



Capital Markets Authority
Implementation Organization

Organisme de mise en place de
l'Autorité des marchés des capitaux

CAPITAL MARKETS AUTHORITY IMPLEMENTATION ORGANIZATION

ANNUAL REPORT

For Period April 1, 2017 – March 31, 2018

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June 30, 2018

The Council of Ministers
Capital Markets Authority Implementation Organization

Dear Sirs/Madams,

I am pleased to submit to you the second Annual Report of the Capital Markets Authority Implementation Organization (CMAIO) for the period April 1, 2017, to March 31, 2018.

This is our first full-year report, and we continue to be encouraged by the progress that is being made to develop the Cooperative Capital Markets Regulatory System (Cooperative System). We have rounded out our Executive Team and taken great strides forward in building a foundation for the integration of the participating regulatory organizations and their employees into the Capital Markets Regulatory Authority (CMRA)

We look forward to continuing to work with the governments of British Columbia, New Brunswick, Ontario, Prince Edward Island, Saskatchewan, Yukon and Canada (Participating Jurisdictions) as we assist in the implementation of the Cooperative System and the transition to the CMRA.

William A. Black, Chair

Capital Markets Authority Implementation Organization

Message from the Chair



William A. Black

CMAIO's success during the past year can be measured by the steady progress we have made toward our goals as outlined in the following pages.

The Board is particularly delighted by the announcement that the province of Nova Scotia intends to join the Cooperative System. The addition of a new partner is a tangible sign of the momentum behind the cooperative system. We look forward to Nova Scotia signing the Memorandum of Agreement (MOA) and we continue to encourage other provinces and territories to join.

Subsequent to our fiscal year-end, the Participating Jurisdictions announced that CMRA will not launch at the end of 2018. An update will be provided after the Supreme Court of Canada rules on the constitutionality of elements of the Cooperative System and the participating jurisdictions review the launch timelines.

The Participating Jurisdictions are developing the legislative framework to establish the CMRA that would be proposed for enactment in each Participating Jurisdiction. All involved are committed to moving forward and taking the necessary time to ensure a successful launch of CMRA and a smooth transition for market participants.

I want to thank my fellow Board members for their dedication and hard work and, on behalf of the Board, thank the Council of Ministers for their support. Under the leadership of our CEO, Kevan Cowan, we have built a strong Executive Team and Project Management Office, who are continuing to move the project forward.

Much of our success is generated by the efforts of employees in the participating regulatory organizations, who contribute their time and expertise to the initiative while fulfilling their full-time responsibilities. We have also benefitted from the contribution of the Canadian Securities Transition Office (CSTO).

Finally, I want to welcome Mary Condon to the Board. Mary combines an outstanding reputation as a scholar in the field of securities law with significant regulatory experience. She fills a vacancy on the Board created when Howard Wetston was appointed to the Senate.

Message from the Chief Executive Officer



Kevan Cowan

During the past year, great strides were taken to ensure that the proposed Cooperative System is prepared to fulfill its mandate: providing strong investor protection, more efficient capital formation and access to capital markets, integrated policy development, harmonized securities laws, effective systemic risk management and a greater voice for Canada in international regulatory initiatives.

We are committed to ensuring a smooth transition to the new organization for market participants while establishing the infrastructure and processes needed to move forward. To that end, members of the CMAIO Executive Team and Project Management Office, along with the team from the Canadian Securities Transition Office, are working closely with the leaders of the participating regulatory organizations and their employees to bring the various regulators together.

Approximately 80 regulatory employees are serving on 13 workstreams dedicated to managing the myriad details involved in this complex undertaking: mapping out processes to support harmonized rules in local jurisdictions, designing an effective organization structure, developing the tools and protocols to manage systemic risk in Canada's capital markets and building the information technology infrastructure needed to support those initiatives. I offer a special thanks to the regulatory leaders and their employees for their persistence and continued efforts to balance everyday duties with a commitment to launching the CMRA.

We are working closely with the participating regulatory organizations and I look forward to having the Nova Scotia Securities Commission join our ranks. We are also committed to working with the jurisdictions who have not yet joined to ensure ongoing cooperation for the benefit of all market participants.

