions to our operations, FSRA continued to work collaboratively with our stakeholders and deliver on our priorities. I thank all FSRA employees for their significant efforts towards achieving our objectives. You demonstrated a continued commitment to our FSRA values during a challenging period.

As indicated in our 2020-2023 Annual Business Plan, FSRA had a comprehensive list of priorities for the year. We delivered against all and completed 93% of planned activities. These efforts were in addition to several regulatory measures that FSRA implemented in response to COVID-19. These provided relief to our regulated sectors and additional protections for consumers.

It remained our stated objective to transform FSRA into a principles-based and outcomes-focused regulator. In alignment with that, we developed principles-based rules and guidance and a set of foundational principles. Once implemented, they will guide our regulatory activities.

We have also continued to drive our agenda to enhance innovation within the sectors we regulate. This year represented a period of building FSRA's foundational, innovation-enabling capabilities. Led by the Office of Innovation, FSRA worked with internal and external stakeholders, co-creating an Innovation Framework. This will enable novel and alternative products and processes that benefit consumers in our regulated sectors.

A continuing factor in our success has been our commitment to stakeholder engagement. In addition to public consultations regarding guidance and rulemaking, we continued to leverage the Stakeholder Advisory Committees, Technical Advisory Committees and the Consumer Advisory Panel. These bodies, together with the leadership of the Consumer Office, ensured the consumer voice was represented across FSRA's priorities. This further strengthened FSRA's policy and regulatory initiatives.

While the COVID-19 pandemic is not yet behind us, FSRA is focused on forward-looking objectives to establish the Authority as an efficient and effective financial services regulator.

The achievements outlined in this report reflect our strong commitment to our mission, vision and values. Both position us well to deliver on our future agenda.

I would like to personally thank our founding Chair, Bryan Davies, for his leadership of FSRA from its earliest days to the organization we have become. Without Bryan's insight and dedication to public service, we would not have been able to come so far, so fast.

Many thanks to our dedicated team, the FSRA Board, Ministry of Finance and our many stakeholders and partners for their hard work and dedication.

Mark E. White
Chief Executive Officer
Financial Services Regulatory Authority of Ontario

About the Financial Services Regulatory Authority of Ontario

FSRA is an independent regulatory agency. It was established in June 2019 to enhance public confidence in non-securities financial services and pensions in Ontario.

Vision

Financial safety, fairness and choice for Ontarians

Mission

Public service through dynamic, principles-based and outcomes-focused regulation

Values

Honest, Impactful, Credible, Empathetic, Collaborative, Empowered

Governing legislation and mandate

The [Financial Services Regulatory Authority of Ontario Act, 2016 \(FSRA Act\)](#) establishes FSRA's role in regulating non-securities financial services and pensions in Ontario. It sets out powers to administer and enforce the *FSRA Act* and sector statutes, and outlines FSRA's basic governance and accountability structure.

FSRA's objects, as defined in the *FSRA Act*, 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 objects with respect to financial services sectors (e.g., auto insurance, insurance conduct, credit union, mortgage brokering) 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.

In addition to the objects of general application, FSRA has other objects. With respect to pension plans, they are:

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

With respect to credit unions/caisses populaires, the objects are:

- To provide insurance against the loss of part or all of deposits with credit unions/caisses populaires;
- To promote and otherwise contribute to the stability of the credit union/caisses populaires sector in Ontario, with due regard to the need to allow credit unions/caisses populaires to compete effectively while taking reasonable risks; and
- To pursue the above two objects for the benefit of persons having deposits with credit unions/caisses populaires, and in such a manner as will minimize the exposure of the Deposit Insurance Reserve Fund to loss.

As a result of changes to the Co-operative Corporations Act, which took effect on April 1, 2020, FSRA now has direct powers or duties with respect to offering statements. FSRA also has an additional object to meet, set out in a regulation under the *FSRA Act*:

- It is an object of the Authority to carry out any functions with respect to offering statements under the *Co-operative Corporations Act* in relation to the powers and duties of the Chief Executive Officer, with respect to offering statements, that are referred to in that Act or delegated or designated under section 1.1 or 1.2 of that Act.

In addition, FSRA will have regulatory oversight and enforcement objects with respect to financial planners and advisors when the *Financial Professionals Title Protection Act, 2019* is proclaimed.

Board appointments and remuneration

Name	Date First Appointed	Most Recent Appointment Term	Remuneration (as of April 1, 2021)
Bryan Davies, Chair	June 28, 2017	June 28, 2020 – June 27, 2021	\$72,912
Kathryn Bouey	June 28, 2017	June 29, 2019 – June 28, 2021**	\$24,308
Blair Cowper-Smith	February 28, 2018	February 28, 2020 – February 27, 2023	\$39,648
Joanne De Laurentiis	July 26, 2019	July 26, 2019 – July 25, 2021**	\$29,736
Joseph Iannicelli	April 9, 2020	April 9, 2020 – April 8, 2023	\$30,680
Brigid Murphy	February 28, 2018	February 28, 2020 – February 27, 2023	\$29,264
Dexter John	January 7, 2021	January 7, 2021 – January 6, 2024	\$9,204
Lawrence Ritchie	March 12, 2018	March 12, 2020 – March 11, 2022	\$32,568
Stewart Lyons	October 22, 2020	October 22, 2020 – October 21, 2023	\$13,452
Brent Zоргdrager	July 26, 2019	July 26, 2019 – July 25, 2021**	\$36,344
Total			\$318,116

Committees of the Board - Members as of April 1, 2021

*Committees where FSRA Chair is *ex-officio* member

**Appointment renewed to 2024

Technology Transformation Committee

Kathryn Bouey – Chair
Brigid Murphy
Bryan Davies*
Joseph Iannicelli
Stewart Lyons

Audit and Finance Committee

Brent Zоргdrager – Chair
Brigid Murphy
Bryan Davies*

Human Resources Committee

Brigid Murphy - Chair
Bryan Davies*
Dexter John
Joanne De Laurentiis
Joseph Iannicelli
Kathryn Bouey

Governance Committee

Blair Cowper-Smith – Chair
Brent Zоргdrager
Bryan Davies*

Joseph Iannicelli
Kathryn Bouey
Stewart Lyons

Dexter John
Joanne De Laurentiis
Lawrence Ritchie

Rules and Policy Committee

Lawrence Ritchie – Chair
Blair Cowper-Smith
Bryan Davies
Joanne De Laurentiis

DIRF Committee

Brent Zorgdrager - Chair
Brigid Murphy
Bryan Davies*
Kathryn Bouey
Stewart Lyons

PBGF Committee

Blair Cowper-Smith – Chair
Bryan Davies*
Dexter John
Joanne De Laurentiis
Lawrence Ritchie

FSRA's Response to the COVID-19 Pandemic

As an essential workplace, FSRA continued to carry out its regulatory duties as the COVID-19 pandemic persisted throughout 2020-2021. To protect the health and safety of its employees and the public, FSRA's workforce worked remotely wherever practical.

FSRA continued to monitor the effects of the pandemic on its regulated sectors. In response, FSRA implemented several regulatory measures to assist the non-securities financial sector and pension plans. Efforts included: extending and/or waiving deadlines for certain regulatory filings and licence renewals; issuing guidance to protect and enhance the fair treatment of consumers; and deferring non-critical reviews and postponing non-priority consultations.

Specific examples of measures introduced early in 2020-2021 in response to COVID-19 include:

- releasing guidance supporting insurers in providing emergency relief to auto insurance consumers
- releasing guidance protecting auto insurance claimants while physical distance restrictions are in place
- continuing to monitor auto insurance rates and changes in driving behaviour during the pandemic. In March 2021, the largest auto insurers, comprising 90% of the Ontario market, voluntarily committed to additional rate reductions after having already provided consumers relief in 2020. As a result, auto insurers have reported more than \$1B in consumer relief in Ontario.
- extending the deadline for filing the Health Service Provider 2020 Annual Information Return (AIR)
- eliminating the expiry of Health Service Provider licences as long as they are kept in good standing.
- releasing guidance regarding holding annual meetings of credit unions and Ontario-incorporated insurance companies virtually
- releasing regulatory measures for Ontario credit unions. This included deferring 2020-2021 fee assessments and deposit insurance premiums; deferring non-critical components of credit union examinations; waiving certain reporting requirements; offering flexibility on other reporting requirements (case by case); clarifying that prudent loan payment deferrals would not automatically result in loan impairments; and postponing new consultations that are not COVID-19-related
- extending the deadline for licence renewals of corporate adjusting firms and individual insurance adjusters
- approving online delivery of licensing exams for life agents

- extending the validity period of Life Licence Qualification Program exam results for certain candidates
- releasing interpretation guidance to inform mortgage brokering industry participants of their continued obligations during periods of market volatility and disruptions, including protecting the rights and interests of consumers
- updating pension guidance as the government provided relief from certain filings and funding requirements and to address emerging issues
- operationalizing the government's regulatory changes, which provided extensions to pension plans on certain filings and funding requirements

Overview of Key Activities in 2020-2021

FSRA's 2020-2023 ABP was approved by the Minister of Finance in June 2020. The ABP identified 22 priorities, which formed the basis of our key activities in 2020-2021. This section highlights them by sector.

Cross-sectoral

Burden Reduction & Regulatory Effectiveness

FSRA's cross-sector priorities continued to enhance regulatory efficiency and effectiveness, further FSRA's innovation objectives, and improve financial safety, fairness and choice for consumers.

2020-2021 Highlights

- In March 2021, FSRA issued the first quarterly report on the status of the inherited guidance project. FSRA reviewed and transitioned nearly 30% of remaining inherited guidance in the reporting period.
- In March 2021, FSRA published its first quarterly scorecard on its service standards performance. FSRA met or exceeded service targets for 80% of its standards and put in place mitigating activities to bring remaining standards in line with targets.
- Enabled meaningful consumer participation in the policy process through the leadership of the Consumer Office and CAP
 - During its 2020 term, the CAP participated in four official meetings as well as targeted ad hoc meetings.
 - The Consumer Office and CAP co-hosted a consumer engagement series on the FFTP Rule and Guidance. This resulted in the Panel's independent submission to FSRA's public consultation.
 - In 2020-21, the Consumer Office undertook targeted consumer research in four sectors (i.e., automotive, FP/FA, mortgage brokering and life & health).
- Conducted an organization-wide review of information sharing arrangements, sector needs and priority-sharing partners, to enhance FSRA's information-sharing infrastructure. Developed an internal process for negotiating and operationalizing Memorandums of Understanding (MOUs) with other regulatory agencies. Executed 5 priority MOUs, with negotiations underway with 10 priority-sharing partners.
- Implemented collaboration and productivity technologies (including M365, Contact Centre and Telephony); digitized or archived all the paper-based documents; and initiated activities to modernize core regulatory processes and systems.

- Developed a draft Innovation Framework that sets the groundwork for how FSRA will identify, manage, and deliver opportunities to enable innovation in the regulated sectors.

Property and Casualty/Auto Insurance

The P&C/auto insurance sector provides financial products designed to protect consumers and businesses against financial loss related to many different risks. That includes owning a home, vehicle or business, and associated liabilities. Ontario's P&C insurance sector represents over \$29 billion in direct written premiums, nearly 53% of which are derived from auto insurance.

FSRA's role in the sector includes:

- licensing P&C insurance companies, independent adjusters and agents that sell P&C insurance in Ontario, to ensure they comply with the law
- regulating the conduct of business of insurance companies, agents and adjusters to ensure the fair treatment of consumers throughout the entire product lifecycle
- conducting prudential regulation of Ontario-incorporated insurance companies
- examining the affairs of the Registered Insurance Brokers of Ontario (RIBO) and Facility Association, and reporting results to the Minister

FSRA also carries out additional functions specific to Ontario's auto insurance system. This includes regulating auto insurance products and their underwriting, distribution and pricing, and determining whether auto insurance rates are just and reasonable.

2020-2021 Highlights

FSRA has continued to advance work on transformational priorities in the P&C/auto Insurance sector while supporting the public interest in relation to the COVID-19 pandemic.

- In February 2021, FSRA reported on the results of the public consultation related to "Take-All-Comers" requirements. FSRA announced that it will examine a representative sample of insurers in Ontario's auto insurance market as part of the ongoing review.
- In July 2020, FSRA created a TAC for Auto Insurance Data and Analytics. It has provided expert insight to FSRA on enhancing regulatory efficiency and effectiveness by using data, analytics and technology. The new TAC also advised on the development and implementation of FSRA's Auto Insurance Data and Analytics Strategy.

- In November 2020, FSRA removed legacy guidance regarding usage-based insurance, which will now allow more competition and innovation in the Auto Insurance market. This includes enabling pay-as-you-go and pay-per-mile (km) options.
- In December 2020, FSRA launched a public consultation seeking feedback from insurance consumers, industry and other interested stakeholders for its first proposed insurance rule – the Unfair or Deceptive Acts or Practices (UDAP) rule. It aims to make the supervision of insurance more transparent, dynamic and flexible.
- FSRA convened its first Residents’ Reference Panel on Automotive Insurance in Ontario. Its mandate was to provide a consumer perspective on how to make the Ontario auto insurance system clearer, easier to understand and more transparent. FSRA posted the panel’s final report on our website in March 2021.
- FSRA developed the first Test and Learn Environment (TLE) focusing on auto insurance, to launch in 2021. The TLE will be based on the proposed exemptive authority in the *Insurance Act* and will allow testing and validation of specific areas of innovative or modernized practices.

Health Service Providers

More than 5,000 licensed health service providers invoice auto insurance companies for statutory accident benefits claims through the Health Claims for Auto Insurance (HCAI) system. FSRA’s role in the sector includes:

- licensing health service providers who elect to use this centralized billing system;
- overseeing the business and billing practices of such licensed service providers when they use HCAI; and
- collecting information about such licensed health service providers’ business systems and practices through an AIR.

2020-2021 Highlights

With health service providers and their use of HCAI, FSRA has two priorities. One, respond rapidly to changes in an evolving auto insurance billing landscape. Two, ensure the HCAI billing system supports just and reasonable auto insurance rates. Our activities in this sector this past year, which included a risk-based approach to reviews and examinations, addressed both priorities.

Credit Unions and Caisses Populaires¹

Credit unions are co-operative, deposit-taking institutions. They are owned by their members, who are also their customers. Ontario's credit union sector has over 1.7 million members, over 7,400 staff and over \$78 billion in assets. Individual credit unions are diverse in size, ranging from \$8 million to \$22 billion in total assets. FSRA's role in the sector includes:

- incorporating credit unions and reviewing the related documentation.
- reviewing and approving proposed transactions involving credit unions, such as amalgamations and the purchase or sale of material assets (which may include the assumption of obligations).
- prudential oversight of credit unions to ensure they comply with solvency and liquidity requirements in the *Credit Unions and Caisses Populaires Act, 1994* and to minimize risk of loss to depositors.
- regulating the conduct of credit unions (e.g., by ensuring they comply with the principles of sound business and financial practice, treat members fairly, and handle complaints in an appropriate manner).

2020-2021 Highlights

FSRA continued to contribute to the stability and modernization of the credit union sector. Through our prudential regulation oversight function, we ensured that credit unions can manage risks effectively. Some key accomplishments included:

- Supporting the Ministry of Finance in developing the *Credit Unions and Caisses Populaires Act, 2020* (CUCPA 2020), which received Royal Assent on December 8, 2020. Once proclaimed into force, the CUCPA 2020 will replace the existing *Credit Unions and Caisses Populaires Act, 1994* (CUCPA, 1994) and modernize Ontario's legislative framework for credit unions.
- Issuing new principles-based guidance for credit unions on residential mortgage lending, which took effect on February 1, 2021. The guidance sets out FSRA's interpretation of legislative requirements and supervisory approach to assess the effectiveness of credit union residential mortgage underwriting practices.
- Updating and reissuing liquidity guidance documents inherited from the Deposit Insurance Corporation of Ontario.
- Issuing guidance clarifying the capital treatment for loans provided by credit unions, under new federal credit availability programs, including the Business Credit Availability Program and the Highly Affected Sectors Credit Availability Program.

¹ For the purposes of this document, the term "credit union" will be used to refer to both credit unions and caisses populaires.

- Receiving ministerial approval of the Credit Union Deposit Insurance Advertising Rule on April 8, 2020. It became effective on April 23, 2020 and governs how credit unions and caisses populaires advertise deposit insurance coverage.
- Launching a consumer awareness campaign in support of the Deposit Insurance Reserve Fund (DIRF), promoting consumer confidence in Ontario credit unions.
- Preserving strong governance of the DIRF through:
 - Commissioning the development of a stress-testing model to assess DIRF's adequacy. Moving forward, FSRA will work with the credit union sector to refine the DIRF assessment model and consult on the overall framework and data requirements.
 - Working to ensure better structural liquidity tools and reporting. FSRA performed internal stress testing, mainly from a liquidity standpoint. We are also using this to explore and improve structural liquidity options for the Credit Union system. As part of this, the Government of Ontario provided an enhanced line of credit to FSRA with a limit of \$2 billion. Should extraordinary stress arise (not currently expected), the new credit facility provides supplementary financing to FSRA to support viable credit unions experiencing liquidity issues.

Life and Health Insurance

Ontario's life and health (L&H) insurance industry represents over \$24.7 billion in direct premiums annually. The sector provides comprehensive insurance, and related investment products, to help individuals protect key aspects of their lives against risk of loss. L&H includes over 100 insurers, 48,000 agents and 5,600 corporate agencies.

FSRA's role in the L&H sector includes:

- licensing life insurance companies and agents that sell life and health insurance in Ontario, to ensure they comply with the law.
- regulating the conduct of business of insurance companies and agents, to ensure the fair treatment of consumers throughout the entire product lifecycle.

2020-2021 Highlights

Ensuring consumer protection and public confidence in the L&H insurance industry is critical. FSRA took the following steps to enhance the oversight of market conduct in 2020-2021:

- In July 2020, FSRA published a Life Agent Reporting Forms (LARFs) Summary Report. It summarizes complaints and enforcement activity on 75 cases of life insurance agent misconduct and unsuitability derived from LARFs submitted by insurers to FSRA from June 2019 to March 2020.

- In fall 2020, FSRA released the L&H Sector Key Areas of Assessment for 2020-2021, which identified two focus areas for its review activities:
 - the adoption of principles by insurance companies that guide the fair treatment of consumers; and
 - how managing general agencies contracted by insurers uphold fair treatment standards for consumers.
- In November 2020, FSRA warned the public about offers for employment linked to the purchase of life insurance policies. FSRA cautioned that life insurance agents may be targeting international students and newcomers to Ontario, offering false job opportunities conditional on the purchase of life insurance.
- In November 2020, FSRA established two industry TACs:
 - The TAC on Distribution Channels that Rely on Managing General Agencies (MGAs) is providing advice on trends and issues related to MGAs and emerging topics in insurance distribution. To date, the TAC has reviewed FSRA's observations arising from its review of distribution channels and provided commentary on the findings.
 - The TAC on Segregated Funds is providing advice on the distribution and administration of segregated funds. At its first meeting in January 2021, the members discussed key consumer issues and risks related to segregated funds, as well as elements of the Canadian Securities Administrators (CSA)/Canadian Council of Insurance Regulators (CCIR) Total Cost Reporting project. FSRA will consider their comments as it continues work on segregated funds.
- In December 2020, FSRA released its Fair Treatment of Customers (FTC) guidance. It harmonizes FSRA's FTC practices with the guidelines created by Canada's insurance regulatory bodies, CCIR and the Canadian Insurance Services Regulatory Organizations (CISRO). The guidance promotes fair customer treatment throughout the lifecycle of an insurance contract.
- In December 2020, the CCIR, of which FSRA is a member, released the 2019 Annual Statement on Market Conduct Public Report. This is its first report on insurer policies and practices as they relate to the fair treatment of customers. Insurers can use the report to compare their overall policies, procedures and performance against industry averages and key benchmarks on fair treatment principles. The report reflects data collected through an annual questionnaire that FSRA administers to all Ontario-licensed insurance companies.
- In February 2021, FSRA issued a notice to insurers about their role in ensuring agents meet business conduct standards. FSRA had learned that some agents were altering information about customer employment and study visas in life insurance applications. FSRA reminded insurers they must take appropriate action when an agent fails to meet FSRA's conduct and suitability requirements; and complete due diligence when delegating functions to MGAs, such as agent screening and oversight.