There is strong support and goodwill among market participants for the Cooperative System. I am active in meeting with external stakeholders and speaking at industry events to provide progress reports on the initiative. The on-going advice and encouragement I receive from industry is greatly appreciated.

I also want to join our Chair in thanking the Council of Ministers and their officials for their unwavering support of the Cooperative System. While there is still much work to be done, the CMRA is taking shape and will be ready to deliver a new platform to meet the changing needs of Canada's capital markets.

I Cooperative Capital Markets Regulatory System

The Participating Jurisdictions are implementing the Cooperative System, and invite non-participating provinces and territories to join.

The goals of this initiative, as outlined in the MOA signed by the governments of the Participating Jurisdictions, are:

- (i) foster more efficient and globally competitive capital markets in Canada and facilitate the raising of capital from investors across Canada and internationally through more integrated markets governed by innovative, responsive and flexible regulation on the basis of common standards reflected in cooperatively-developed regulations consistently applied;
- (ii) provide increased protection for investors through a combination of more consistent and active compliance activities, more effective enforcement against misconduct and improved coordination with police and prosecution authorities both within and outside Canada;
- (iii) strengthen Canada's capacity to identify and manage systemic risk on a national basis; and
- (iv) enable Canada, through the single voice of a new cooperative capital markets regulator, to play a more empowered and influential role in international capital market regulatory initiatives.

In addition, the Cooperative System will preserve the elements of the current system that work well, including the capacity to weigh and consider local perspectives, and will achieve needed reforms.

This initiative will lead to the creation of a cooperative regulator, the Capital Markets Regulatory Authority, with separate regulatory and adjudicative/tribunal divisions.

II Capital Markets Authority Implementation Organization

On July 20, 2015, the Participating Jurisdictions incorporated CMAIO under the Canada Not-for-profit Corporations Act to assist in the transition to and implementation of the CMRA. The Government of Canada, through CSTO and pursuant to a funding agreement, has committed to provide up to \$30 million to fund CMAIO's implementation activities.

CMAIO's mandate is set out in its articles of incorporation:

- (a) to assist in the transition to and implementation of CMRA, including assisting in the transition to and implementation of:
 - (i) the regulatory division of CMRA; and
 - (ii) the adjudicative division of CMRA;

- (b) to manage and carry out the operational merger of existing provincial and territorial securities regulatory bodies or operations, as the case may be, from Participating Jurisdictions into CMRA; and,
- (c) to do all such other things as are incidental or ancillary to the attainment of the foregoing purposes and the exercise of the powers of CMAIO.

Update on CMRA launch timeline

Subsequent to year end, the Participating Jurisdictions announced that the Cooperative System will not launch at the end of 2018. Officials are reviewing timelines, mindful that the Supreme Court of Canada is considering the constitutionality of elements of the Cooperative System.

An update on the timing of the launch of CMRA will be provided following the decision of the Supreme Court of Canada and the completion of the timeline review.

As a result of the timeline review, CMAIO is working with CSTO and the Participating Jurisdictions to review implementation plans to ensure that there is funding to deliver on the commitments in the MoA over a longer launch horizon.

III CMAIO Board of Directors and Management Team

The members of CMAIO's Board of Directors have extensive capital markets experience and are broadly representative of the regions of Canada. In fulfilling CMAIO's mandate, the Board is accountable to the Council of Ministers, which is comprised of Ministers responsible for capital markets regulation in each provincial and territorial Participating Jurisdiction and the Minister of Finance for Canada. Each Minister is accountable to his or her government and legislature for the Cooperative System.

The Board has four standing committees responsible for assisting the Board in fulfilling its responsibilities by focusing on specific areas of the Board's responsibilities and operations:

- Finance and Audit
- Governance and Communications
- Human Resources and Compensation
- Integration and Implementation

Mary Condon, a distinguished academic and regulator with over 25 years of experience in securities law, was appointed to the CMAIO Board in January, 2018.