- FSRA continues to work with the CCIR and the CSA on a project to improve cost and performance disclosure provided by investment funds (e.g., mutual funds and exchange-traded funds) and segregated funds.

Mortgage Brokering

The mortgage brokering sector enables the financing of a home purchase for many Ontario homebuyers. In 2020, mortgage brokers arranged over 346,000 mortgages, valued at approximately \$148 billion². The sector represents 218 mortgage administrators and 1,282 mortgage brokerages (employing 11,826 mortgage agents and 2,592 mortgage brokers).

FSRA's role in the mortgage brokering industry includes:

- licensing mortgage brokerages, agents, brokers and administrators.
- regulating the conduct of licensees through monitoring and enforcing compliance with the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (MBLAA).

2020-2021 Highlights

In 2020-2021, FSRA continued to enhance market conduct oversight in the mortgage brokering sector to protect consumers and investors.

- In August 2020, FSRA released its Approach for Promoting High Standards of Business Conduct. It identified four areas where consumer harm is most susceptible, including inappropriate alternative lending practices, and indicated to industry of how it will enhance supervision in these four areas.
- In November 2020, FSRA launched a consultation on guidance regarding its approach to help Ontario mortgage professionals comply with the Mortgage Brokers Regulators' Council of Canada's (MBRCC) proposed Code of Conduct. MBRCC had worked with FSRA and the Canadian mortgage brokering industry to develop the proposed Code and released it in March 2021. It provides guidance on how mortgage professionals should conduct mortgage brokering activities that protect consumers' interests. The Code also outlines behaviour that consumers should expect from licensees. FSRA has worked with the MBRCC to adopt this code nationally and FSRA has finalized its approach for supervising against the Code in Ontario, for release in summer 2021.

² Business volume reported is for the calendar year.

- In November 2020, an industry TAC was established to advise FSRA on enhancing its policy and supervisory approaches for the sector. This will support consumer protection, drive innovation and increase regulatory efficiency. The Committee held its first meeting on January 25, 2021. In the next fiscal year, the Committee will provide advice on FSRA's policy development initiatives and supervisory focus for 2021-2022.

FSRA supported Ministry of Finance initiatives by:

- Working with the MOF and the Ontario Securities Commission (OSC) on the transfer of regulatory oversight of non-qualified SMIs to the OSC. Effective July 1, 2021, the OSC will regulate the oversight of the sale of non-qualifying SMIs to less sophisticated (e.g., retail) investors.
- Consulting on the proposed approach for supervising mortgage brokerages and administrators that are engaged in SMIs after the transfer. FSRA released the final guidance in March 2021.
- In the 2020 Ontario Budget, the government announced its endorsement of the recommendations put forward as part of the legislative review of the MBLAA. To support the implementation of recommendations, roundtable consultations with stakeholders were held on the proposed approach to:
 - reduce red tape for commercial mortgage transactions; and
 - raise and streamline education and professional standards for agents and brokers.

Pensions

Pensions represent a significant financial asset for many Ontarians. There are 2.2 million active and 1.8 million retired members in plans that vary by size and type. While defined contribution plans have increased in popularity, the majority of members and assets remain in defined benefit plans (with assets of approximately \$618B in Defined Benefit (DB) plans and \$22B in Defined Contribution (DC) plans). FSRA works with the Ministry of Finance to ensure appropriate oversight of the pension sector that balances protecting members' rights with ensuring the viability, growth and sustainability of pension plans in Ontario.

2020-2021 Highlights

Throughout 2020-2021, FSRA made significant progress on its priorities of supporting pension plan evolution, developing and consulting on a prudential supervision framework, and refocusing pension regulation on regulatory effectiveness and efficiency.

FSRA has continued to engage with a variety of stakeholders. Through the work of special purpose and standing technical advisory committees, FSRA:

- Issued new guidance in December 2020 around missing members.
- Launched a data collection exercise to, among other things, identify the numbers of missing beneficiaries and value of their pensions.
- Established a committee in December 2020, jointly with the Office of the Superintendent for Financial Institutions (OSFI), to focus on defined contribution pension plans.
- Issued guidance in January 2021 on a new asset transfer application process, with a more efficient and effective review and a new process for FSRA's consent to certain transactions.
- Issued technical guidance in March 2021 for consultation around marriage breakdown and a new member-focused easy-to-read guide to help spouses navigating these issues.
- Issued guidance in March 2021 on leading practices for trustees and advisors of Defined Benefit Multi-Employer Pension Plans, to consider as they evaluate their current practices.
- Established a committee in March 2021 to identify ways, within the regulatory framework, to foster a vibrant employment-based pension pillar in Ontario.

Prudential Supervision

The Pension Benefits Guarantee Fund (PBGF) investment portfolio was adjusted at the onset of the pandemic to raise credit quality and reduce concentration risk for the investments during uncertain times. In the new year, we will implement a long-term strategy to seek higher returns. FSRA will also be enhancing its predictive and analytical capacity to improve risk scenario modeling of the PBGF.

FSRA is working with the largest pension plans in Ontario to review systemic risk, liquidity risk and other investment risk and governance elements including alternative asset classes.

Co-operative Corporations

Ontario has just under 1,800 co-operative corporations (co-ops), which operate in a variety of industries (e.g., housing, agriculture, daycare, etc.). FSRA aims to better protect co-op members and investors who purchase shares in co-ops. FSRA's role in the sector is limited to carrying out powers and duties under the *Co-operative Corporations Act* related to offering statements prepared by co-ops when raising capital from investors.

2020-21 Highlights

- In December 2020, FSRA issued Interpretation and Approach Guidance for High-Risk Co-op Offerings, after consultations with stakeholders. The guidance is intended to assist investor decision-making, promote high standards of business conduct for co-ops, and improve the transparency of FSRA's decision-making.
- FSRA reviewed 17 offering statements in the 2020-2021 financial year, 13 of which were received by FSRA's CEO.

Financial Planners/Financial Advisors

The Ontario government has tasked FSRA with implementing the title protection framework under the *Financial Professionals Title Protection Act, 2019* (FPTPA). This legislation, once proclaimed, will limit the use of the FP/FA titles in Ontario. Only individuals who have obtained a credential from a FSRA-approved body would be able to use the FP/FA titles. The goal is to ensure that individuals using these titles are appropriately qualified and supervised in accordance with minimum standards. This will promote confidence and professionalism in the sector and avoid confusion for investors/consumers.

2020-2021 Highlights

In August 2020, FSRA posted the draft FPTP Rule, and associated guidance for a 90-day public comment period. The proposed rule outlines the parameters for the implementation of the FP/FA title protection framework, and establishes:

- approval criteria for credentialing bodies, to ensure the effective administration of a credentialing program;
- approval criteria for a credentialing body to issue FP/FA credentials, to establish a consistent minimum standard for title users;
- the application process; and
- a transition period for individuals already using the FP/FA titles.

During the consultation period, FSRA met with various stakeholders, including consumer advocates, industry participants, and other regulatory bodies. After evaluating stakeholder feedback, including 43 written comments, FSRA plans to repost the amended rule for further public consultation in the coming year and to issue fee rule and other supporting guidance for comments.

Industry and Consumer Dialogue, and Public Consultation

FSRA takes a transparent and collaborative approach to engagement. By regularly consulting with industry experts and consumers, we are better equipped to identify emerging issues and obtain feedback on regulatory approaches proposed by FSRA.

FSRA has defined and implemented mechanisms for engagement at different levels of the organization. We set clear objectives and principles for direct consultation with key stakeholders, including the following groups:

- Six SACs to serve as consultation bodies to the Board on FSRA's priorities, budget and other matters.
- Four Standing Technical Advisory Committees (STACs) for the Pensions sector, to advance FSRA's cross-sectoral priorities of improving regulatory effectiveness and burden reduction.
- TACs to tackle ad hoc matters affecting the pensions, mortgage brokering, life and health insurance and auto insurance sectors.
- A Retiree Advisory Panel as part of a commitment to engage all perspectives, including those of pension plan beneficiaries
- Credit union working groups
- A CAP to provide consumer perspectives on proposed FSRA policy changes; help inform FSRA's strategic approach to consumer-focused research and engagement; and advise on emerging consumer issues and trends.

FSRA held 11 consultations to leverage the SACs, special-purpose and ad hoc committees and panels. Summaries of the committee meetings were posted for transparency. In addition to numerous bilateral and small group consultations, FSRA launched the following 15 public consultations during the fiscal year.

As part of this process, FSRA posted the consultation feedback, and summarized the outcomes of our consultations. This open approach brought a broad range of experience, expertise and enthusiasm to the consultation process and revealed a diversity of views for FSRA to consider.

FSRA will continue to consult specialized and ad hoc groups to build our engagement with consumers. That will help to shape our regulatory framework, enhance service standards, and modernize our systems and processes.

Consultations held in fiscal year 2020-2021

Sector	Consultation Title	Type	Consultation Date
Auto Insurance	Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings Consultation	Policy	July 6–27, 2020
Auto Insurance	Unfair or Deceptive Acts or Practices Consultation	Rule	December 18, 2020 – March 18, 2021
Credit Union and Caisses Populaires	Residential Mortgage Lending Consultation	Policy	September 9 – November 11, 2020
Credit Union and Caisses Populaires	Ontario’s Liquidity Guidance for Credit Unions Consultation	Policy	November 2 – December 2, 2020
Credit Union and Caisses Populaires	Credit Union Recovery Planning Consultation	Policy	January 27 – March 19, 2021
Co-operative Corporations	High-risk Offerings issued under the <i>Co-operative Corporations Act</i> Consultation	Policy	October 5 – November 18, 2020
Financial Planners and Advisors	Financial Professionals Title Protection Consultation	Rule	August 13 – November 12, 2020
General Regulatory	FSRA Service Standards Consultation	Policy	September 24 – October 23, 2020
General Regulatory	FSRA Proposed 2021-22 Statement of Priorities Consultation	Priorities/ Budget	October 13 – November 3, 2020
Home, Life and Health Insurance	Fair Treatment of Consumers in Insurance Consultation	Policy	September 23 – October 22, 2020
Mortgage Brokering	Non-Qualified Syndicated Mortgage Investments with Permitted Clients and Legacy Non-Qualified Syndicated Mortgage Investments Consultation	Supervision	August 6 – September 21, 2020
Mortgage Brokering	Mortgage Broker Regulators’ Council of Canada (MBRCC) National Code of Conduct Consultation	Supervision	November 27– January 15, 2021
Pension	Missing Pension Plan Members – Principles and Practices Consultation	Policy	June 23 – September 20, 2020

Pension	Supervisory Approach to Defined Benefit Pension Asset Transfers under the PBA Consultation	Policy	September 11 – November 30, 2020
Pension	Administration of Pension Benefits Upon Marriage Breakdown Consultation	Policy	March 18 – May 3, 2021

Strategic Priorities

FSRA Priorities 2020-2021 – Year-End Assessment Scorecard

FSRA has developed a scorecard, which contains the results of our performance against the 22 ABP priorities. Three categories have been used to measure completeness:

- Complete (Green) – priority is complete compared to target
- Substantially Complete (Yellow) – minor activities remain to complete the priority compared to target and is considered a passing assessment
- Incomplete (Red) – priority was not complete compared to target

The scorecard also summarizes the objectives to be achieved by FSRA in 2020-2021 for each of the ABP priorities.

2020-21+ Priorities

Cross-Sectoral Priorities

Burden Reduction

- 1.1 Review inherited guidance
- 1.2 Establish meaningful service standards







Regulatory Effectiveness







- 2.1 Protect the public interest
- 2.2 Enable innovation
- 2.3 Modernize systems and processes





Burden Reduction and Regulatory Effectiveness



- 3.1 Transition to Principle Based Regulation (PBR)
- 3.2 Improve information sharing with regulators




Sector-Specific: Targeted High-Impact Priorities




 Property & Casualty (Auto) Insurance	 Credit Unions	 Life & Health Insurance	 Mortgage Brokering	 Pensions	 Financial Planners & Advisors
<ul style="list-style-type: none"> 4.1 Empower and protect auto insurance consumers 4.2 Support and implement transformative auto insurance reforms 4.3 Develop a comprehensive auto insurance data and analytics strategy 	<ul style="list-style-type: none"> 5.1 Support modernization of credit union framework 5.2 Ensure appropriate resolution and Deposit Insurance Reserve Fund (DIRF) framework 5.3 Enhance credit union market conduct supervision 5.4 Update supervisory and risk assessment approach 	<ul style="list-style-type: none"> 6.1 Enhance market conduct oversight to protect consumers 6.2 Improve licensing effectiveness and efficiency 	<ul style="list-style-type: none"> 7.1 Support government policy direction on the Mortgage Brokerages, Lenders and Administrators Act (MBLAA) 7.2 Enhance market conduct oversight to protect consumers 	<ul style="list-style-type: none"> 8.1 Support plan evolution 8.2 Develop and consult on prudential supervision framework 8.3 Refocus pension regulation on burden reduction 	<ul style="list-style-type: none"> 9.1 Implement the title protection framework for Financial Planners/Financial Advisor




<p style="text-align: center;">Priority (Status as at Mar. 31, 2021)</p>	<p style="text-align: center;">Objectives</p>
 <p>1.1 Review inherited guidance</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Complete review of and develop a plan for posting all guidance for each sector
 <p>1.2 Establish meaningful service standards</p>	<ul style="list-style-type: none"> • Reflect service standards in employee/function performance targets • Reflect standards across FSRA
 <p>2.1 Protect the public interest</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Research/compile current consumer issues • Launch new website with clear/easily accessible consumer information • Develop and publish consumer profiles on sector-specific issues • Conduct consumer research (as identified by panel, e.g. consumer disclosures)
 <p>2.2 Enable innovation</p>	<p>Multi-year priority, key activities planned for this year completed, completion of objectives on track:</p> <ul style="list-style-type: none"> • Analyze regulatory changes required to support innovation • Develop and execute outreach plan to identify new product/services • Participate in Global Innovation Pilot(s) • Implement new product/service delivery (by sector)
 <p>2.3 Modernize systems and processes</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Procure enabling technology platform including CRM, case management system, enterprise content management system and data analytics tools • Continue roll out of user-centric website • Digitize or archive existing paper-based documents • Hire vendors to provide system integration and change management services • Develop foundational, enterprise-wide components and capabilities in preparation for sector-specific implementations • Enable data analytics for each regulated sector, to empower FSRA policy and supervisory activities
 <p>3.1 Transition to Principles Based Regulation (PBR)</p>	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Develop principles • Consult stakeholders on proposed principles • Issue guidance • Consult with sectors • Develop supervision approach


Priority (Status as at Mar. 31, 2021)		Objectives
	3.2 Improve information-sharing with regulators	<ul style="list-style-type: none"> • Conduct consultations with sharing partners • Develop & implement strategy/approach • Established reciprocal MOU's with Bank of Canada, Ontario Security Commission and Financial Services Authority (B.C)
	4.1 Empower and protect auto insurance consumers	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Transform auto insurance rate and policy form/endorsement regulation to support innovative and consumer-focused business models, pricing structures and technologies • Improve auto insurance rating and underwriting accuracy by developing and implementing new supervisory processes, focused on advanced risk management and compliance systems within regulated entities • Enhance market conduct oversight, emphasizing the fair treatment of customers and focused monitoring activities in areas that may pose significant consumer harm (such as the circumvention of “Take-all-Comers” auto insurance requirements), and considering a review of existing conduct standards • Enhance auto insurance transparency, disclosure of information and consumer choice, by: studying consumer behaviour and expectations; assessing relevant consumer education (sources, strengths/weaknesses); improving FSRA’s public reporting; identifying opportunities for products that increase consumer understanding and assist in making informed choices; and exploring opportunities for FSRA rule-making regarding unfair or deceptive acts or practices • Improve licensing effectiveness and efficiency by streamlining licensing approvals for agents, adjusters and companies • Implement the process proposed in 2019-2020 (in consultation with stakeholders and regulators), and use it to seek consistent application of Fair Treatment of Customers guidance across Canada, including examples of fair and unfair treatment
	4.2 Support and implement transformative auto insurance reforms	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Support reforms to create a sustainable auto insurance system that delivers value and choice for consumers • Support and implement any recommended changes required to overhaul health service provider licensing (subject to government direction in response to FSRA’s recommendations in 2019-2020)
	4.3 Develop a comprehensive auto insurance data and analytics strategy	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Improve auto insurance data collection and management processes, including timeliness, quality, availability and data sharing

	<p align="center">Priority (Status as at Mar. 31, 2021)</p>	<p align="center">Objectives</p>
		<ul style="list-style-type: none"> • Develop new reporting and analytical tools to enable proactive regulatory monitoring and evidence-based policy decisions • Assess the alignment of the GISA with FSRA’s new data collection and analytics framework, by reviewing key processes, roles and responsibilities and governance • Propose and consult with stakeholders on an implementation plan
	<p>5.1 Support modernization of credit union framework</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Continue to support MOF in developing new credit union legislation and modernizing the framework <ul style="list-style-type: none"> ○ Provided support to MoF in developing regulations under the new CUCPA 2020 before proclamation in 2022 • Develop, propose, consult on and (where practical) start implementation of FSRA rules on topics where legislative authority may be provided <ul style="list-style-type: none"> ○ Consultation draft of Capital and Liquidity drafted ○ Capital and Liquidity Rules to be issued subject to Minister’s approval in 2021-22 ○ Consultation draft of Sound Business and Financial Practices Rule approved by the Board • Implement the Credit Union Deposit Insurance Advertising Rule that will replace the DICO bylaw #3 if approved • Identify and review guidance and other documents in order to implement the new rule(s) • Propose, consult on and issue interpretation guidance and a supervisory approach for FSRA’s new residential mortgage lending guidance <ul style="list-style-type: none"> ○ Residential Mortgage Lending Approach Guidance and Interpretation Guidance issued • Identify, consult on and re-issue other existing high-priority guidance • Three-year plan for Guidance development approved by CCUA
	<p>5.2 Ensure appropriate resolution and Deposit Insurance Reserve Fund (DIRF) framework</p>	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Consult on and implement guidance for an enhanced resolution strategy and recovery plan framework • Review the DIRF’s adequacy, considering liquidity and solvency/capital perspectives (e.g. stress scenarios) • Assess and report to the Minister of Finance on DIRF adequacy

<p style="text-align: center;">Priority (Status as at Mar. 31, 2021)</p>	<p style="text-align: center;">Objectives</p>
 <p>5.3 Enhance credit union market conduct supervision</p>	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Implement new enhanced market conduct supervisory activities for credit unions by proposing, consulting on, issuing and implementing a supervisory approach to support the Market Conduct Code (MCC) • Further implement a plan for market conduct examinations on the MCC or any similar code used by the supervisory framework • Continue to work with credit union regulators across Canada towards national harmonization of market conduct supervisory practices
 <p>5.4 Update supervisory and risk assessment approach</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include: Board approved objectives restated for the year:</p> <ul style="list-style-type: none"> • Conduct research and analysis for the design of the revised Risk-based Supervisory Framework (the Framework) for the Credit Union sector • Develop draft Risk-based Supervisory Framework documents • Begin targeted stakeholder consultation • Begin development of new internal business practices, processes, procedures and operational tools • Implementation of the Credit Union Risk Based Supervisory Framework will be after 2021-22
 <p>6.1 Enhance market conduct oversight to protect consumers</p>	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Lead the exploration and potential implementation of a CISRO-harmonized industry Code of Conduct for intermediaries • Support the Fair Treatment of Customers (FTC) principles in the Life & Health by: <ul style="list-style-type: none"> ○ Conducting policy research and undertaking targeted supervisory reviews ○ Considering different distribution channels when assessing market conduct ○ Developing a proposed regulatory framework and supervisory approach for distribution channels that rely on MGAs (including assessing the MGA distribution channel to understand how insurers, agents and MGAs interact with the public during the sales process) ○ Building an agent conduct team and developing a supervisory framework ○ Considering solutions for improving advisor oversight proposed by the industry-regulatory G4 task force (Canadian Life and Health Insurance Association, Canadian Association of Independent Life Brokerage Agencies, Independent Financial Brokers and Financial Advisors Association of Canada)

<p style="text-align: center;">Priority (Status as at Mar. 31, 2021)</p>	<p style="text-align: center;">Objectives</p>
 <p>6.2 Improve licensing effectiveness and efficiency</p>	<p>Multi-year priority, key activities planned and substantially completed in 2020-2021 include:</p> <ul style="list-style-type: none"> • Develop a common process for capturing and consolidating licensing statistics from the date of assignment to approval for all products • Create meaningful reporting and key metrics, to help ensure FSRA can deliver on service level standards, absorb future growth, and inform licensees by way of meaningful, real-time approval timelines • Perform a gap analysis on FSRA’s current due diligence processes, legislative requirements and IM/IT systems to build efficient and effective licensing and renewal processes • Increase information-sharing with other regulators where possible • Develop criteria to publish service expectations for licence applications and implement service standards
 <p>7.1 Support Government policy direction on the <i>Mortgage Brokerages, Lenders and Administrators Act, 2006</i></p>	<p>Multi-year priority, a number of key activities related to these objectives were completed in 2020-2021: Reduce red tape for commercial mortgage transactions exemptions</p> <ul style="list-style-type: none"> • Establish new classes of licensing • Incentivize registration for private lenders • Raise educational standards for agents and brokers
 <p>7.2 Enhance market conduct oversight to protect consumers</p>	<p>Multi-year priority, key activities planned and completed in 2020-2021 include:</p> <p>Non-qualified SMIs Supervisory Approach</p> <ul style="list-style-type: none"> • Support the implementation of effective oversight of the regulation of non-qualified SMIs transactions with the OSC • Continue to refine and enhance the supervisory approach for high-risk non-qualified SMIs • Continued supervisory oversight of legacy non-qualified SMI transactions and any SMI activities that are not transferred to the OSC <p>Mortgage Brokering Sector Supervisory Approach</p> <ul style="list-style-type: none"> • Develop, document, consult and implement a robust supervisory approach for high-risk activities and products (non-SMI) that could cause consumer harm (specific activities/products may include reviews of brokerages focused on product suitability) • Continue to work closely with the Mortgage Broker Regulators Council of Canada (MBRCC) and MOF to support increased regulatory harmonization across Canada

<p style="text-align: center;">Priority (Status as at Mar. 31, 2021)</p>	<p style="text-align: center;">Objectives</p>
 <p>8.1 Support plan evolution</p>	<ul style="list-style-type: none"> • Continue to build relationship management as a foundational skill for plan consolidation activity and complex transactions • Establish an advisory committee to identify ways to foster a vibrant employment-based pension pillar in Ontario • Examine why employers are moving away from providing registered pension plans • Promote good administration of pension plans that is facilitative for employers, cost efficient and can leverage innovative practices • Ensure that Ontario workers are well informed regarding their retirement benefits and how those benefits are protected
 <p>8.2 Develop and consult on prudential supervision framework</p>	<ul style="list-style-type: none"> • Continue to work on the PBGF's long-term financial sustainability and assist the MOF in its legislated review of the PBGF, including a financial risk assessment using stress-testing. • Develop and implement a more appropriate return-seeking investment strategy for the PBGF, which balances benefit security, expected return and anticipated liquidity needs • Work collaboratively with jointly-sponsored pension plans to understand, improve and document industry-wide standards and best practices with respect to systemic and liquidity risks, use and appropriate disclosures for leverage and illiquid assets • Implement learnings from a targeted review of multi-employer pension plans (MEPPs) by developing, documenting, consulting on, and supervising against best practices (funding, governance and investments) • Support MOF with its implementation of a target benefit framework by conducting research, consultation and making recommendations through the standing TAC for MEPPs • Begin development and documentation of risk-based supervisory approach for defined contribution plans (e.g., member behaviour and engagement, decumulation options, investments, fees, etc.) • Continue to include retirees' perspectives in consultation, and establish a retiree stakeholder committee
 <p>8.3 Refocus pension regulation on burden reduction</p>	<ul style="list-style-type: none"> • Continue to focus resources on high-value regulatory activity and reducing unnecessary regulatory burden. • Update the guidance framework, describing approaches, improving processes, and modernizing information management and information technology • Continue the work of ad hoc technical advisory committees (TACs) established in the fall of 2019: <ul style="list-style-type: none"> ○ Missing members

	<p align="center">Priority (Status as at Mar. 31, 2021)</p>	<p align="center">Objectives</p>
		<ul style="list-style-type: none"> ○ Asset transfer ○ Family law ● Identify opportunities to reduce regulatory burden and improve regulatory effectiveness for DC plans ● Continue to assess the effectiveness and efficiency of FSRA's regulatory framework and other practices for all plan types and collaborate with MOF on regulatory improvements ● Publish the findings of the ad hoc TACs and, where applicable, initiate public consultations on new guidance. Commence implementing such guidance and approaches and other key changes ● Establish a new TAC by the end of 2020 to initiate this work
	<p>9.1 Implement the title protection framework for Financial Planners/Financial Advisors</p>	<ul style="list-style-type: none"> ● Post rules for public consultation re. the title protection framework ● Establish processes and criteria for approving credentialing bodies ● Develop and document a supervisory approach for credentialing bodies approved under the title protection framework ● Develop and document a supervising approach for action against non-credentialed FP/FA title users

Performance Measures and Targets

Service Standards

In 2020-2021, FSRA completed a review of existing performance and service standards, inherited from its legacy regulators (the Deposit Insurance Corporation of Ontario and the Financial Services Commission of Ontario). As a result, FSRA developed a new set of service standard guiding principles and accompanying service standards. The new standards will help FSRA address the perceived lack of accountability and responsiveness in the current regulatory framework.

FSRA initially planned to launch its new service standards in April 2020, on a trial basis and with an associated public consultation. Due to the COVID-19 pandemic, the launch and planned consultation were delayed. The service standards and consultation were launched October 1, 2020. FSRA's first scorecard was published in March 2021. It documents the results of FSRA's Q3 2020 performance against target. FSRA met or exceeded service targets for 80% of its standards over the reporting period. FSRA put mitigating activities in place to address standards with below target performance. FSRA will continue to report quarterly on its performance and will also re-assess the appropriateness of the current targets in 2021.

Outcome-based measures

FSRA is continuing its work to develop outcome-based, quantitative measures that are linked to our priorities and legislative objects. FSRA will continue to work with its stakeholders to develop metrics that will be supported by data.

Description of Activities	Timeline	Status
Develop preliminary outcome-based performance measures and targets	2020-2021	Completed
Identify baseline data for outcome-based measures	2021-2022	In development
Report ongoing trend data for all outcome-based measures	2022-2023	Not yet started
Establish targets for all outcome-based measures	2022-2023	Not yet started

Output-based performance measures

FSRA continues to build output-based business measures and metrics for all sectors, some of which were inherited from our legacy regulators (see Appendices B–E). As we continue to develop our outcome-based measures, FSRA will seek to align our output-based measures with those outcomes.

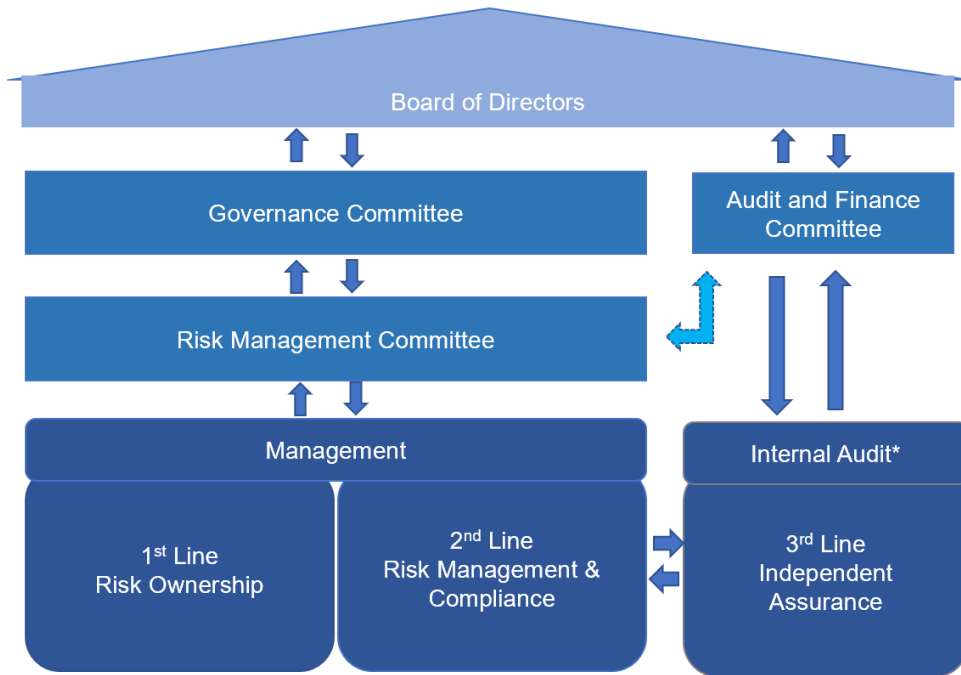
Risk Identification, Assessments and Mitigation Strategies

Risk Management plays an integral part in FSRA's decision-making and strategy development. This supports the achievement of our objectives and priorities, and promotes a strong risk culture. FSRA has worked to strengthen risk governance and awareness among business units and promote a strong risk culture through various enhancements to FSRA's Enterprise Risk Management (ERM) Framework.

FSRA's ERM Framework was initially approved by the Board of Directors in October 2019 and has been continuously enhanced. FSRA has adopted the Three Lines of Defense Model in its operations. Risk owners are the first line, performing risk identification, assessment and mitigation. The second line has responsibility for risk management and compliance. It performs oversight, monitoring and risk profile reporting. The third line of defense is the Internal Audit function, which is outsourced and provides independent assurance.

The executive-level Risk Management Committee (RMC) provides risk management oversight to assist FSRA's, Chief Risk Officer (CRO) who regularly reports to the Governance Committee of the Board. The RMC held 9 meetings in 2020-2021. It provided a robust supervisory strategy in monitoring corporate-wide risk profiles and risk mitigation strategies. The Governance Committee oversees risks at the broader enterprise level, under a delegated authority.

FSRA ERM Governance Structure



* Internal Audit reports functionally to the Board and administratively to the EVP, Corporate Services

2020-2021 Highlights

- Strengthened ERM Framework operationalization through RMC reporting of Risk, Compliance, Control Deficiencies and Privacy Risk Management.
- Developed the Enterprise Compliance Framework to establish a process for ensuring adherence to applicable Legislations, Regulations and Directives.
- Strengthened Privacy Management Program to meet its legislative obligations under the *Freedom of Information and Protection of Privacy Act* (FIPPA).
- Established a Multi-Year Accessibility Plan (MYAP) for 2020-2025, in compliance with the requirements of the *Accessibility for Ontarians with Disabilities Act, 2005* (AODA).
- Established a third line Independent Assurance (Internal Audit). The Internal Audit function is conducted by a third-party, E&Y LLP.

FSRA continues to:

- Enhance the governance, risk, and control management by finalizing the Risk Appetite Statement (RAS).
- Strengthen its culture of risk, compliance and privacy management within the Agency.

Key Risks and Mitigations

FSRA proactively identifies, assesses, and monitors risks facing its operations. FSRA’s key risks and mitigation plans are summarized below:

Risk Type	Mitigation Plan
<p>Macroeconomic & systemic risk: The risk that an economic downturn, brought about by the pandemic, would threaten the financial soundness and stability of FSRA’s regulated financial sectors.</p>	<p>FSRA focuses on promoting effective governance and risk management in the regulated sectors. In coordination with other regulators, FSRA is monitoring the financial soundness of the regulated sectors using available tools. The Agency issues regulatory relief or guidance to regulated sectors, as appropriate.</p>
<p>Operational resilience: The risk that business disruption would pose significant challenge to FSRA in delivering its regulatory services and mandates on a timely basis.</p>	<p>FSRA is developing a holistic Crisis Management Guideline to ensure business continuity. Due to our proactive and early measures, FSRA’s operations have been running well during the pandemic.</p>
<p>Cybersecurity risk: The risk that FSRA’s systems are breached or compromised, which may lead to the theft of its information and/or impairment of its ability to sustain IT operations.</p>	<p>FSRA has taken action to mitigate its significant cybersecurity exposures. It is also implementing a cybersecurity program, tools, and controls to set up an effective cybersecurity practice.</p>
<p>Sustainability of DIRF & PBGF funds: The risk of significant withdrawals – from the DIRF to pay insured depositors of insolvent credit unions, and from the PBGF to cover claims Single Employer Pension Plans (SEPPs) with solvency funding deficit.</p>	<p>FSRA secured an additional Line of Credit to back-stop the DIRF, and monitors liquidity and capital ratios at credit unions. FSRA is also enhancing the DIRF adequacy assessment methodology. To minimize the potential claims to PBGF, FSRA strengthened prudential supervision of SEPPs. Further, FSRA is working on a return-seeking investment strategy to support the prudent management of assets in the PBGF.</p>
<p>Challenges caused by legacy software & technology: The risk of service delivery delay due to a failure to resolve business application issues in a timely manner.</p>	<p>FSRA has developed a digital transformation blueprint to replace the legacy applications by 2025.</p>

Our People

FSRA's Human Resources Strategic Framework focuses on four pillars that encourage individual, team and organizational excellence. Here's how each pillar supported FSRA's progress and activities.

1. Culture Advancement

FSRA's Vision, Mission, Values and Behaviours, completed early in 2019-2020, remain the foundation of our approaches, policies, process and norms. Additional culture advancement initiatives include developing a diversity, equity and inclusion framework. FSRA's performance management and pay-for-performance systems are also aligned.

2. Investment in Talent

With over 200 of FSRA's positions vacant at launch, recruitment of talent was a priority. Between June 8, 2019 and March 31, 2020, we hired 145 new external colleagues and moved 90 internal colleagues into new roles. A further 176 new hires and 45 internal job changes occurred between April 1, 2020 and March 31, 2021. A learning and development framework, and associated activities, supported the credibility of FSRA's teams with the regulated sector. This allowed FSRA to continue the journey to becoming a principles-based regulator.

3. Strong Foundations

The Human Resources Information System, called Workday, supports digital transformation. The HR, and Payroll and Recruitment modules were built and launched in 2019-2020. The additional modules of Advanced Compensation, Performance and Talent Management, and Learning were developed and implemented in early 2020-2021.

4. HR Excellence

FSRA established policies and processes to identify, manage and control HR risks, and ensure alignment with legislative and directive requirements. The HR Business Model gives leaders knowledge to effectively access HR business services and support.

As of March 31, 2021, FSRA has 542 employees: 492 permanent full-time and 50 fixed term. The budgeted FTE for 2021/22 is 558.

FSRA developed a detailed Business Continuity Plan (BCP) to ensure critical regulatory sector work would continue. The initial stages were successfully tested during COVID-19. We refined the BCP in 2020-2021.

Communication Plan

Internal communications

Throughout the pandemic, FSRA prioritized providing employees with a timely, consistent and transparent source of information and resources. We did so while reinforcing corporate values and celebrating organizational successes.

Internal communication was committed to continuing a dialogue with employees and supporting ongoing business continuity and service delivery. These efforts included:

- maintaining and growing the FSRA intranet, including a cross-sectoral intranet working group. Through this, we provided comprehensive information to employees, as well as opportunities for engagement while working remotely.
- holding departmental and all-employee town hall meetings.
- distributing a *FSRA Update* internal newsletter.
- organizing a virtual speaker series to educate staff on key trends in the regulated sectors.
- developing and launching employee engagement activities, based in our core values and principles.
- initiating large-scale change management activities related to technology.
- moving to FSRA's new office space.

External communications

FSRA marked its first anniversary in June 2020 during a time of economic uncertainty due to COVID-19. As an essential workplace, FSRA continued to carry out its regulatory duties, while activating our BCP.

Our communications focus was to provide robust, regular and clear updates on changes to any regulatory requirements related to COVID-19.

Our 2020-2021 achievements included:

- Releasing a scorecard, on our first anniversary date, which showed how we delivered against the first year of our Business Plan (2019-2022).
- Our contact centre went 100% remote and continues to operate at full capacity.
- Securing new technology to enhance the contact centre customer experience.
- Beginning user design work on an enhanced website, based on feedback from our stakeholders.
- Launching internal training on plain language to enhance the FSRA brand voice.

- Launching 15 consultations, making 99 announcements, and handling over 75 media calls.

Analysis of Financial Performance

The following is a comparison of FSRA's 2020-2021 actual results to the 2020-2021 budget and a discussion of our financial position at March 31, 2021 compared to March 31, 2020.

2020-2021 was FSRA's first full operational year as a regulator. Therefore, comparison to the prior year results is not meaningful and has not been presented.

This analysis is intended to provide an overview of our financial activities for the fiscal year and should be read in conjunction with the March 31, 2021 audited financial statements and related notes.

Financial Highlights

(\$ millions)	2021		Fav/(Unfav) Variance	
	Actual	Budget	\$	%
Revenue	\$ 97.7	\$ 99.4	\$ (1.7)	-2%
Expenses, net of recoveries	(94.7)	(99.4)	4.7	5%
Surplus	\$ 3.0	\$ -	\$ 3.0	100%

(\$ millions)	March 31,		Fav/(Unfav) Variance	
	2021	2020	\$	%
Total assets	\$ 123.5	\$ 108.0	\$ 15.5	14%
Total liabilities	\$ 126.0	\$ 113.5	\$ 12.5	11%
Total net deficit	\$ (2.5)	\$ (5.5)	\$ 3.0	55%

- Total revenue for 2020-2021 was \$97.7 million and total expenses (net of recoveries) were \$94.7 million resulting in a surplus for the year of \$3.0 million.
- Revenues were lower than budget as FSRA used its discretion to reduce the 2020-2021 assessments billed to our regulated sectors by \$2.4 million in response to the COVID-19 pandemic. This unfavourable variance was partially offset by higher licensing fee revenue and higher interest income.
- Expenses were lower than budget primarily due to lower salary and benefit costs and lower technology costs. These favourable variances were partially offset by higher than expected costs for professional services and accommodations resulting in an overall favourable variance in expenses of \$4.7 million.
- Total assets and total liabilities at March 31, 2021 were higher than the prior year. The increase in assets was primarily due to higher cash and capital asset balances and the increase in liabilities was primarily due to changes in working capital and an increase in borrowings.
- Total net deficit at March 31, 2021 was \$2.5 million.

Revenue

(\$ millions)	2021		Fav/(Unfav) Variance	
	Actual	Budget	\$	%
Assessments	\$ 72.9	\$ 75.6	\$ (2.7)	-4%
Fees	24.3	23.8	0.5	2%
Interest income	0.5	-	0.5	100%
Total revenue	\$ 97.7	\$ 99.4	\$ (1.7)	-2%

FSRA recovers its costs from the sectors it regulates through a combination of variable assessments and fixed fees. In 2020-2021 total revenue was \$1.7 million or 2% lower than the budget.