The following table lists the Board of Directors and summarizes their committee assignments and attendance at full Board meetings and committee meetings:

Board Committees

	Board of Directors	Finance and Audit Committee	Governance and Communications Committee	Human Resources and Compensation Committee	Implementation and Integration Committee
Number of meetings	7	6	7	7	7
William Black ¹	7				
Andrea Bolger	7	6			
Joan Dunne	7	6			
Gary Girvan	7		7		
Rory Godinho	7		7		7
Nancy Hopkins	7			7	
Peter Klohn	7				7
Doug Knight	7			7	
Jill Leversage	7	6			
Harold MacKay	7				7
John McCoach	7		7		7
Jean-Pierre Ouellet	7	6			
Vicky Sharpe	7		7	7	
Eric Tripp	7			7	
Mary Condon ²	2				2

1. As Board Chair, Mr. Black is also an *ex officio* member of all four committees. In this capacity, he attended multiple committee meetings.

2. Mary Condon was appointed in January 2018. (However, she also attended the December Board and Implementation and Integration Committee meetings prior to her official appointment).

The Board has hired key senior employees, and engaged third parties, as required, to assist it in the integration. Senior management positions were filled, whenever possible, from the regulatory organizations of Participating Jurisdictions. A major contribution to the initiative has also come from the executives and staff of the Participating Jurisdictions' securities regulatory organizations.

The members of the Management Team are:

Kevan Cowan, CEO/Chief Regulator

Mr. Cowan is a financial services industry executive who has held varied strategic, management, operational, regulatory and policy roles across multiple business lines.

He was with TMX Group Inc. from 1997 to 2015, serving as President of TSX Markets and Group Head Equities since 2008. In that role, he was head of TMX's largest line of business, which included the Toronto Stock Exchange, TSX Venture Exchange, Alpha Exchange and TMX Select. From 2007 to 2009, Mr. Cowan was President of the TSX Venture Exchange and based in Calgary. Prior to joining the TMX Group, Mr. Cowan was a partner in corporate securities law at Smith Lyons LLP (now part of Gowling WLG).

Keith Persaud, Chief Administrative Officer

Mr. Persaud started with CMAIO in January 2016 in the role of Chief Administrative Officer. Prior to joining CMAIO, he was Senior Vice President, Finance and Administration, at the Investment Industry Regulatory Organization of Canada for eight years. Mr. Persaud has also held senior roles in corporate development and strategy in the investment industry.

Morag MacGougan, Corporate Secretary

Ms. MacGougan began with CSTO in 2010 and was appointed the Corporate Secretary of CMAIO in 2016. She was previously Vice President and Corporate Secretary of the Investment Industry Association of Canada and held senior roles in the Investment Dealers Association of Canada prior to that.

Joe Annibale, Head of Facilities

Mr. Annibale was previously the Manager, Administration for the Ontario Securities Commission (OSC), where he had been directing the OSC's facilities management services, real estate lease negotiations, renovation projects, insurance program, and procurement program, among other corporate administrative responsibilities. Prior to that role, Mr. Annibale had been the Manager, Finance and Administration for the Information Technology Division of the Ontario Ministry of Consumer and Commercial Relations.

Linda Cowan, Head of Information Systems

Ms. Cowan had been the Chief Information Officer at the British Columbia Securities Commission (BCSC) for four years, where she was managing the Information Management, Data Governance, and Technology teams in defining strategies that align with the business. Prior to joining the BCSC, Ms.

Cowan held IT Management positions at KPMG Canada, Canadian Venture Exchange and the Vancouver Stock Exchange.

Frank Panzetta, Head of Finance

Mr. Panzetta was previously with the OSC in the role of Controller, managing the OSC’s finance function and had held that role since 1999. Prior to joining the OSC, Mr. Panzetta held managerial roles in accounting and finance.

Frank Switzer, Chief Communications Officer

Mr. Switzer has extensive corporate communications experience in both the public and private sectors. He served as the global head of corporate communications for Sun Life Financial, and the global head of external communications for Scotiabank. Prior to that, Mr. Switzer was the Director of Communications for the OSC, and held senior communication roles at the Ontario Legislature and for an international infrastructure development company.