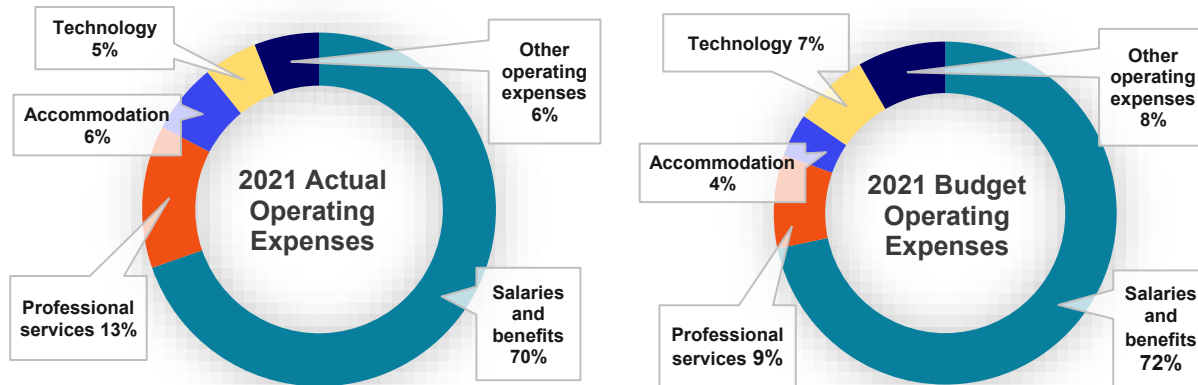
Assessment revenues were lower than budget due to a \$2.4 million reduction in variable assessment billings to ease potential hardship in our regulated sectors caused by COVID-19 and to hold 2020-2021 revenues to the same level as 2019-2020. This variance was funded from the surplus generated in 2019-2020 (refer to the Post Launch Unrestricted Net Deficit discussion on page 46). The budget also includes assessment revenue from the Financial Advisor and Financial Planner sector. Fee rule consultations for this sector are ongoing and as a result no assessment was issued to this sector in 2020-2021.

Fixed fee revenue for 2020-2021 was \$0.5 million higher than budget. Fees from the mortgage broker sector exceeded budget by \$0.9 million as the number of mortgage broker licenses issued in the latter part of the fiscal year were higher than expected. These higher fees were offset by lower fees in the Health Service Provider sector as a number of sector participants departed due to COVID-19.

Interest income represents interest earned on FSRA's cash balances.

Expenses

(\$ millions)	2021		Fav/(Unfav) Variance	
	Actual	Budget	\$	%
Salaries and benefits	\$ 69.3	\$ 73.4	\$ 4.1	6%
Professional services	13.0	9.0	(4.0)	-44%
Accommodation	6.4	4.2	(2.2)	-52%
Technology	4.9	7.3	2.4	33%
Other operating expenses	5.9	8.5	2.6	31%
Total expenses	99.5	102.4	2.9	3%
Less recoveries	(4.8)	(3.0)	1.8	60%
Expenses net of recoveries	\$ 94.7	\$ 99.4	\$ 4.7	5%



The following is a summary of the significant variances between actual and budgeted operating costs. Certain costs were incurred beyond the budget understanding that the 2019-2020 surplus would be available to fund them. Refer to the Post Launch Unrestricted Net Deficit discussion on page 46 for further details.

Salaries and benefit costs represent FSRA's largest expense and were \$4.1 million lower than budget. The favourable variance was primarily due to a lag in recruitment caused by COVID-19 restrictions in the first half of the year and was partially offset by salary and benefit costs incurred in respect of our digital transformation initiative.

Professional services costs were 13% of total expenses in 2020-2021 and were \$4.0 million higher than budget. Approximately \$3.0 million of this unfavourable variance was due to professional services incurred to digitize our document management system in the year. The transition to digitized recordkeeping will lead to back-office efficiencies, enhanced security and will support the digital transformation of our core regulatory systems in the future. Professional service costs also include the service costs for our digital transformation initiative. Digital transformation costs are being spread over five years in the budget but are expensed as incurred in accordance with Public Sector Accounting Standards in our actual results. Budgeted 2020-2021 professional service costs for digital transformation were \$0.9 million and actual costs were \$1.8 million resulting in a \$0.9 million unfavourable variance.

Accommodation costs were \$2.2 million higher than budget as the build-out of our new office facilities at 25 Sheppard were delayed due to COVID-19 restrictions, causing temporary accommodation expenses.

Technology costs were \$2.4 million lower than budget due to lower spending on software purchases and technology support services compared to budget.

Liquidity and Financial Position

(\$ millions)	2021		Fav/(Unfav) Variance	
	Actual	Budget	\$	%
Cash balance at March 31, 2021	\$ 92.0	\$ 21.8	\$ 70.2	322%
Capital asset additions	\$ 10.5	\$ 16.8	\$ (6.3)	-38%
Additional loan advances	\$ 4.5	\$ 4.5	\$ -	0%

FSRA's cash balance at March 31, 2021 was \$92.0 million which was higher than expected when compared to budget. The higher balance was primarily due to higher than expected deferred revenue balances as cash payments for 2021-2022 assessments and fees were received before the start of the next fiscal year. Cash also benefited from changes in other working capital balances and lower cash expenditures on capital investments.

Cash at March 31, 2021 also includes \$2.1 million in funds held by FSRA in its role as a provider of administrative and support services for various organizations. These funds are held in separate bank accounts and are not available for general use (refer to Note 14 to the FSRA financial statements).

Capital asset additions in 2020-2021 were \$6.3 million lower than budget primarily due to delays caused by COVID-19 restrictions in the build-out of the new office facilities. The 2020-2021 budget for the build-out of these facilities was \$15.6 million but only \$9.2 million was spent in the current fiscal year.

The increase in borrowings during the year was consistent with expectations as an additional \$4.5 million was borrowed under FSRA's revolving credit facility (refer to Note 9 to the FSRA financial statements). Up to \$3.0 million is available under this facility to finance operating and capital investments in 2021-2022.

FSRA's financial position continues to remain strong. FSRA ended 2020-2021 with \$92.0 million in cash, against current liabilities of \$68.1 million, and available loan facilities of \$3.0 million to fund operations and expenditures for the next fiscal year. The organization will continue to monitor its financial situation closely and will adjust operations as needed to prudently manage costs and expenditures in the next fiscal period.

Post Launch Unrestricted Net Deficit

FSRA generated a \$23.3 million deficit prior to its operational launch on June 8, 2019. From June 8, 2019 to March 31, 2020, a surplus (excess revenues over expenses) of \$17.8 million was generated. \$5.0 million of this surplus was set aside as an internally restricted operating reserve which may be used to fund FSRA's operations in the event of revenue shortfalls or for sector wide capital expenditures.

In 2020-2021, \$6.2 million of the post launch surplus was approved to fund projects and initiatives carried over from 2019-2020 (\$2.6 million), temporary office accommodations required because of the delay in completion of our new offices at 25 Sheppard (\$1.2 million) and the reduction in the 2020-2021 sector assessment (\$2.4 million).

A further \$3.0 million surplus was generated in 2020-2021.

The unrestricted net deficit at March 31, 2021 is \$7.5 million and is summarized in the following table.

(\$ millions)	
Unrestricted net deficit at June 7, 2019	\$ (23.3)
Excess revenue over expenses - June 8, 2019 to March 31, 2020	17.8
Less: Internally restricted operating reserve	(5.0)
Unrestricted net deficit at March 31, 2020	(10.5)
2020-2021 Change:	
Excess revenue over expenses before surplus spending	9.2
Approved surplus spending	(6.2)
Excess revenue over expenses	3.0
Unrestricted net deficit at March 31, 2021	\$ (7.5)

2021-2022 Budget

(\$ millions)	2022		2021		Increase/(Decrease)	
	Budget	Actual			\$	%
Revenue	\$ 100.1	\$ 97.7	\$ 2.4	2%		
Expenses, net of recoveries	(104.0)	(94.7)	9.3	9%		
Surplus / (Deficit)	\$ (3.9)	\$ 3.0	\$ (6.9)	-177%		

Total sector revenues are budgeted to increase by \$2.4 million or 2% over actual revenues from 2020-2021.

Proposed expenses, net of recoveries, for 2021-2022 are \$104.0 million or \$9.3 million higher than actual expenses in 2020-2021. This increase is primarily driven by anticipated additional investments in human capital and other resources which will support FSRA's commitment to improve regulation across the sectors. 2021-2022 expenses also include additional costs for the digital transformation initiative and additional amortization costs due to the commencement of leasehold improvement amortization at the 25 Sheppard facility.

The 2021-2022 budgeted shortfall between revenue and expenses of \$3.9 million will be funded from the post launch surplus (refer to Post Launch Unrestricted Net Deficit discussion on page 46).

Initiatives Involving Third Parties

As noted in FSRA's statutory objects and priorities, greater cooperation and collaboration with other regulators will lead to opportunities for regulatory coordination, harmonization and convergence. To promote a dialogue on harmonized approaches to regulatory issues in the areas it regulates, FSRA is a participating member of the following forums:

- Canadian Association of Pension Supervisory Authorities (CAPSA)
- Canadian Automobile Insurance Rate Regulators (CARR)
- Canadian Council of Insurance Regulators (CCIR)
- Canadian Insurance Services Regulatory Organizations (CISRO)
- Credit Union Prudential Supervisors Association (CUPSA)
- General Insurance Statistical Agency (GISA)
- Global Financial Innovation Network (GFIN)
- International Association of Insurance Supervisors (IAIS)
- International Financial Consumer Protection Organisation (FinCoNet)
- Joint Forum of Financial Market Regulators
- Mortgage Broker Regulators' Council of Canada (MBRCC)

2020-2021 Highlights

As participant of these forums, FSRA worked with other regulators on policies and rules that:

- Supported industry strength and stability across participating jurisdictions.
- Enhanced regulatory cooperation and reduced redundancies.
- Developed rules that are integrated and more effective in achieving consumer protection public policy outcomes.
- Promoted innovation and economic growth, by encouraging new business models that support changing consumer preferences, technology changes, and new entrants to the Ontario market.
- Enhanced the protection of consumers of financial products and services, and the effective implementation of financial consumer protection frameworks, by promoting robust and effective supervisory standards.

FSRA's National Regulatory Coordination Branch supported these outcomes by:

- Providing secretariat services to CAPSA, CCIR, CISRO, GISA and MBRCC.
- Collaborating with the secretariat of the Canadian Securities Administrators on the activities of the Joint Forum of Financial Market Regulators.

CAPSA, CCIR, CISRO, CUPSA and MBRCC provided important forums for regulators to engage with each other and with industry to respond to the COVID-19 pandemic.

Through these bodies, FSRA engaged in several initiatives with third parties. That including the following three examples:

CCIR Annual Statement on Market Conduct (ASMC) Database

The CCIR introduced the ASMC in 2017 to collect information from insurers across Canada related to their governance, practices, policies and treatment of customers. The requirement to complete and file the ASMC is based on the authority of each provincial and territorial insurance regulator within their jurisdiction. The information collected has facilitated a better understanding of the market for regulators. It has also assisted in proactively identifying potential risks to ensure insurance customers are being treated fairly.

CCIR/CISRO Canadian Insurance Regulators Disciplinary Actions (CIRDA) Database

The CIRDA is a searchable database of published insurance disciplinary decisions in Canada. A public website enables consumers and regulators to search individuals and firms that have been subject to enforcement action by insurance regulators in Canada, including FSRA.

FSRA/Canada Revenue Agency (CRA) Pension Plan Joint Filing Agreement

This agreement between FSRA and the CRA reduces regulatory burden to pension plan administrators by supporting a single annual pension plan filing. The filing meets the information needs of both agencies. The information is captured in the AIR, most notably in Schedule A.

Response to Expectations Set Out in Agency Mandate

In 2020-2021, FSRA was committed to working closely with the Ministry of Finance on the planning and implementation of the transition of regulatory functions from current agencies, and to establishing and nurturing a high-performing, effective organization to deliver on its ambitious transformation plans.

FSRA's management and staff continued to focus on Board established goals, objectives, and a strategic direction consistent with FSRA's mandate, government priorities, and directions from the Minister of Finance made in accordance with the legislative framework. Pursuant to the *Financial Services Regulatory Authority of Ontario Act*, FSRA's mandate includes fostering strong, sustainable, competitive, and innovative financial services sectors, and protecting the rights and interests of consumers and pension plan beneficiaries, as well as promoting stability, high standards of business conduct. FSRA further understands, the government's commitment to finding more effective and efficient ways of delivering regulatory services to reduce red tape and regulatory burden.

In keeping with these commitments, FSRA continued to implement the priorities identified in its previous business plan by:

1. Contributing to government-wide burden reduction goals by:
 - Continuing to review inherited guidance and data filing requirements on an ongoing basis based on stakeholder consultations and FSRA's guidance framework;
 - Conducting a thorough cost-benefit analysis when developing rules, and/or other regulatory requirements; and
 - Working with stakeholders to identify innovative, principles-based approaches to regulation that will reduce regulatory burden while protecting consumers.
2. Improving regulatory effectiveness by:
 - Finding efficiencies and implementing modern processes and systems;
 - Enhancing FSRA's regulatory expertise, stakeholder collaboration (including collaboration with other regulators), and transparency; and
 - Implementing meaningful service standards and performance measures and adopting a culture of continuous improvement
3. Supporting current and future government reform initiatives for Ontario's financial services and pension sectors, including, but not limited to:
 - Implementing a blueprint for Ontario's auto insurance system, including by supporting innovative business models, pricing structures and technologies;
 - Continuing to develop and implement a framework as part of the Financial

Title Protections Act, 2019;

- Implementing recommendations stemming from legislative reviews of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA), the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA), and the Co-operative Corporations Act; and
- Facilitating the stakeholder engagement process through the creation of TACs intended to assist with the development of better processes, guidance and approaches to regulation, such as those created for the pension sector.

Information Technology and Electronic Service Delivery Plan

FSRA is continuing to strengthen its core information technology (IT) capabilities and build modern, secure and flexible technology platforms that will allow FSRA to be more responsive and more adaptable to changing regulatory needs. Building on the IT foundations established in 2019-2020 (e.g., secure and stable data centre; efficient and effective back-office systems; IT workforce made up of previous regulatory body's staff; cybersecurity roadmap; and core regulatory digital transformation blueprint), FSRA expanded on the foundations in 2020-2021.

FSRA has added collaboration and productivity technologies this year, including M365, Contact Centre and Telephony. FSRA digitized or archived all the paper-based documents from several storage rooms. The organization has made major progress towards paperless processing of licence applications. FSRA continues to develop foundational, enterprise-wide components and capabilities to upcoming support sector-specific implementations. FSRA launched data analytics activities in multiple regulated sectors to empower FSRA policy and supervisory activities.

In January 2020, FSRA launched activities to modernize core regulatory processes and systems. The digital transformation blueprint developed in 2019 guides the launch. The roadmap's focus includes:

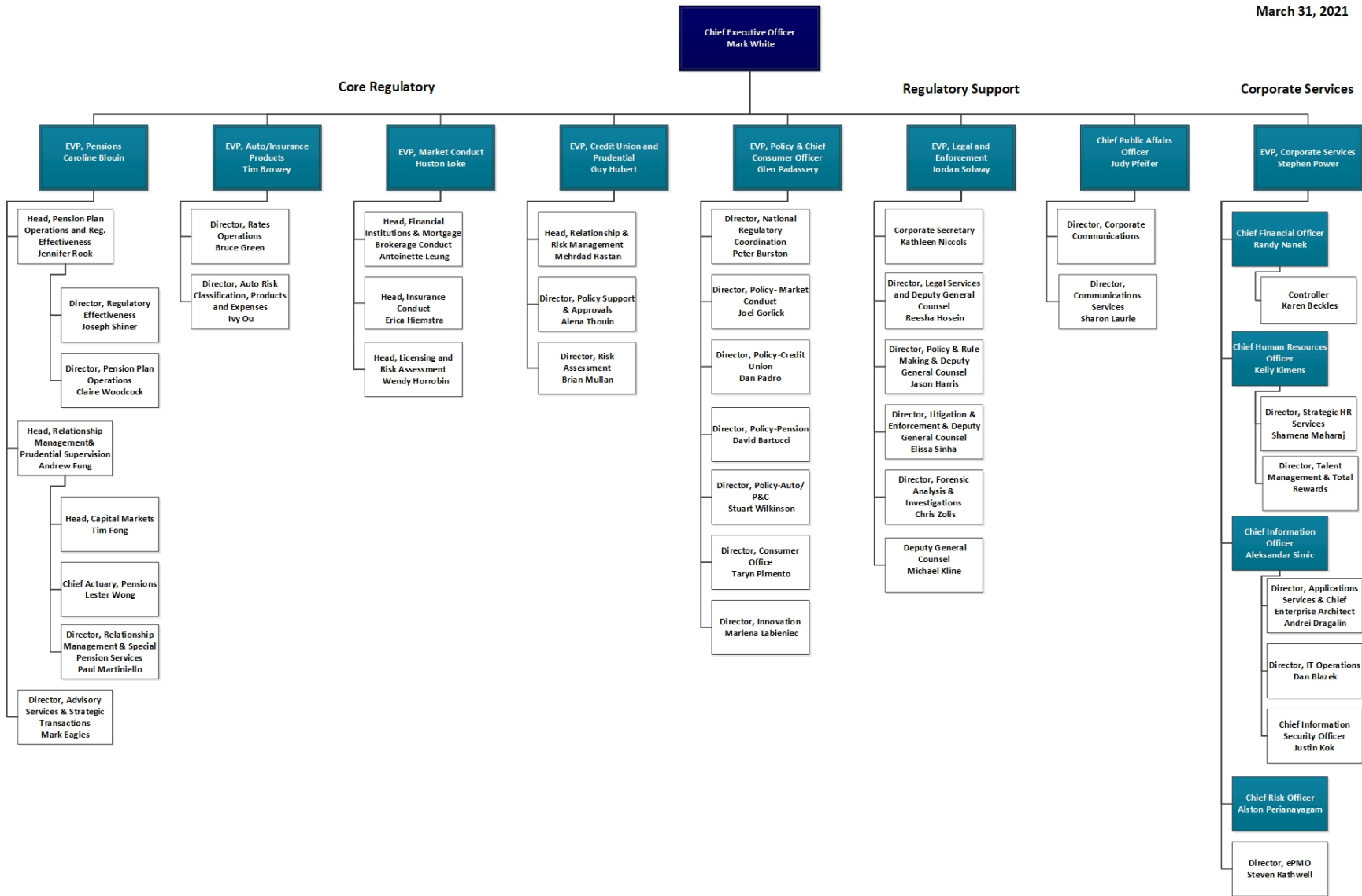
- Procuring and onboarding key applications and technology platforms.
- Aligning the IT operation model.
- Building foundational technology and data components.

Achieving fully digital, integrated, and flexible technology and process is a multi-year journey. FSRA is following a detailed stakeholder engagement strategy. It includes consultation and collaborates with sectors on key decisions and priorities. The goal is to increase regulatory effectiveness and reduce regulatory burden for sectors.

FSRA implemented a cybersecurity program, which was driven, measured and based on the National Institute of Standards and Technology (NIST) Cybersecurity Framework. The goal is to strengthen FSRA's overall cybersecurity position. FSRA continues to deploy new cybersecurity capabilities and is modernizing existing ones using a risk-based approach. FSRA is evolving practices and functions in the areas of cybersecurity governance, risk management, vulnerability management, incident response, and operations. This supports business operations of all sectors. FSRA will manage cybersecurity risk according to the cybersecurity program's risk tolerances to maintain consumer confidence.

Appendix A: Organization Structure

March 31, 2021



Appendix B: Credit Union Regulatory Activities

Summary of Credit Union Regulatory Activities*						
Category	2020-21	2019-20	2018	2017	2016	2015
Applications	25	16	23	7	16	9
Variations, Exemptions & Extensions	15	11	3	0	1	0
Orders	0	0	2	3	3	0
Administrative Penalties	0	0	0	0	0	0
Certificates and other requests**	112	140	112	n/a	n/a	n/a
Total	152	167	140	10	20	9

**Data for 2020-21 includes all transactions up until March 31, 2021*

***Includes certificates of status, mortgage discharges, acknowledgement of receipt of bylaws and revised certificates of amalgamation*

Appendix C: Market Conduct Statistics

Market Conduct Complaints Comparison of Fiscal 2019-2020 against Fiscal 2020-2021

Complaint Type	F19-20		F20-21		FY over FY Change	
	(N)	(%)*	(N)	(%)*	(N)	(%)
Insurance - Property and Casualty**	323	39.5%	467	41.4%	+144	+1.9%
Mortgage Brokers	295	36.1%	347	30.7%	+52	-5.4%
Insurance - Life and Health	147	18.0%	203	18.0%	+56	--
Insurance - Investments	12	1.5%	13	1.2%	+1	-0.3%
Credit Unions	22	2.7%	74	6.6%	+52	+3.9%
Other	11	1.3%	15	1.3%	+4	--
Co-operatives	1	0.1%	2	0.2%	+1	+0.1%
Loan & Trust	7	0.9%	8	0.7%	+1	-0.2%
Total	817	100%	1129	100%	+312	

*Percentages may not add to 100 due to rounding

** Includes health service provider and auto insurance complaints
Fiscal is April 1 to March 31

**Enforcement actions FSRA took against non-compliant licensees from
April 1, 2020 to March 31, 2021**

	Warning Notices	Caution Letters	Warning Letters	Compliance Order Including Cease and Desist Orders	Licence Suspensions*	Licence revocations	Amending Licence	Conditions on Licence	Vary and Withdraw AMP	Licence refusal/denials	Administrative Monetary Penalties Orders
Service Providers	0	1	15	0	0	0	0	0	0	0	0
Mortgage Brokering	4	38	53	0	0	2	1	0	0	3	19
Insurance Sector (life insurance agents; property and casualty; life and health)	0	71	219	0	3	0	0	1	1	2	4
Credit Unions / Caisse Populaires	0	0	0	0	0	0	0	0	0	0	0
Pensions	0	0	0	0	0	0	0	0	0	0	0
Total	4	110	287	1	3	2	1	1	1	5	23

*Includes interim suspensions

Administrative Monetary Penalties F2019-2020 and F2020-2021

	F19-20 Administrative Monetary Penalties (\$)	F20-21 Administrative Monetary Penalties (\$)	\$ Change
Service Providers	\$2,500	\$0	-\$2,500
Mortgage Brokering	\$106,000	\$448,500	+342,500
Insurance Sector (life insurance agents; property and casualty; life and health)	\$9,000	\$13,000	+4,000
Credit Unions / Caisse Populaires	\$0	\$0	0
Pensions	\$0	\$0	0
Total	\$117,500	\$461,500	\$344,000

Appendix D: Pensions Statistics

Key Applications and Inquiries (totals as at March 1, 2021)

Transaction	Total Received in 2020-2021*
Applications	
Transfer of Commuted Value	270 (900%+)
DB Asset Transfer	14 (83%-)
DC Asset Transfer	46 (26%-)
DB Wind Up (Full)	106 (26%-)
DC Wind Up (Full)	88 (10%+)
Inquiries	
General Inquiries	1480 (57%-)
Plan Specific Inquiries - Industry	1608 (58%+)
Plan Specific Inquiries - Member	756 (56%+)
Member Complaints	
Non-Compliance with Legislation/Policy	43 (378%+)
Benefit Calculation/ Commuted Value	38 (65%+)
Non-Compliance with Plan Provisions	14 (56%+)
Reciprocal Transfer Agreement	5 (67%+)

*(% +/-) comparative against F2019-2020

Statutory Filings (totals as at March 1, 2021)

Statutory Filing	2019-2020 %	2020-2021%
Annual Information Return (AIR): Defined Benefit Pension Plans	99.7%	98.3%
Annual Information Return (AIR): Defined Contribution Pension Plans	96.8%	92.5%
Pension Benefits Guarantee Fund (PBGF) Certificate: Defined Benefit Pension Plans	98.3%	98.8%
Financial Statements (FS): Defined Benefit Pension Plans	99.5%	98.5%
Investment Information Summary (IIS): Defined Benefit Pension Plans	99.2%	97.8%
Financial Statements (FS): Defined Contribution Pension Plans	95.1%	88.4%
Actuarial Reports (AR) accompanied by an Actuarial Information Summary (AIS): Defined Benefit Pension Plans	100%	98.8%
Statement of Investment Policies and Procedures (SIPP) accompanied by a SIPP Information Summary: Defined Benefit Pension Plans	96.8%	98.4%
Statement of Investment Policies and Procedures (SIPP) accompanied by a SIPP Information Summary: Defined Contribution Pension Plans	92.9%	90.6%

Appendix E: Contact Centre Statistics

FSRA Contact Centre Inquires 2020/2021

Inquiry Type	Number	% by Type
Licensing (Insurance, Mortgage Brokering, Service Provider)	25,326	63%
Pension	5,321	13%
Insurance (Auto Insurance and all Other)	2,771	7%
Compliance	3,481	9%
Other (Credit Unions/Caisse Populaires, Co-operatives, Loan and Trust, all Other)	3,188	8%
Total:	40,087	100%

Note: the FSRA Contact Centre was working remotely due to COVID with limited reporting capabilities which resulted in the change in reporting from previous years.

**FINANCIAL SERVICES REGULATORY AUTHORITY
OF ONTARIO**

FINANCIAL STATEMENTS FOR THE YEAR ENDING MARCH 31, 2021



Management's Responsibility for Financial Information

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. 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.

The 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 have been reviewed by the audit and finance committee and approved 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 follows.

Handwritten signature of Mark White in black ink.

Mark White
Chief Executive Officer

Handwritten signature of Stephen Power in black ink.

Stephen Power
Executive Vice President - Corporate Services

Handwritten signature of Randy Nanek in black ink.

Randy Nanek
Chief Financial Officer



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

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, 2021, 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, 2021 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.

Other Matters

On June 24, 2021, the Authority, as administrator of PACE Savings and Credit Union Limited (PACE), entered into a confidential settlement of claims by investors in preferred shares that were distributed by PACE's subsidiaries and an unaffiliated entity. The settlement agreement is subject to court approval. The Authority, through the Deposit Insurance Reserve Fund, has agreed to guarantee the portion of the settlement attributable to PACE, as described in note 9 to the Deposit Insurance Reserve Fund's March 31, 2021 financial statements.

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

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ats 416-327-6123

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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 29, 2021

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

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

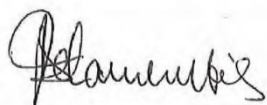
Statement of Financial Position As at March 31, 2021

(\$000)	Note(s)	March 31, 2021	March 31, 2020
ASSETS			
Current			
Cash	3	\$ 92,045	\$ 86,416
Trade and other receivables	4	13,982	12,912
Prepaid expenses		<u>2,352</u>	<u>1,959</u>
Total current assets		108,379	101,287
Capital assets	5	<u>15,145</u>	<u>6,697</u>
Total assets		<u>\$ 123,524</u>	<u>\$ 107,984</u>
LIABILITIES			
Current			
Trade and other payables	6	\$ 44,045	\$ 40,299
Deferred revenue	8	20,701	17,551
Loan payable	9	<u>3,356</u>	<u>2,996</u>
Total current liabilities		68,102	60,846
Loan payable	9	46,315	43,910
Employee future benefits	11	4,903	5,993
Deferred lease inducements	7	3,236	-
Deferred revenue	8	2,046	1,293
Other long term obligations		<u>1,427</u>	<u>1,429</u>
Total liabilities		<u>126,029</u>	<u>113,471</u>
NET ASSETS / (DEFICIT)			
Internally restricted net assets	12	5,000	5,000
Unrestricted net deficit		<u>(7,505)</u>	<u>(10,487)</u>
Total net deficit		<u>(2,505)</u>	<u>(5,487)</u>
Total liabilities and net deficit		<u>\$ 123,524</u>	<u>\$ 107,984</u>

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, 2021

(\$000)	Note(s)	March 31, 2021	March 31, 2020 (Note 18(b))
Revenue			
Assessments		\$ 72,928	\$ 60,710
Fees		24,191	16,803
Interest income		538	757
	22	<u>97,657</u>	<u>78,270</u>
Expenses			
Salaries and benefits	11, 13	69,267	46,935
Professional services		13,031	10,519
Accommodation		6,398	5,322
Technology		4,881	3,439
Staff development		1,106	646
Amortization		1,917	1,381
Interest expense		1,260	969
Other operating expenses		1,647	1,296
		<u>99,507</u>	<u>70,507</u>
Less: Recoveries	14	<u>(4,832)</u>	<u>(3,749)</u>
		<u>94,675</u>	<u>66,758</u>
Restructuring Transactions			
Gain on restructuring	18(a)	<u>-</u>	<u>797</u>
		<u>-</u>	<u>797</u>
Excess of revenue over expenses		<u>\$ 2,982</u>	<u>\$ 12,309</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, 2021**

(\$000)	Note(s)	Internally Restricted Net Assets	Unrestricted Net Deficit	March 31, 2021 Total	March 31, 2020 Total
Net assets / (deficit), beginning of year		\$ 5,000	\$ (10,487)	\$ (5,487)	\$ (17,796)
Excess of revenues over expenses	12	-	2,982	2,982	12,309
Net assets / (deficit), end of year		<u>\$ 5,000</u>	<u>\$ (7,505)</u>	<u>\$ (2,505)</u>	<u>\$ (5,487)</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Statement of Cash Flows For the year ended March 31, 2021

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Cash flows from / (used in) operating activities:			
Excess of revenue over expenses		\$ 2,982	\$ 12,309
Adjustments for non-cash expense items:			
Amortization of capital assets		1,917	1,381
Amortization of deferred lease inducements	7	254	134
Loss on disposal of capital assets		132	-
Interest expense		1,260	969
Adjustment to adopt Public Sector Accounting Standards	18(a)	-	374
		<u>6,545</u>	<u>15,167</u>
Changes in non-cash working capital:			
Trade and other receivables		(1,070)	(12,237)
Prepaid expenses		(393)	(541)
Trade and other payables		(4,576)	35,822
Deferred revenue		3,903	18,431
Employee future benefits	11, 18(a)	(1,090)	5,619
Deferred lease inducements	7	3,236	-
Other long term obligations		<u>(2)</u>	<u>1,429</u>
		6,553	63,690
Cash flows used in capital activities:			
Purchase of capital assets		<u>(2,429)</u>	<u>(5,138)</u>
		(2,429)	(5,138)
Cash flows from / (used in) financing activities:			
Proceeds from loan advances	9	4,500	6,853
Repayment of loan principal and interest		<u>(2,995)</u>	<u>(1,323)</u>
		1,505	5,530
Net increase / (decrease) in cash position		5,629	64,082
Cash, beginning of year		<u>86,416</u>	<u>22,334</u>
Cash, end of year	3	<u>\$ 92,045</u>	<u>\$ 86,416</u>
Supplemental cash flow information			
Capital assets funded by Trade and other payables		<u>\$ 8,068</u>	<u>\$ 1,118</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, 2021 (\$000)

1. DESCRIPTION OF THE ORGANIZATION

The Financial Services Regulatory Authority of Ontario (FSRA or the Authority) 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 provisions of the regulated sector statutes, the Authority assumed substantially all of the regulatory authorities and responsibilities of FSCO and DICO effective June 8, 2019. The transition involved the transfer of certain assets, liabilities and contractual obligations from FSCO to FSRA pursuant to a Minister's transfer Order, the amalgamation of FSRA and DICO, and the transfer of FSCO employees to FSRA.

FSRA regulates sectors subject to the following statutes:

- Insurance Act;
- Compulsory Automobile Insurance Act;
- Prepaid Hospital and Medical Services Act;
- Auto Insurance Rate Stabilization Act, 2003;
- Co-operative Corporations Act;
- Credit Unions and Caisses Populaires Act, 1994;
- Loan and Trust Corporations Act, Mortgage Brokerages;
- Mortgage Brokerages, Lenders and Administrators Act, 2006;
- Pension Benefits Act; and
- Financial Professionals Title Protection Act, 2019 (currently unproclaimed).

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

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared 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 and notes are summarized below.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

(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 are recognized as revenue in the year to which they pertain.

Interest income is recognized as earned.

(b) Capital Assets

Capital assets are recorded at cost less accumulated amortization and accumulated impairment losses, if any.

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
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.

Trade and other receivables, trade and other payables, 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.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

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 is paid by the Government of Ontario and is not included in these financial statements.

DICO Non-Pension Post-Employment Benefits

FSRA provides future non-pension post-employment benefits to provide extended health, dental and life benefits to former employees and retirees of DICO 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 beginning in the fiscal year following the related actuarial valuation.

Use of Estimates

In preparing the financial statements, management is required to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, revenue, expenses and disclosure of contingent liabilities at the date of the financial statements. Actual amounts could differ from these estimates.

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 sector organizations' ability to pay their assessments. Note 20 expands on the potential effects of COVID-19 in subsequent financial periods.

3. CASH

Cash includes \$2,161 (2020 - \$93) in funds held in the Authority'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.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

4. TRADE AND OTHER RECEIVABLES

(\$000)	Notes	March 31, 2021	March 31, 2020
Trade and accrued receivables		\$ 8,497	\$ 10,108
HST recoverable		4,240	1,410
Due from Ministries of the Province of Ontario	15(a)	1,245	718
Due from the Pension Benefit Guarantee Fund	15(b)	-	676
		<u>\$ 13,982</u>	<u>\$ 12,912</u>

5. CAPITAL ASSETS

Capital assets consist of the following:

(\$000)	March 31, 2021			March 31, 2020
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Software	\$ 4,874	\$ 2,017	\$ 2,857	\$ 3,791
Computer hardware	3,395	1,311	2,084	1,831
Leasehold improvements	3,136	93	3,043	16
Office furniture and equipment	-	-	-	4
Construction in progress	7,161	-	7,161	1,055
	<u>\$ 18,566</u>	<u>\$ 3,421</u>	<u>\$ 15,145</u>	<u>\$ 6,697</u>

Construction in progress represents capital expenditures for leasehold improvements at FSRA's new premises 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 for FSRA's new premises at 25 Sheppard Avenue West are amortized over an initial term of 10 years.

6. TRADE AND OTHER PAYABLES

(\$000)	Notes	March 31, 2021	March 31, 2020
Accounts payable and accruals		\$ 17,534	\$ 13,979
Due to Ministries of the Province of Ontario	15(a)	14,931	23,927
Due to Infrastructure Ontario	15(c)	9,186	1,055
Current portion of employee benefits	11(b)	1,925	476
Current portion of deferred lease inducements	7	377	97
Due to Deposit Insurance Reserve Fund	15(b)	92	765
		<u>\$ 44,045</u>	<u>\$ 40,299</u>

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

7. DEFERRED LEASE INDUCEMENTS

On June 8, 2019 FSRA assumed a deferred lease inducement related to FSCO's offices as part of the restructuring transaction described in Note 18(a). This inducement was fully amortized in the current year. FSRA then entered into a lease agreement for new office space at 25 Sheppard Avenue West, which commenced on November 1, 2020 and expires on October 31, 2030.

The new lease included a \$3,099 allowance for renovations and a four-month rent free period valued at \$671. Both amounts have been set-up as deferred lease inducements and are being amortized over the term of the lease. Total amortized lease inducements of \$254 (2020 - \$134) were recorded as a reduction of accommodation expense during the year.

(\$000)	Notes	March 31, 2021	March 31, 2020
Balance, beginning of year		\$ 97	\$ -
Additions during the year		3,770	231
Amortization to expense		(254)	(134)
Balance, end of year		<u>3,613</u>	<u>97</u>
Less: Current portion	6	<u>(377)</u>	<u>(97)</u>
		<u>\$ 3,236</u>	<u>\$ -</u>

8. DEFERRED REVENUE

Deferred revenue represents payments received for fees that cover more than the current fiscal year or that relate to the next fiscal year. The deferred portion is recognized as revenue in the fiscal year to which they pertain or in the fiscal year that the associated operating costs are incurred. Changes in the deferred revenue balances during the current year are summarized as follows:

(\$000)	Balance, beginning of year	Received during year	Recognized during year	Balance, end of year
Insurance agents, adjusters and corporations	\$ 6,017	\$ 7,579	\$ (6,415)	\$ 7,181
Mortgage brokers	8,880	19,500	(15,037)	13,343
Credit unions and caisse populaires	168	-	(168)	-
Health service providers	1,582	2,047	(3,617)	12
Other	2,197	2,571	(2,557)	2,211
	<u>\$ 18,844</u>	<u>\$ 31,697</u>	<u>\$ (27,794)</u>	<u>\$ 22,747</u>

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

Deferred revenue has been separated into a current portion of \$20,701 (2020 - \$17,551) and long-term portion of \$2,046 (2020 - \$1, 293) totaling \$22,747 (2020 - \$18,844).

9. LOAN AGREEMENT

In August 2019 FSRA entered into an Amended and Restated Loan Agreement with Her Majesty the Queen for a maximum principal amount of \$60.0 million.

The agreement includes four short-term non-revolving facilities (Facility 1, 2, 3 and 4) and four long-term loans (Term loan 1, 2, 3 and 4). The term loans are advanced as the non-revolving facilities come due and are equal to the principal and accrued interest balance of the non-revolving loans at their repayment dates. The maximum principal amount available for Facility 1 is \$40.0 million, for Facility 2 is \$12.5 million, for Facility 3 is \$4.5 million and for Facility 4 is \$3.0 million.

Facility 1 was fully drawn and replaced with Term loan 1 in 2019. Term loan 1 matures on August 29, 2039, bears interest at 2.71% per annum and is repayable in equal quarterly installments. Interest expense and loan principal and interest repayments on Term loan 1 were \$1,070 (2020 - \$969) and \$2,645 (2020 - \$1,323) respectively for the year. The balance outstanding on Term loan 1 at March 31, 2021 was \$38,478 (2020 - \$40,053).

On March 31, 2020, FSRA drew \$6,853 million from Facility 2 and the undrawn balance of the Facility expired. Facility 2 was replaced with Term loan 2 on April 1, 2020. Term loan 2 matures on April 1, 2039, bears interest at 2.81% per annum and is repayable in equal quarterly installments. Interest expense and loan principal and interest repayments on Term loan 2 were \$190 (2020 - \$nil) and \$350 (2020 - \$nil) respectively for the year. The balance outstanding on Term loan 2 at March 31, 2021 was \$6,693 (2020 - \$6,853).

On March 31, 2021, FSRA drew \$4,500 under Facility 3. Facility 3 will be repaid on April 1, 2021 with proceeds from Term loan 3 which was advanced on April 1, 2021. Term loan 3 will also mature on April 1, 2039 and will bear interest at 2.99% per annum. The loan is repayable in equal quarterly installments beginning July 2, 2021.

Up to \$3,000 may be drawn under Facility 4 from April 1, 2021 to March 31, 2022.

10. CREDIT FACILITY AGREEMENT

On December 18, 2020 FSRA entered into a credit facility agreement with the Ontario Financing Authority. The facility was established for the purpose of mitigating any potential future liquidity risk in the Ontario credit union sector, including situations where one or more credit unions may require financial support beyond the support available from the Deposit Insurance Reserve Fund (the DIRF). The agreement includes a non-revolving facility with a maximum principal amount of \$2.0 billion and a six-year long-term loan.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

The non-revolving facility expires on December 18, 2021 but may be extended by up to 24 months. Any undrawn balance at the end of its term will expire. Interest on the non-revolving facility will accrue daily on the outstanding amount at a rate equal to the three-month Ontario Treasury Bill rate plus 0.782 percentage points, compounded quarterly.