Ramona Tobler, Chief Human Resources Officer

Ms. Tobler has provided strategic human resources advice and guidance to executive and senior leadership teams in both large international and small entrepreneurial organizations. Prior to joining CMAIO, she was with Aviva Canada, where she held roles as Senior Organizational Change Consultant, VP Human Resources Business Partner, and most recently People Integration Lead - RBC Insurance Acquisition Home & Auto Division.

Compensation for Board of Directors and Management

CMAIO considers the Board of Directors and all members of the executive management team to be key personnel for the organization. Total compensation for the Board and executive management personnel for the period is outlined in the table below:

	Period ended March 31, 2018
Salaries and benefits for management staff ¹	\$2,810,400
Director fees	\$1,214,285
Total	\$4,024,685

1. Total includes: Salaries and benefits for the full period of this report for: CEO, CAO, Corporate Secretary and Heads of Facilities, Information Systems, Communications, Human Resources and Finance.

IV Report on Activities

The initiative to create the Cooperative System is split into two phases:

Phase I – Legislation and regulation

Representatives from the Participating Jurisdictions are responsible for the legislative requirements of creating the Cooperative system. This includes the development of the legislative framework, establishment of the CMRA entity and the legal integration of the regulatory operations of the Participating Jurisdictions' securities regulators.

Phase II – Integration

As noted earlier, the CMAIO Board is mandated to manage the operational integration of the participating regulatory organizations (PROs). To fulfill its responsibilities, the Board established a list of objectives it deemed necessary to complete the effective launch of CMRA.

The following highlights CMAIO's key initiatives and accomplishments towards those objectives, which can be grouped into three categories:

1. Managing the integration

To ensure a smooth integration process, CMAIO works collaboratively with the Participating Jurisdictions, the leadership of the PROs and their employees. Thirteen workstreams have been established, some of which are led by CMAIO staff while others are co-led by staff from the PROs. The CMAIO management team and Project Management Office oversee these workstreams and work with PRO leaders to leverage the expertise of their staff; in addition to their assigned duties, approximately 80 staff from these organizations contribute their knowledge and skills to the integration activities. The CMAIO Board is committed to communicating with market participants to ensure they understand the rationale behind the development of the Cooperative System and the benefits it is designed to deliver.

Objective	Progress
Manage Master Implementation Plan (MIP).	<ul style="list-style-type: none">• Monthly meetings held with program leads on progress and issues and regular reporting to the Implementation and Integration Committee and Board covering progress, risks, issues and program health• Proactive identification and management of milestones, interdependencies and risks
Manage or lead Phase II workstreams.	<ul style="list-style-type: none">• All workstream workplans monitored and adjusted during the year.
Develop stakeholder outreach, vision and brand strategies for CMRA.	<ul style="list-style-type: none">• Vision and mission statements have been developed by the Board.• A third-party consultant to assist in the brand development process has been engaged and survey of PRO employees has been distributed to gain input for development of brand and CMRA values.• Stakeholder outreach plan approved by Board and

	<ul style="list-style-type: none"> • implementation is ongoing. • CEO video distributed to PRO employees; town halls delayed to midway through 2018 calendar year due to uncertainty over announcement of new launch timeline. • Development of CMRA website underway.
Engage PRO leadership and employees in Change Management.	<ul style="list-style-type: none"> • People Workstream Stakeholder Team established to engage PRO leadership • Preliminary work, including engagement timeline, completed on regular communication to PRO employees • CMRA Intranet under construction with completion scheduled for end of 2018

Key Objectives for 2019

- Manage the Master Implementation Plan
- Manage or lead the Phase 2 workstreams
- Engage PRO leadership and employees in change management
- Continue stakeholder outreach
- Complete CMRA brand development and begin rollout
- Complete development of CMRA intranet and begin using to communicate with PRO employees
- Substantially complete development of CMRA website
- Develop orientation program on duties of a regulatory Board to provide additional information as needed to Directors
- Due to longer launch horizon, continue to review implementation plans with CSTO and Participating Jurisdictions to ensure there is funding to deliver on MoA commitments

2. Building out CMAIO

To fulfill CMAIO’s mandate, the Board is charged with ensuring that the operational, financial and governance requirements are in place to successfully launch CMRA.