The six-year term loan will be advanced as the non-revolving facility comes due and will be equal to the principal and accrued interest balance of the non-revolving facility at its repayment date. Interest on the six-year term loan will accrue daily at a rate equal to the Province of Ontario's cost of funds for a six-year amortizing bond plus 0.782 percentage points, compounded semi-annually.

No amounts have been drawn under this facility.

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 \$4,483 (2020 - \$2,908), which is included in salaries and benefits in the Statement of Operations.

(b) Employee Future Benefits

(\$000)	Notes	March 31, 2021	March 31, 2020
DICO non-pension post employment benefits		\$ 3,292	\$ 3,619
Legislated severance entitlements		2,684	1,910
DICO supplemental pension benefits		735	842
Other employee future benefits		117	98
Total employee future benefit liability		6,828	6,469
Less: Due within one year	6	(1,925)	(476)
		<u>\$ 4,903</u>	<u>\$ 5,993</u>

(i) DICO Non-Pension Post-Employment Benefits

Following the restructuring transactions described in Note 18(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 \$195 (2020 - \$146). The plan is unfunded and requires no contributions from employees.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

The retirement benefit liability at March 31, 2021 includes the following components:

(\$000)	March 31, 2021	March 31, 2020
Accrued benefit obligation	\$ 2,105	\$ 3,305
Unamortized actuarial gains	1,187	314
Retirement benefit liability	<u>\$ 3,292</u>	<u>\$ 3,619</u>

The most recent actuarial report was prepared at March 31, 2021. Unamortized actuarial gains are amortized on a straight-line basis over the expected average remaining service of the related employee group which is 0.25 years (2020 – 1.25 years), as former DICO employees retiring after June 8, 2021 will not be eligible for benefits under this arrangement.

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 2.99% (2020 - 2.71%).

The total gain or expense related to retirement benefits other than pensions includes the following components:

(\$000)	March 31, 2021	March 31, 2020
Current period benefit cost	\$ 29	\$ 28
Amortization of actuarial gains	(251)	-
Interest expense	89	60
Retirement benefit (gain) / expense	<u>\$ (133)</u>	<u>\$ 88</u>

These amounts have been included in salaries and benefits in the Statement of Operations.

(ii) *Legislated Severance*

The legislative severance portion of the employee future benefits obligation was calculated using a discount rate of 2.99% (2020 - 2.71%) and estimated average years to retirement of 11.4 years (2020 - 10.5 years). These assumptions are management's best estimates.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

A charge to expenses of \$796 (2020 – credit to expenses of \$5) was recognized in relation to legislated severance and is included in salaries and benefits in the Statement of Operations. The expense in the current fiscal year includes a one-time charge for the expected settlement of a union grievance filed against the Crown in the Right of Ontario as represented by Treasury Board Secretariat. This charge is offset by a recovery from the Province as described in note 15(a)(ix).

(iii) DICO Supplemental Pension Benefits

Following the restructuring transactions described in Note 18(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 \$6 (2020 - \$17) 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.

(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 \$20 (2020 - \$12) and is included in salaries and benefits in the Statement of Operations.

12. INTERNALLY RESTRICTED NET ASSETS

In accordance with FSRA Rule 2019-001 Assessments and Fees, FSRA has established a \$5.0 million (2020 - \$5.0 million) 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 \$350 (2020- \$231). During the year, the number of board members increased from seven in the prior year to ten by March 31, 2021.

14. RECOVERIES

FSRA provides administrative and other support services to a number of government and non-government 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. In the current fiscal year FSRA also recovered the costs it incurred

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

on behalf of a credit union under administration as permitted by section 295.1 of the *Credit Union and Caisses Populaires Act 1994*.

Details of these recoveries are as follows:

(\$000)	Notes	March 31, 2021	March 31, 2020
General Insurance Statistical Agency		\$ 890	\$ 483
Canadian Association of Pension Supervisory Authorities		354	232
Canadian Council of Insurance Regulators		417	303
Canadian Insurance Services Regulatory Organization		188	121
Mortgage Broker Regulators' Council of Canada		189	180
Credit union under administration		191	-
Province of Ontario legislated severance settlement	15(a)	1,000	-
Province of Ontario lease payments	15(a)	-	979
Province of Ontario co-operative offering statements program	15(a)	182	88
Motor Vehicle Accident Claims Fund	15(a)	398	611
Financial Services Tribunal	15(a)	99	76
Pension Benefits Guarantee Fund	15(b)	924	676
		<u>\$4,832</u>	<u>\$ 3,749</u>

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

FSRA entered into the following transactions with the various Ministries of the Province of Ontario:

- (i) In fiscal 2019-2020 FSRA received \$27,373 from the Ministry of Finance under an Asset and Liability Transfer Agreement related to the restructuring transactions described in Note 18(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

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

in respect of this transactions is \$5,760. During the year, \$10,783 of the excess payment was settled with the Ministry of Finance. The balance of the excess payment of \$10,829 (2020 - \$21,613) is included in trade and other payables in the Statement of Financial Position.

- (ii) In March 2021 FRSA received a \$2,266 (2020 - \$3,944) assessment invoice from 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 2021-2022 assessments. The amount has been included in trade and other receivables in the Statement of Financial Position at March 31, 2021.

- (iii) Employees from the Ontario Public Sector were seconded to FSRA to support its start-up and IT activities. During the year, FSRA expensed \$nil (2020 - \$171) as salary and benefit costs and \$807 (2020 - \$1,380) as services costs in connection with these seconded employees.
- (iv) 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 \$681 (2020 - \$671) have been included in technology costs in the Statement of Operations.
- (v) On July 1, 2018, FSRA assumed the lease for 5160 Yonge Street from the Financial Services Commission of Ontario. During the 2019-2020 fiscal year the Province paid FSRA \$979 in respect of this lease which was included as recoveries in the Statement of Operations. No such payments were received in the current fiscal year.
- (vi) 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 include \$245 (2020 - \$718) in respect of these services.
- (vii) Collected administrative monetary penalties on behalf of the Ministry of Finance. At March 31, 2021 \$494 (2020 - \$nil) was included in trade and other payable in respect of money collected but not yet remitted to the Ministry of Finance.
- (viii) Borrowed an additional \$4,500 (2020 - \$6,853) under the Loan Agreement with the Ministry of Finance described in Note 9. During the year total interest expense for borrowings under this agreement was of \$1,260 (2020 - \$969).
- (ix) Recognized a \$1,000 (2020 - \$nil) recovery under an agreement with the Ministry of Finance which requires the Ministry to fund the legislated severance liability as described in Note 11(b)(ii).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

(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 recognized a recovery of \$924 (2020 - \$676) for administrative and other support services to the Pension Benefit Guarantee Fund as described in Note 14. At March 31, 2020 \$676 was included in trade and other receivables in respect of these services. At March 31, 2021 no amounts were outstanding in respect of these services.

(ii) Deposit Insurance Reserve Fund

During the year the DIRF paid certain expenses on behalf of FSRA. At March 31, 2021 trade and other payables include a payable of \$92 in respect of these expenses.

In fiscal 2019-2020 in accordance with part 10.2 (3) of FSRA Fee Rule 2019-001, credit unions and caisses populaires were not individually assessed for their full 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 was \$2,318 and included in assessments revenue in the fiscal 2019-2020 Statement of Operations. In fiscal 2020-2021 credit unions and caisses populaires were individually assessed for their share of FSRA's budgeted operating costs.

Additionally, in fiscal 2019-2020 FSRA collected deposit insurance premiums from credit unions and caisses populaires and paid certain expenses on behalf of the DIRF. At March 31, 2020 trade and other payables include \$765 in respect of premiums collected and items paid on behalf of the DIRF.

(c) Infrastructure Ontario (an Ontario Crown Agency)

During the year FSRA engaged Infrastructure Ontario to oversee leasehold improvements to its new offices. The Authority incurred \$9,186 (2020 - \$1,055) under this arrangement. This amount

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

has been recognized as capital assets and trade and other payables in the Statement of Financial Position.

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 Authority 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. FSRA's maximum exposure to credit risk related to trade and other receivables at March 31, 2021 is as follows:

(\$000)	0-30 days overdue	31-60 days overdue	61-90 days overdue	> 91days overdue	Total
Trade and accrued receivables	\$ 7,430	\$ 11	\$ -	\$ 1,056	\$ 8,497
HST recoverable	1,399	960	-	1,881	4,240
Due from Ministries of the Province of Ontario	1,245	-	-	-	1,245
	<u>\$ 10,074</u>	<u>\$ 971</u>	<u>\$ -</u>	<u>\$ 2,937</u>	<u>\$ 13,982</u>

The amounts presented are net of reserves for potential credit losses.

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 Notes 9 and 10).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

Liquidity risk

Liquidity risk is the risk that FSRA will not be able to meet its cash flow obligations as they fall due. The Authority 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, 2021 mature within six months.

17. COMMITMENTS CONTRACTS AND CONTINGENCIES

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

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

(\$000)	
2022	\$ 4,452
2023	\$ 4,548
2024	\$ 4,648
2025	\$ 4,752
2026	\$ 4,925
Thereafter	\$ 24,487

FSRA also entered into an arrangement with a crown agency of the Province of Ontario, Infrastructure Ontario, to spend \$14,054 on the construction of leasehold improvements at its new offices. At March 31, 2021 the remaining outstanding commitment is \$3,797 which will be fulfilled in fiscal 2021-2022.

Subsequent to March 31, 2021, FSRA entered into a \$500 million credit facility with PACE Credit Union. Refer to Note 21 for further information.

18. RESTRUCTURING TRANSACTIONS

(a) On June 8, 2019, 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 the same date, DICO was also amalgamated with FSRA and its regulatory responsibilities, assets and liabilities were transferred to the Authority. 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

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

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)			
Due from Province	\$ 5,760	\$ -	\$ 5,760
Due from DIRF	-	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	-	(374)	(573)
Gain / (loss) on restructuring	\$ 797	\$ -	\$ 797

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

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

Actuaries discount 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.

- (b) The Statement of Operations for the year ended March 31, 2020 includes both amounts incurred from FSRA's launch on June 8, 2019 to March 31, 2020 and amounts for initial administrative and operational costs related to start-up activities incurred prior to FSRA's launch. The split of fiscal 2019-2020 excess or revenue over expenses between these two periods is summarized as follows:

(\$000)	Post- Launch June 8, 2019 to March 31, 2020	Pre-Launch April 1, 2019 to June 7, 2019
Excess / (deficiency) of revenue over expenses	\$ 17,802	\$ (5,493)

19. COMPARATIVE FIGURES

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

20. 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 Authority regulates, FSRA used its discretion and deferred the issuance of its fiscal 2020-2021 fee assessment. The fee assessment was deferred for approximately four months and was issued in July 2020.

The fiscal 2021-2022 fee assessment was issued in April 2021. Due to COVID-19 additional uncertainty exists in relation to sector organizations' ability to pay their assessments. In response to the increased credit risk, management has implemented additional processes to minimize uncollectible accounts.

COVID-19 also delayed the build-out of FSRA's new office facilities at 25 Sheppard Avenue West which resulted in additional temporary accommodation expenses. A claim has been filed with the landlord for the reimbursement of these additional costs and any proceeds received will be recognized in future fiscal periods.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

FSRA's financial position continues to remain strong. The Authority ended fiscal 2020-2021 with \$92,045 in cash, against current liabilities of \$68,102 and available loan facilities of \$3,000, to fund operations and expenditures for the next fiscal year. FSRA has also established a \$5,000 operating reserve which may be used to fund FSRA's operations in the event of revenue shortfalls and unanticipated expenditures or to cover any discrepancy between the timing of revenue and expenses.

Management will continue to monitor its financial situation closely and will adjust operations as needed to prudently manage costs and expenditures in the next fiscal period.

21. SUBSEQUENT EVENT

To protect the members of PACE Credit Union (PACE) from failed board governance and misconduct by certain executives, the credit union was placed into Administration by FSRA's predecessor, the Deposit Insurance Corporation of Ontario in September 2018.

Since June 2019, FSRA has been responsible for supervising PACE's financial safety and soundness (prudential regulation) and its business conduct. In the absence of the credit union's board, FSRA provides oversight for the executives managing the day-to-day operations of PACE.

On April 28, 2021, pursuant to FSRA's authority under section 262(1)(a)(i) of the *Credit Union and Caisses Populaires Act 1994*, FSRA entered into a credit agreement with PACE. The agreement provides PACE with a \$500 million revolving loan facility to support its continued operations and to provide liquidity either in the event that PACE's liquidity falls below \$100 million or if PACE experiences a rapid decline in liquidity that could cause material financial or operational difficulties.

The loan is secured by the assets of PACE and its subsidiaries and will be the only material senior secured debt of PACE. The facility matures on January 31, 2022 but may be repaid early without premium or penalty.

Interest will accrue daily on the principal amount outstanding at a rate of prime plus 128 basis points and will be payable monthly in arrears.

At June 29, 2021 no amounts had been drawn on the facility.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Notes to the Financial Statements For the year ended March 31, 2021 (\$000)

22. 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.

The following table summarizes revenue for each sector during the year ended March 31, 2021.

For the year ended March 31, 2021(000's)

Sector	Insurance						Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Financial Advisor & Financial Planner	Corporate	Total
Subsector	Auto Products	P&C Conduct	P&C Prudential Regulation	Health Service Providers (Fixed)	Life Conduct & Life Health	Total Insurance							
Actual													
Revenue													
Assessment	\$ 20,146	\$ 11,007	\$ 205	\$ -	\$ 2,317	\$ 33,675	\$ 26,220	\$ 12,980	\$ -	\$ 53	\$ -	\$ -	\$ 72,928
Fees	5	1,021	-	3,729	4,925	9,680	33	87	14,384	4	-	3	24,191
Interest Income	-	-	-	-	-	-	-	-	-	-	-	538	538
Total Revenue	20,151	12,028	205	3,729	7,242	43,355	26,253	13,067	14,384	57	-	541	97,657

PENSION BENEFITS GUARANTEE FUND

Financial Highlights

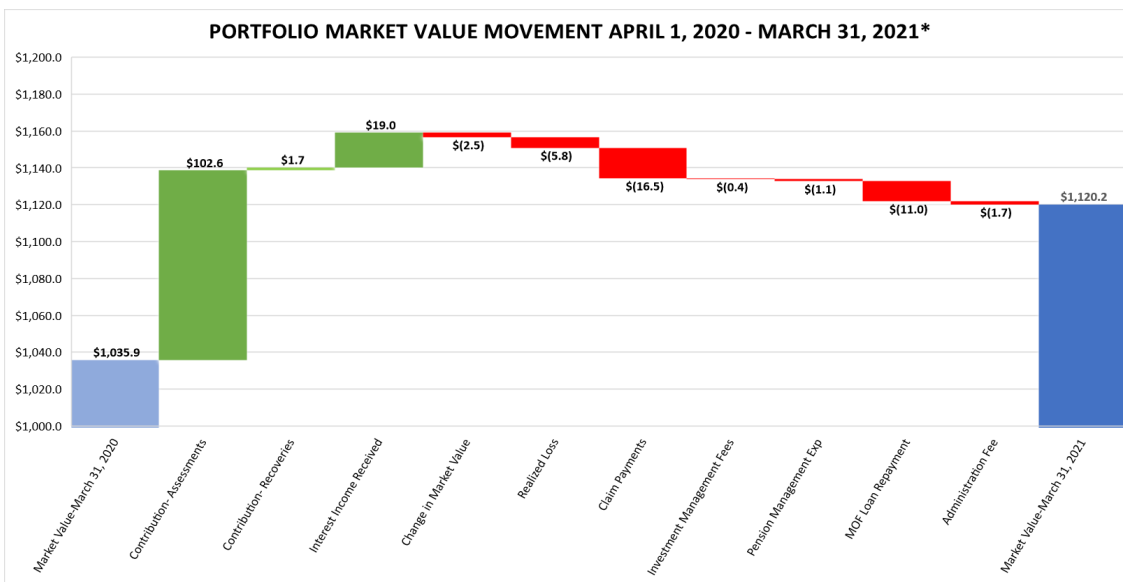
The Pension Benefits Guarantee Fund (the “Fund” or “PBGF”) is continued under the Pension Benefits Act and was administered by the Chief Executive Officer of FSRA from June 8, 2019 to the end of the current fiscal year. Prior to June 8, 2019, the Fund was administered by the Superintendent of Financial Services appointed under the Financial Services Commission of Ontario Act, 1997.

As at March 31, 2021, the total fund surplus was at \$1,029.5 million, a year-over-year increase of \$111.2 million (12.1%) from \$918.3 million. Fund assets consisted of investments of \$1,120.2 million and accounts receivable of \$76.8 million. Fund liabilities were comprised of loan payable of \$103.1 million, claims payable of \$58.0 million, and accounts payable of \$6.5 million.

The increase of \$111.2 million in fund surplus for the fiscal period resulted primarily from assessment revenue of \$75.2 million, investment income of \$11.8 million, pension plan recoveries of \$1.7 million, recovery of claims provision of \$32.5M offset by an increase in accumulated re-measurement losses of \$2.5 million, amortization of loan discount of \$5.5 million, pension consulting service fees of \$0.7 million, administration fee of \$0.9 million, and investment management fees of \$0.4 million.

Investments

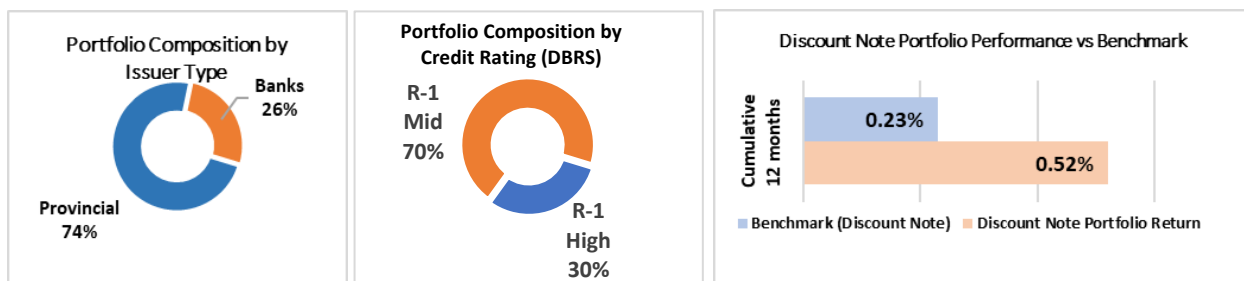
Investment of the PBGF is managed by the Ontario Financing Authority. As at March 31, 2021, market value of the total investments was \$1,120.2 million, comprised of discounted notes of \$523.4 million (47%) and government bonds of \$596.8 million (53%). The total market value increased by \$84.3 million from \$1,035.9 million as at the prior year-end.



* on a modified cash basis

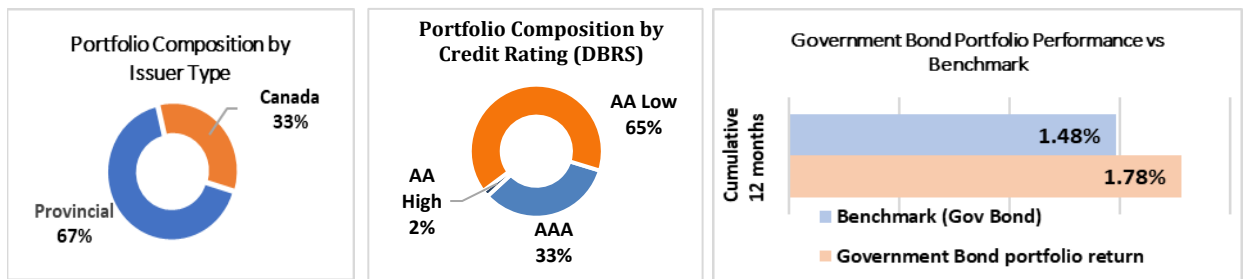
Discounted Notes

As at March 31, 2021, market value of the discounted notes was \$523.4 million with an average term to maturity of 0.28 year. Gross return of the portfolio was 0.52% for the cumulative 12 months period which outperformed the benchmark by 29 basis point.