Objective	Progress
Advance the Organization Design development.	<ul style="list-style-type: none"> • Organization structure layers 1-3 approved by Board: includes Chief Regulator/CEO position (Layer 1); direct reports to Chief Regulator/CEO, including Deputy CRs, Head of National Regulatory Programs, General Counsel and Chief Administrative Officer (Layer 2); and Local Office Directors and other senior executives (Layer 3)

	<ul style="list-style-type: none"> • Development of organization structure for teams that report to Layer 3 (Layer 4) underway • CMRA Management Committee mandates developed
Recruit regulatory leaders and corporate services leaders	<ul style="list-style-type: none"> • Chief Human Relations Officer hired and in place • Chief Communications Officer hired and in place • Recruitment of General Counsel and Regulatory leaders deferred
Create the Total Rewards Strategy.	<ul style="list-style-type: none"> • Total Rewards Strategy/Compensation philosophy approved by Board • Consultant selected through RFP process • Total Rewards Design Principles approved by Board • Regular meetings held with participating governments on both pension continuity and mobility

Key Objectives for 2019

- Advance organization design development
- Advance the total rewards strategy

3. Contributing to strong governance and effective legislation

As part of its mandate, CMAIO’s Board works with the Participating Jurisdictions to establish a mechanism for working with non-Participating Jurisdictions, and to develop reporting protocols with the Council of Ministers to ensure proper Ministerial oversight. The Board also provides advice to government officials responsible for policy in relation to the proposed legislation and regulations that the CMRA will administer.

Objective	Progress
Working to formalize future CSA relations with Participating Jurisdictions and PROs	<ul style="list-style-type: none"> • Recommendation for interface between CMRA and non-participating jurisdictions delivered to Participating Jurisdictions
Review legislation and regulations and provide input to Participating Jurisdictions	<ul style="list-style-type: none"> • Continued to work with Participating Jurisdictions to provide input on drafts • Language of Service draft policy developed by CMAIO
Develop CMRA Accountability Framework with Participating Jurisdictions	<ul style="list-style-type: none"> • Reviewed and commented on initial draft

Consult with Participating Jurisdictions on integration /transfer agreements	<ul style="list-style-type: none">• Commenced work on the project charter for the Commercial Transaction workstream and review of Saskatchewan Services Agreement is underway
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Key Objectives for 2019

- Work cooperatively with non-participating provincial and territorial regulators to advance negotiations on implementation of interface mechanism
- Continue to provide input on proposed legislation and regulations, with a focus on the Capital Markets Regulatory Authority Act;
- Continue to work with Participating Jurisdictions on accountability framework
- Work with participating jurisdictions on impact of the Supreme Court of Canada decision regarding the constitutionality of elements of the Cooperative System

MANAGEMENT DISCUSSION AND ANALYSIS (in thousands of dollars)

This Management's Discussion and Analysis ("MD&A") contains management's interpretation of the Capital Markets Authority Implementation Organization's ("CMAIO") financial performance for the 2018 fiscal year ended March 31, 2018, compared with the previous fiscal period ended March 31, 2017. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out CMAIO's plans for the year ahead.

This MD&A should be read in conjunction with CMAIO's 2018 Financial Statements and related notes. Together, the MD&A and financial statements provide key information about CMAIO's performance and ability to meet its objectives.

Important information about this MD&A

- The information in this MD&A is prepared as of June 13, 2018, which is the date it was approved by the Board of Directors.
- The terms "we", "us" and "our" refer to the Capital Markets Authority Implementation Organization.
- This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on CMAIO's current views of future events and financial performance.
- The words "believe", "plan", "intend", "estimate", "expect", "anticipate" and similar expressions, as well as future conditional verbs, such as "will", "should", "would" and "could" often identify forward-looking statements.
- The words "plan" and "budget" are synonymous in this MD&A and are used interchangeably. Both describe the planned budget revenue and expenses for the related fiscal year.
- Unless otherwise specified, references to a year refer to CMAIO's fiscal period ended March 31.
- Notes to the financial statements refer to CMAIO's 2018 Notes to the Financial Statements.
- All financial information has been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") using the deferral fund method of reporting externally restricted contributions, as described in note 3 to the financial statements.
- Amounts shown in this MD&A are expressed in thousands of Canadian dollars.
- Due to rounding, some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components.