Government Bonds

Market value of the government bonds was \$596.8 million as at March 31, 2021, with an average term to maturity of 1.40 years. Gross return of the portfolio was 1.78% for the cumulative 12 months period, outperforming the benchmark by 30 basis points.



Claims Payable

At March 31, 2021 total claims payable was \$58.1 million and was separated into a current portion of \$16.9 million and a long-term portion of \$41.2 million. This represents a \$49.0 million reduction from the prior year total claims payable amount of \$107.1 million. This reduction is primarily due to actuarial revisions which reduced the payable by \$35.4 million and claim payments of \$16.5 million. These reductions were partially offset by a \$2.9 million charge for new claims. The impact of the \$35.4 million in actuarial revisions has been shown, (net of the \$2.9 million charge for new claims), as a credit to expenses in the Statement of Operations and Fund Surplus.

Under section 34(2) of Regulation 909 of the Pensions Benefit Act, the CEO of FSRA has the discretion to determine the timing and manner of the payout of claims. As a result, \$41.2 million

of total claims payable has been classified as long-term as the amounts are currently expected to be paid out beyond one year.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**PENSION BENEFITS GUARANTEE FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDING MARCH 31,
2021**



Pension Benefits Guarantee Fund

Management's Responsibility for Financial Information

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act"). Effective June 8, 2019, the Chief Executive Officer ("CEO") of Financial Services Regulatory Authority of Ontario ("FSRA") is responsible for the administration of the Fund including the investment of the assets of the Fund.

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. The reporting year is from April 1, 2020 to March 31, 2021. 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 safeguarding of its assets.

As required by the *Financial Services Regulatory Authority of Ontario Act, 2016, S.O. 2016, c. 37, Sched. 8*, FSRA's Board of Directors established a committee (the "PBGF Advisory Committee") to advise the CEO on matters related to the Fund. The financial statements have been reviewed by the PBGF Advisory Committee and approved by the Board of Directors.

The financial statements have been audited by the Office of the Auditor General of Ontario in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit Organizations. The auditor's report follows.

Handwritten signature of Mark White in black ink.

Mark White
Chief Executive Officer

Handwritten signature of Stephen Power in black ink.

Stephen Power
Executive Vice President - Corporate Services

Handwritten signature of Randy Nanek in black ink.

Randy Nanek
Chief Financial Officer

Toronto, Ontario
June 29, 2021



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

Opinion

I have audited the financial statements of the Pension Benefits Guarantee Fund (the "Fund"), which comprise the statement of financial position as at March 31, 2021, 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, 2021, 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.

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

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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
June 29, 2021

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

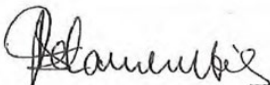
FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO


Pension Benefits Guarantee Fund Statements of Financial Position As at March 31, 2021

(\$000)		March 31, 2021	March 31, 2020
	Note(s)		
ASSETS			
Current			
Cash		113	1
Accounts receivable		76,847	106,866
Investments	3 and 4	1,120,190	1,035,931
Total assets		1,197,150	1,142,798
LIABILITIES AND FUND SURPLUS			
Current			
Accounts payable and accrued liabilities		6,457	8,810
Current portion of loan payable	5	11,000	11,000
Claims payable		16,860	107,052
Total current liabilities		34,317	126,862
Claim payable - Long term		41,186	-
Loan payable - Long term	5	92,101	97,629
Total liabilities		167,604	224,491
FUND SURPLUS			
Fund surplus from operation		1,033,434	919,742
Accumulated re-measurement losses		(3,888)	(1,435)
Total fund surplus		1,029,546	918,307
Total liabilities and fund surplus		1,197,150	1,142,798

See accompanying notes to the financial statements.

On Behalf of the Board of the Financial Services Regulatory Authority of Ontario:


Board Chair


PBGF Advisory Committee Chair

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Statements of Operations and Fund Surplus
For the year ended March 31, 2021**

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Revenue			
PBGF assessment revenue	3	75,241	70,686
Pension plan recoveries	7	1,683	1,031
Investment income	4	11,782	18,246
		<u>88,706</u>	<u>89,963</u>
Expenses			
Claims / (recovery of claims provision)	3	(32,506)	5,166
Amortization of loan discount	5	5,472	5,737
Pension consulting services	8	721	1,082
Administration fee	9	931	810
Investment management fees	9	396	353
		<u>(24,986)</u>	<u>13,148</u>
Excess of revenue over expenses		113,692	76,815
Fund surplus, beginning of year		919,742	842,927
Fund surplus, end of year		<u>1,033,434</u>	<u>919,742</u>

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2021

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Accumulated re-measurement losses, beginning of year		(1,435)	(7,097)
Unrealized losses attributed to portfolio investments	4	(8,277)	(891)
Realized losses reclassified to the statement of operations	4	5,824	6,553
Accumulated re-measurement losses, end of year		(3,888)	(1,435)

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2021**

(\$000)	Note(s)	March 31, 2021	March 31, 2020
Cash flows from / (used in) operating activities:			
Excess of revenue over expenses		113,692	76,815
Adjustments for non-cash expense items:			
Amortization of loan discount	5	5,472	5,737
Realized losses on disposal of investments	4	5,824	6,553
		124,988	89,105
Changes in non-cash working capital:			
Accounts receivable		30,019	128,628
Claims payable		(49,006)	4,540
Accounts payable and accrued liabilities		(2,353)	(1,342)
		103,648	220,931
Cash flows from / (used in) investing activities:			
Purchases of investments		(1,685,392)	(3,533,313)
Proceeds from sale of investments		1,592,856	3,323,382
		(92,536)	(209,931)
Cash flows used in financing activities:			
Loan repayments	5	(11,000)	(11,000)
		(11,000)	(11,000)
Net increase in cash position		112	-
Cash, beginning of year		1	1
Cash, end of year		113	1

See accompanying notes to the financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

3. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the “Fund” or “PBGF”) is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the “Act”). On June 8, 2019, the Financial Services Regulatory Authority of Ontario (“FSRA”) assumed substantially all of the Financial Services Commission of Ontario (“FSCO”) responsibilities. At the same time, the Chief Executive Officer (“CEO”) of FSRA assumed responsibility for the administration of the Fund including the investment of the assets of the Fund.

4. FUND OPERATIONS

The purpose of the Fund is to guarantee the payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by employers required to make contributions to defined benefit pension plans.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

Pursuant to the *Financial Services Regulatory Authority of Ontario Act, 2016* and subsection 82(2) of the *Pension Benefits Act*, the CEO is responsible for the administration of the Fund. The CEO may charge the Fund for reasonable expenses incurred in the administration of the Fund.

The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (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) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the Statement of Re-measurement Gains and Losses until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short-term maturities.
- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.
- 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.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up, or in the process of being ordered wound up under conditions specified in the Act, where the claim amounts can be reasonably estimated. Claims payable liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(c) PBGF Assessment Revenue

Assessment revenue is based on an assessment formula set out in section 37 of Regulation 909 of the Act. An estimate of the assessment revenue due from defined benefit pension plans at rates prescribed by the Act is recorded when earned. The annual assessment certificate is due nine months after the plan's fiscal year end.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

Differences in assessment revenue, if any, between the estimated amounts recognized and the actual revenues due, are charged or credited to assessment revenue in the year.

(\$000)	March 31, 2021	March 31, 2020
Estimated revenue	70,400	81,700
Actual revenue related to current and prior years received in current year	86,541	98,186
Less: prior year's estimated revenue	(81,700)	(109,200)
	<hr/> 75,241	<hr/> 70,686 <hr/>

(d) Use of Estimates

The preparation of financial statements in accordance with PSAS-GNFPO accounting standards requires that FSRA's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

4. INVESTMENTS

As required by legislation, the FSRA Board has established a Pension Benefits Guarantee Fund Advisory Committee to advise the CEO on the administration and investment of the Fund. The Committee has reviewed the PBGF Investment Policy developed by FSRA management. This policy is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the Fund's investments.

Investments consist of:

(\$000)	March 31, 2021		March 31, 2020	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Discounted notes	523,405	523,405	457,880	457,880
Government bonds	596,785	600,673	578,051	579,486
Total Investments	1,120,190	1,124,078	1,035,931	1,037,366

(\$000)	Fair Value Hierarchy	Fair Value March 31, 2021	Fair Value March 31, 2020
Discounted notes	Level 1	523,405	457,880
Government bonds	Level 2	596,785	578,051
Total		1,120,190	1,035,931

No investments have moved between hierarchy levels during the fiscal period.

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. Unrealized gains and losses are reported on the Statement of Re-measurement Gains and Losses.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

Investment income consists of:

(\$000)	March 31, 2021	March 31, 2020
Interest income	17,606	24,799
Realized losses from the sale of securities	(5,824)	(6,553)
Total	11,782	18,246

The investment risk of the Fund's investment portfolio is considered low due to the types of investments held.

Discounted notes had yields in the range of 0.120% to 0.698% (2020 – had yields in the range of 0.900% to 1.950%). The government bonds had yields in the range of 0.180% to 2.390% (2020 – had yields in the range of 0.722% to 2.526%).

5. LOAN PAYABLE TO THE PROVINCE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a \$330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of \$11 million. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total \$55 million.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2021 as follows:

(\$000)	March 31, 2021	March 31, 2020
Face Value	143,000	154,000
Less: Discount	(39,899)	(45,371)
Amortized Cost	103,101	108,629
Classified as:		
Current Portion	11,000	11,000

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

Long-Term Portion	92,101	97,629
Balance	103,101	108,629

The unamortized discount of \$39.9 million is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	Amount (\$'000)
2022	5,193
2023	4,901
2024	4,593
2025	4,271
2026	3,932

6. RISKS ARISING FROM FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments, including its portfolio investments, are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables and the repayment of portfolio investments. The Fund considers this risk to be low.

The portfolio investments are all investment grade debt securities with low credit risk.

The Fund's accounts receivable consists of assessment revenue receivable of \$72.2 million with Retail Sales Tax (RST), investment income receivable of \$4.4 million, and HST receivable of \$0.2 million.

The assessment revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

In the event that a pension plan would become insolvent within a year, there are legal options the Fund can exercise to collect the assessment revenue receivable. Historically, the Fund has been able to collect the amounts estimated as assessment revenue receivable.

The risk of not collecting the investment income receivable and the HST receivable is considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets in the Fund including any loans or grants received from the Province. As at March 31, 2021, the Fund has an investment balance of \$1,120 million (2020 - \$1,036 million) to settle current liabilities of \$34.3 million (2020 - \$126.9 million). In addition, subject to realizing losses due to market declines, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing in low-risk and liquid securities. The Fund's market risk is considered to be low.

The market value sensitivity of the discounted notes as at March 31, 2021 was \$1.26 million for a 1.00% change in rates. The market value sensitivity of the government bonds as at March 31, 2021 was \$7.33 million for a 1.00% change in rates.

7. PENSION PLAN RECOVERIES

Any funds remaining from a wound up pension plan are recovered by the Fund after the settlement of all benefits, payment of expenses and the submission of the final wind up report for such pension plan that had received payments from the Fund. During fiscal 2021, the Fund had \$1.7 million (2020 – \$1.0 million) in recoveries from such pension plans.

8. PENSION CONSULTING SERVICES

The CEO periodically engages the services of external experts to represent the Fund's interests in, or in anticipation of, insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2021, \$0.7 million was incurred to such external experts (2020 - \$1.1 million).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements For the year ended March 31, 2021

9. RELATED PARTY TRANSACTIONS

For fiscal 2021, an administration fee of \$0.9 million (2020 - \$0.8 million) was incurred for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSRA are related parties.

Investment Management fees of \$0.4 million (2020 - \$0.4 million) consist mainly of fees paid to the Ontario Financing Authority, a related party.

Other related party transactions during the year have been disclosed in note 5.

DEPOSIT INSURANCE RESERVE FUND

Financial Highlights

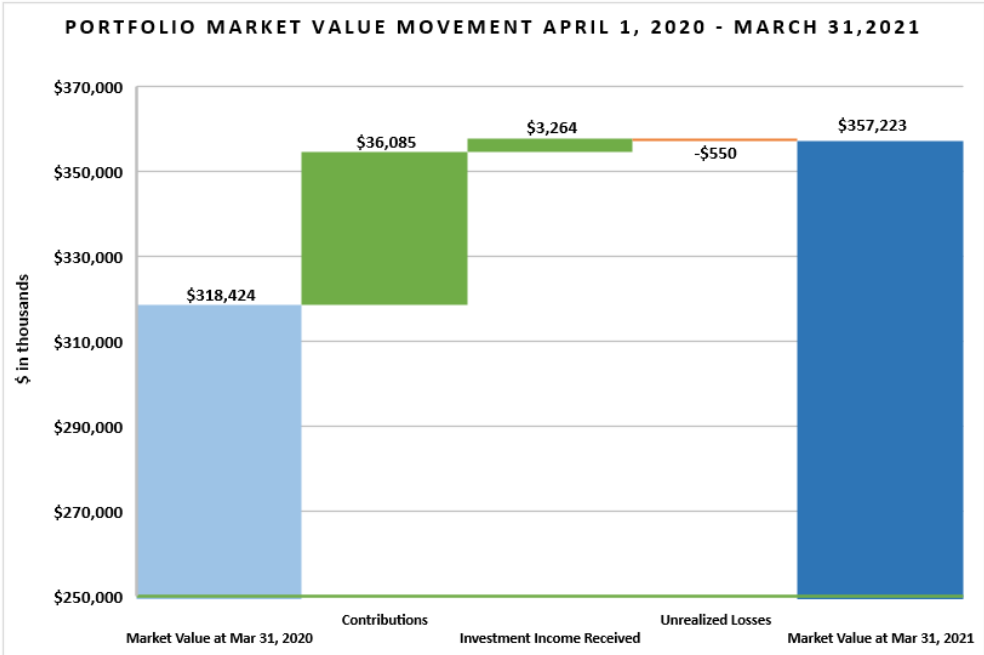
The Deposit Insurance Reserve Fund (“DIRF”) is a fund managed by FSRA and dedicated to protecting the insured deposits of credit union members through deposit insurance and other financial support for the credit union sector as set forth in the CUCPA. Pursuant to subsection 12.1 (2) of the *Financial Services Regulatory Authority of Ontario Act, 2016*, the DIRF became an independent reporting entity separated from FSRA’s operations, on June 8, 2019.

As of March 31, 2021, the DIRF surplus was at \$366.0 million (2020 - \$329.4 million). This surplus is the assets in the DIRF net of liabilities. The surplus increased by \$36.6 million (11%) year-over-year. The DIRF assets consisted of investments of \$357.2 million, premium receivable of \$33.4 million, investment income receivable of \$0.7 million, cash of \$0.3 million, and other receivables of \$0.1 million. The DIRF liabilities were comprised of deferred premium revenue of \$25.6 million and accounts payable of \$0.03 million.

The increase of \$36.6 million in the fiscal year resulted from premium revenue of \$34.3 million, investment income of \$2.5 million and other revenue of \$0.3 million, offset by unrealized losses attributable to investments of \$0.5 million.

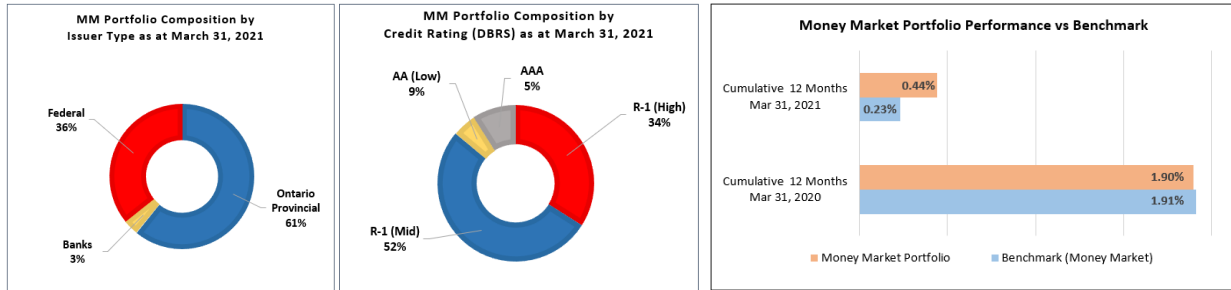
Investments

Investments of the DIRF are managed by the Ontario Financing Authority. As at March 31, 2021, market value of the total investments was \$357.2 million, comprised of a Money Market portfolio of \$291.8 million (82%) and a Government Bond Laddered portfolio of \$65.4 million (18%). The total market value increased by \$38.8 million from \$318.4 million as at March 31, 2020.



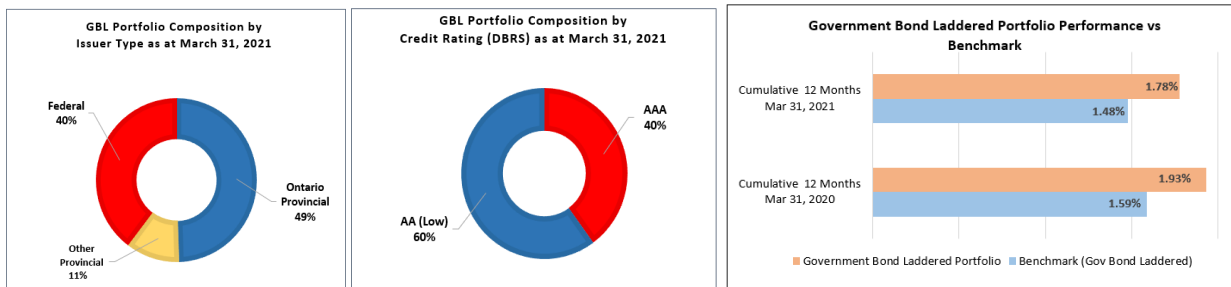
Money Market portfolio

As at March 31, 2021, market value of the Money Market portfolio was \$291.8 million (2020 - \$253.0 million) with an average term of 91.8 days. Gross return of the portfolio was 0.44% for the cumulative 12 months period which outperformed the benchmark by 21 basis points.



Government Bond Laddered portfolio

Market value of the Government Bond Laddered portfolio was \$65.4 million as at March 31, 2021 (2020 - \$65.4 million) with an average term to maturity of 1.43 years. Gross return of the portfolio was 1.78% for the cumulative 12 months period, outperforming the benchmark by 30 basis points.



FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**DEPOSIT INSURANCE RESERVE FUND
FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2021**



Deposit Insurance Reserve Fund

Management's Responsibility for Financial Reporting

Pursuant to subsection 2 (1) of the *Financial Services Regulatory Authority of Ontario Act, 2016* and subsection 276 (1) of the *Credit Unions and Caisses Populaires Act, 1994*, effective June 8, 2019, 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. The reporting year is from April 1, 2020 to March 31, 2021. 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 safeguarding of its assets.

To ensure that Management fulfils its responsibilities, the Financial Services Regulatory Authority of Ontario's Board of Directors has appointed a DIRF Advisory Committee to advise the Board on matters related to the DIRF. The financial statements have been reviewed by the DIRF Advisory Committee and approved by the Board of Directors.

The financial statements have been audited by the Office of the Auditor General of Ontario in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit Organizations. The auditor's report follows.

Handwritten signature of Mark White in black ink.

Mark White
Chief Executive Officer

Handwritten signature of Stephen Power in black ink.

Stephen Power
Executive Vice President - Corporate Services

Handwritten signature of Randy Nanek in black ink.

Randy Nanek
Chief Financial Officer

Toronto, Ontario
June 29, 2021



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, 2021 and the statements of operations and fund surplus, remeasurement gains 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, 2021, and the results of its operations, its remeasurement gains 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.

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.

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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
June 29, 2021

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

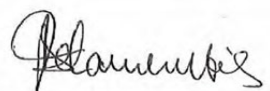
FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Financial Position
As at March 31, 2021**

(\$'000)	Notes	March 31, 2021	March 31, 2020
ASSETS			
Current			
Cash		256	1,493
Investments	3	357,223	318,424
Premium receivable	4	33,381	7,962
Investment income receivable		668	1,316
Other receivables	6	92	765
Total assets		391,620	329,960
LIABILITIES AND FUND SURPLUS			
Current			
Accounts payable and accrued liabilities		30	41
Deferred premium revenue	5	25,568	503
Total liabilities		25,598	544
Fund surplus from operations		365,437	328,281
Accumulated remeasurement gains		585	1,135
Fund surplus		366,022	329,416
Total liabilities and fund surplus		391,620	329,960

See accompanying notes to the financial statements

On Behalf of the Board of the Financial
Services Regulatory Authority of Ontario:



Board Chair



DIRF Advisory Committee
Chair

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2021**

(\$'000)	Notes	Year Ended March 31, 2021	June 8, 2019 - March 31, 2020
Revenue			
Premium revenue	2&4	34,337	25,961
Investment income	3&6	2,503	4,913
Other revenue	7	316	646
		<u>37,156</u>	<u>31,520</u>
Expenses			
Assessments due to FSRA	6	-	2,318
Reversal of accrued general provision for losses		-	(3,000)
Other expenses	7	-	164
		<u>-</u>	<u>(518)</u>
Excess of revenue over expenses		37,156	32,038
Fund surplus from operations, beginning of year/period		<u>328,281</u>	<u>296,243</u>
Fund surplus from operations, end of year/period		<u>365,437</u>	<u>328,281</u>

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, 2021**

(\$'000)	Notes	Year Ended March 31, 2021	June 8, 2019 - March 31, 2020
Cash flows from / (used in) operating activities:			
Excess of revenue over expenses		37,156	32,038
Adjustments for non-cash item:			
Reversal of accrued general provision for losses		-	(3,000)
		<u>37,156</u>	<u>29,038</u>
Changes in non-cash working capital:			
Premium receivable		(25,419)	(7,903)
Investment income receivable		648	(436)
Other receivables	7	673	(765)
Account payables and accrued liabilities		(11)	(13,994)
Deferred premium income		<u>25,065</u>	<u>(16,194)</u>
		<u>956</u>	<u>(39,292)</u>
Cash flows from / (used in) investing activities:			
Interest received		3,151	4,477
Purchase of investments held at year/period end		(357,773)	(317,763)
Proceeds from sale of investments		<u>315,273</u>	<u>323,645</u>
		<u>(39,349)</u>	<u>10,359</u>
Net increase / (decrease) in cash		(1,237)	105
Cash position, beginning of year/period		<u>1,493</u>	<u>1,388</u>
Cash position, end of year/period		<u>256</u>	<u>1,493</u>

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Re-Measurement Gains
For the year ended March 31, 2021**

(\$'000)	Year Ended March 31, 2021	June 8, 2019 - March 31, 2020
Accumulated re-measurement gains, beginning of year/period	1,135	474
Unrealized gains / (losses) attributed to portfolio investments	<u>(550)</u>	<u>661</u>
Accumulated re-measurement gains, end of year/period	<u>585</u>	<u>1,135</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, 2021

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* (“FSRA Act”) without share capital. On December 6, 2018, the *Restoring Trust, Transparency and Accountability Act, 2018* (Bill 57) 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. On this date, FSRA became responsible for providing deposit insurance and prudential regulation to Ontario’s credit unions and caisses populaires (“credit unions”). By virtue of its amalgamation with DICO, FSRA assumed the responsibility to manage the Deposit Insurance Reserve Fund (“DIRF”). In accordance with subsection 276 (1) and 276 (3) of the *Credit Unions and Caisses Populaires Act, 1994* (“CUCPA”), FSRA shall maintain the DIRF with the power to manage, invest and disburse the money in the DIRF as defined under CUCPA.

The DIRF has become a separate reporting entity from FSRA’s operations since the amalgamation on June 8, 2019. Pursuant to subsection 12.1 (2) of the FSRA Act, any funds received by the DIRF and assets of the DIRF are not part of the revenues, assets and investments of FSRA.

Purpose and operation

In accordance with sub-sections 276(2) and 262(1) of 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; and
- Assets acquired or liabilities assumed from credit unions under the above circumstances.

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 DIRF Advisory Committee to advise the Board on matters related to the DIRF.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2021

The investments of the DIRF are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Public Sector Accounting Standards for Government Not-For-Profit Organizations (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) 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 Re-Measurement Gains until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable, accounts payable and accrued liabilities are valued at cost which approximate fair value given their short-term maturities.
- 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.

(b) Revenue recognition

Premium revenue is determined in accordance with section 105 of Ontario Regulation 237/09 made under the CUCPA and the rules set out in the *Differential Premium Score Determination* published by the Corporation in *The Ontario Gazette*. The differential premium score (DPS) of a credit union is calculated with reference to its regulatory capital level and corporate governance, as reported on the Annual Information Return filed by the credit union within 75 days after its fiscal year-end. The annual premium payable is calculated by using the DPS to determine a premium rate and applying the rate to insured deposits of the credit union.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2021

Premiums are invoiced annually within 90 days of the credit unions' fiscal year-ends. Premium revenue is recognized when earned by amortizing the annual premiums over the credit unions' applicable fiscal periods.

Investment income is recognized as earned.

(c) 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 contingencies and accounts payable and accrued liabilities.

(d) First-time PSAS-GNFPO adoption

Prior to the amalgamation, DICO's operations encompassed both a fund (the DIRF) to provide deposit insurance and the prudential regulation of the credit union sector. With the amalgamation into FSRA, these two responsibilities were segregated - prudential regulation to FSRA and the separation of the DIRF as a fund to provide deposit insurance. As such, the DIRF commenced to operate as an independent reporting entity on June 8, 2019. A Statement of Financial Position on the date of transition was prepared as the starting point for the DIRF financial reporting. Assets and liabilities held by DICO as at June 7, 2019 were separated into:

- Assets and liabilities in relation to a fund to provide deposit insurance to establish the opening financial position of the DIRF, and
- Operational assets and liabilities assumed by FSRA in respect of prudential regulation of the credit union sector which were segregated from the DIRF (Note 10).

The DIRF opening statement of financial position was prepared in accordance with PSAS-GNFPO. DICO's financial reporting followed the International Financial Reporting Standards (IFRS). All assets and liabilities have been recognized at book value and adjusted to comply with PSAS-GNFPO where applicable, as detailed in Note 11.

The prior year reporting period of the financial statements was from June 8, 2019 to March 31, 2020.

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. Management and the Ontario Financing Authority ("OFA") have entered into an Investment Management Agreement for

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OFA to manage the DIRF investment. The DIRF Advisory Committee has the oversight responsibility to oversee management in its monitoring of the performance of OFA.

The DIRF investments are comprised of money market securities and government laddered bonds. As of March 31, 2021, the fair value of the Money Market portfolio was \$292M and the fair value of the Government Bond Laddered portfolio was \$65M (March 31, 2020 - \$253M and \$65M respectively).

	March 31, 2021		March 31, 2020	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
\$'000				
Money Market	291,839	291,822	252,979	252,901
Government Bond Laddered	<u>65,384</u>	<u>64,816</u>	<u>65,445</u>	<u>64,388</u>
Total Investments	357,223	356,638	318,424	317,289

All Money Market instruments are fair value hierarchy level 1 and Government Bonds Laddered portfolio are level 2. No investments have moved between hierarchy levels during the fiscal year.

Investment income of \$2,503 reported on the Statement of Operations includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. Unrealized gains of \$585 are reported on the Statement of Re-Measurement Gains.

As of March 31, 2021, the cumulative 12-month returns of the Money Market portfolio and the Government Bond Laddered portfolio were 0.44% and 1.78% respectively (March 31, 2020 - 1.90% and 1.93% respectively).

4. PREMIUM RECEIVABLE AND PREMIUM REVENUE

As prescribed in section 105 of O. Reg 237/09, the premium rates range from \$0.75 to \$2.25 per one thousand dollars of insured deposits for credit unions whose fiscal years begin after January 1, 2020.

Premium receivable of \$33,381 represents primarily the annual premiums invoiced as of March 31, 2021 to credit unions with a December 31 fiscal year-end, for the year from January 1 to December 31, 2021.

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In fiscal period June 8, 2019 – March 31, 2020, for credit unions with fiscal years beginning before January 1, 2020, the premium rates ranged from \$1.00 to \$3.00 per one thousand dollars of insured deposits according to O. Reg 237/09. Premiums for these credit unions were calculated based on the foregoing rates, less the applicable portion for the FSRA prudential regulation assessment in accordance with the FSRA approved budget. In consideration of the COVID-19 pandemic, FSRA deferred premium invoices until July 2020. The premium receivable of \$7,962 as of March 31, 2020 represented premiums earned for the period from January to March 2020 that had not yet been billed.

5. DEFERRED PREMIUM REVENUE

Deferred premium revenue represents the unearned portion of premiums received from credit unions whose fiscal years straddle the DIRF's fiscal year-end. Deferred premium is recognized as revenue in the next fiscal year when prudential regulation duties are fulfilled.

Changes in deferred premium revenue balances are summarized as follows:

\$'000	Fiscal Year 2020-2021	Fiscal Period 2019-2020
Balance, beginning of year/period	503	16,697
Received & receivable during year/period	59,439	1,805
Recognized during year/period	<u>(34,374)</u>	<u>(17,999)</u>
Balance, end of year/period	25,568	503

6. RELATED PARTY TRANSACTIONS

FSRA is a related party due to its obligation to manage the DIRF.

In fiscal period 2019-2020, according to part 10.2 (3) of FSRA Fee Rule 2019-001, credit unions were not individually assessed in respect of FSRA's first assessment period relating to FSRA's budgeted expenses and expenditures for the period. The aggregate assessment of all credit unions for the period was fully satisfied through a one-time withdrawal by FSRA from the DIRF in an amount equal to the aggregate assessment by FSRA of credit unions for its budgeted expenses allocated to the credit union sector, net of the regulatory portion included in the credit unions premiums received during FSRA's first assessment period. The net aggregate assessment was at \$2,318 and had been paid to FSRA from the DIRF. The transaction was reported on the Statement of Operations as assessments due to FSRA.

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Assessment of credit unions has been invoiced separately by FSRA since March 31, 2020. Expenses associated with credit union prudential regulation are reported on FSRA's financial statements rather than the DIRF financial statements.

FSRA collects deposit insurance premiums from credit unions and pays certain expenses on behalf of the DIRF. These transactions are recorded as intercompany receivables and payables and are settled periodically. Any unsettled receivable and payable balances as at the year/period end are netted and reported on the Statement of Financial Position as other receivables or other payables. In fiscal 2020-2021, \$92 of other receivables are reported, representing expenses initially paid from the DIRF but later determined to be FSRA expenses. For fiscal period June 8, 2019 – March 31, 2020, other receivables of \$765 were reported representing premium payments that were collected and due from FSRA.

The Ontario Financing Authority is a related party in its capacity as the DIRF investment manager. Investment management fees of \$109 were paid to OFA in fiscal year 2020-2021 (fiscal period 2019-2020 - \$91). The fees are netted from investment income on the Statement of Operations.

7. OTHER REVENUE AND OTHER EXPENSES

Other revenue consists of recoveries from loans collected from liquidated credit unions. These loans were previously written off.

Other expenses for fiscal period June 8, 2019 – March 31, 2020 represented DICO's operational obligations in excess of the accrued liabilities as at June 7, 2019.

8. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the DIRF if a counter party to a financial instrument fails to meet its contractual obligations. The DIRF is exposed to credit risk relating to the investments and collection of 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 counter party. Risks of net investment losses and not receiving investment income are considered minimal. 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, 2021, there were no significant accounts receivable that were past due or impaired.

(b) Liquidity risk

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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, 2021, the DIRF had an investment balance of \$357M (March 31, 2020 - \$318M). 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 18, 2020, FSRA entered into a credit facility with the OFA of \$2 billion to be able to provide financial assistance to credit unions, that could require financial support in excess of the amount in the DIRF.

(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 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 the Money Market portfolio at the end of the last quarter was \$0.51M for a 1.00% change in rates (end of last year - \$0.28M). The fair value sensitivity of the Government Bond Laddered portfolio at the end of the last quarter was \$1.08M for a 1.00% change in rates (end of last year - \$0.95M).

9. 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 assessment to review the risk profiles of the credit unions, including adequacy of capital 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.

Pursuant to section 294 of the CUCPA, PACE Savings & Credit Union Limited (PACE) was placed under Administration in September 2018 by FSRA's predecessor, Deposit Insurance Corporation of Ontario, to protect members from failed board governance and misconduct by certain former executives. Early in 2020 PACE members elected a new board and FSRA began the process of returning PACE to member-controlled governance. However, the financial effects associated with COVID-19 and several other events caused FSRA to step back from the return to member-controlled governance. On March 26, 2021, an amended Administration Order was issued. It is undeterminable at this point what costs associated with the administration, recovery and resolution of PACE will be borne by the DIRF.

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A specific provision can only be established when conditions exist that will likely result in losses attributable to an individual credit union and the amount can be reasonably estimated. As of March 31, 2021 and March 31, 2020, management did not identify any conditions that warranted recognition of a specific provision.

On June 24, 2021, FSRA, as administrator of PACE, 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. This settlement agreement is subject to court approval.

FSRA, through the DIRF, has agreed to guarantee the portion of the settlement attributable to PACE. The likelihood, amount and timing of any losses charged to the DIRF cannot be reasonably estimated at this time.

10. RESTRUCTURING TRANSACTIONS

As a result of DICO's amalgamation into FSRA, the carrying amounts of DICO's assets and liabilities as of June 7, 2019 were transferred to the DIRF and FSRA on June 8, 2019. On such date, assets and liabilities in respect of deposit insurance fund became part of the DIRF and the operational assets and liabilities in relation to prudential regulation of the credit union sector became part of FSRA, as follows:

Statement of Financial Position (\$'000)	DICO As at June 7, 2019	DIRF As at June 8, 2019	FSRA As at June 8, 2019
ASSETS			
Current assets			
Cash and cash equivalents	1,388	1,388	-
Investments	215,352	215,352	-
Premiums receivable	79	59	20
Investment income receivable & prepaid expenses	976	880	96
Total current assets	217,795	217,679	116
Non-current assets			
Investments	113,648	113,648	-
Property, plant and equipment	146	-	146
Total non-current assets	113,794	113,648	146
Total Assets	331,589	331,327	262

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2021

LIABILITIES

Current liabilities

Payables and accruals	2,048	-	2,048
Deferred premium income	22,263	16,697	5,566
Total current liabilities	24,311	16,697	7,614

Non-current liabilities

Payables and accruals	1,434	-	1,434
Employee benefits	4,676	-	4,676
Provision for deposit insurance losses	3,000	3,000	-
Total non-current liabilities	9,110	3,000	6,110
Total Liabilities	33,421	19,697	13,724

EQUITY

Accumulated other comprehensive income	1,551	1,352	199
Deposit Insurance Reserve Fund	296,617	296,617	-
Total Equity	298,168	297,969	199
Total Liabilities and Equity	331,589	317,666	13,923

Cash, investments, investment income receivable, provision for losses, unrealized gains on investments, and fund surplus were entirely transferred to the DIRF. Premiums receivable and deferred premium income were transferred to the DIRF, less the applicable portion for FSRA's prudential regulation assessment which remained in the amalgamated entity.

There was a transitional adjustment of \$878 to the opening balance of Investments on June 8, 2019. As a result, the DIRF opening balance of total investments was adjusted from \$329,000 to \$328,122 (Note 11).

The rest of the assets and liabilities were in relation to prudential regulation of the credit union sector and thus were assumed by FSRA upon its amalgamation with DICO. Assumption of these assets and liabilities resulted in net liabilities of \$13,661 at book value owed to FSRA upon amalgamation, which was set up as accounts payable to FSRA on the DIRF opening balance sheet (Note 11).

11. IMPACT OF THE ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

Management assessed the impact of PSAS-GNFPO adoption on the DIRF's opening balance sheet items, in particular the impact on recognition, measurement, and presentation of each item. No significant differences in recognition and measurement standards were

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2021

identified for the assets and liabilities transferred to the DIRF as listed in Note 10. As a result, these assets and liabilities were transferred to the DIRF at book values. In respect to terminologies and presentation, the term Re-Measurement Gains and Losses was adopted to replace Other Comprehensive Income/Losses, Fund Surplus was used to replace Equity, and long-term investments were re-classified as current investments to appropriately present liquidity of the DIRF.

The net liabilities of \$13,661 assumed by FSRA upon amalgamation with DICO included trade payables and accruals, deferred premium income, and employee future benefits, net of prepaid expenses, premium receivables, and capital assets. After PSAS assessment of recognition and measurement, these items were assumed by FSRA upon amalgamation at book values, except for the liability of the DICO non-pension post-employment benefits which was included in employee future benefits. A restatement of the obligation on June 8, 2019 was required due to different discount rate and attribution period of benefits being used under PSAS.

DICO provided the non-pension post-employment benefits with extended health, dental and life benefits to qualified retirees and eligible current employees. Annual actuarial valuation of the benefits obligation was performed by an independent actuarial firm at DICO in accordance with IFRS. The benefits were valued at \$3,105 on June 7, 2019, with unrealized actuarial gains of \$199 (\$3,304 in total).

The same 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 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 was \$3,678, an increase of \$374. As a result, the accounts payable by the DIRF to FSRA was adjusted from \$13,661 to \$14,035, and the opening fund surplus was reduced by \$374 to \$296,243.

The adjusted DIRF opening balance sheet is as follows:

Deposit Insurance Reserve Fund	Opening Balance
(\$'000)	Adjusted per PSAS
	June 8, 2019
ASSETS	
Current	
Cash	1,388
Investments	328,122
Premium receivable	59

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Investment income receivable	880
Other receivables	-
Total assets	330,449
LIABILITIES AND FUND SURPLUS	
Current	
Accounts payable and accrued liabilities	14,035
Deferred premium revenue	16,697
	30,732
Non-current	
General provision for losses	3,000
Total liabilities	33,732
Fund surplus from operation	296,243
Accumulated remeasurement gains	474
Fund surplus	296,717
Total liabilities and fund surplus	330,449

12. SUBSEQUENT EVENTS

Credit agreement between FSRA and PACE

On April 28, 2021, pursuant to FSRA's authority under section 262(1)(a)(i) of the CUCPA, FSRA entered into a secured credit agreement with PACE to support PACE's continued operations. The agreement provides PACE with a \$500M revolving loan facility to provide liquidity either in the event that PACE's liquidity falls below \$100 million or if PACE experiences a rapid decline in liquidity that could cause material financial or operational difficulties. The loan is secured by the assets of PACE and its subsidiaries and will be the only material senior secured debt of PACE. As of June 29, 2021, no amounts have been drawn on the facility.

As the DIRF is the primary source for making advances to PACE under the secured credit facility and consequently bears the risk of such advances, the credit facility is considered a potential DIRF exposure.

13. COMPARATIVE INFORMATION

Prior year's financial information is for approximately a 10-month period. The current year's financial information covers a 12-month period.