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About CMAIO

On July 20, 2015, the governments of British Columbia, New Brunswick, Ontario, Prince Edward Island, Saskatchewan, Yukon and Canada (Participating Jurisdictions) incorporated the Capital Markets Authority Implementation Organization (“CMAIO”) under the *Canada Not-for-profit Corporations Act* to assist in the transition to and implementation of the Capital Markets Regulatory Authority (“CMRA”). CMAIO commenced operations of August 8, 2016.

CMAIO is accountable for managing and executing the operational merger of existing provincial and territorial securities regulatory bodies (“Participating Regulatory Organizations”) from Participating Jurisdictions into CMRA. In executing this accountability, CMAIO also (i) assists in the transition to and implementation of the regulatory and adjudicative/tribunal divisions; (ii) consults with Participating Jurisdictions on legislation and regulations; and (iii) does all such other things that are incidental or ancillary to achieve the launch of CMRA.

Financial highlights

The following table summarizes key financial highlights for CMAIO for the year ended March 31, 2018, together with the comparative budget and comparative results to the period beginning August 8, 2016 and ending March 31, 2017.

<i>(in thousands of dollars)</i>	2018 Budget	2018 Actual	2017 Actual
Expenses	15,108	6,506	3,514
Revenue			
Funding received	11,861	4,807	6,957
Add: recognition of deferred funding		3,458	-
Less: deferred funding		(1,802)	(3,458)
Interest income		43	15
Total		6,506	3,514
Net results of operations		-	-
Cash provided by (used in) operating activities		(1,183)	3,810
Acquisition of capital assets		(230)	(44)
Increase (Decrease) in cash		(1,413)	3,766
Cash and cash equivalents		2,353	3,766
Net financial assets ⁽ⁱ⁾		1,409	3,259

(i) Being Cash, Accounts receivable, Accounts payable, net, which is a non-GAAP measure.

Priorities

The budget for the 2018 fiscal year was prepared by CMAIO to accomplish a number of priorities that were identified in the business plan. For the year April 1, 2017 to March 31, 2018, the CMAIO Board of directors (“Board”) approved several objectives, which included among others:

- Managing the master implementation plan by using internal project management and Participating Regulatory Organizations’ resources to proactively oversee the launch of CMRA.
- Having CMAIO managers lead the operational / regulatory or Phase 2 workstreams in their areas of accountability utilizing employee resources from the Participating Regulatory Organizations.
- Advancing the development of the organizational design, together with role profiles, for layers one to three.
- Recruiting regulatory and corporate leaders.
- Developing the stakeholder outreach, vision and brand strategies for CMRA.
- Formalizing relationships with Non-Participating Jurisdictions.

The CMAIO Board would also assist with the following for the independent Tribunal:

- Appointing the Chief Adjudicator.
- Hiring of internal staff and engaging external counsel to support the Tribunal.

The total amount budgeted in the period to achieve these objectives is \$15,108. Actual expenses for the year ended March 31, 2018 totaled \$6,506 (period August 8, 2016 to March 31, 2017 - \$3,514). The differences between the budgeted costs and actual costs are explained below.

Operating results

Funding

The Government of Canada, through the Canadian Securities Transition Office (“CSTO”), has committed to provide up to \$30 million to support CMAIO’s implementation activities. The disbursement of these funds is subject to a funding agreement (the “Agreement”) between CSTO and CMAIO, signed on August 9, 2016.

The Agreement requires CMAIO to submit a business plan and budget to CSTO semi-annually, accompanied by a request for funds to cover each six-month period. In 2018, CSTO provided \$4,807 (2017 - \$6,957) in funding to CMAIO which covered the year ended March 31, 2018. CMAIO follows the deferral method of accounting for contributions.

In accordance with ASNPO, CMAIO has deferred unused contributions to a subsequent period, as any residual funds held by CMAIO are required to be returned to CSTO.

Contributed materials and services were not recognized.

Expenses

Given the difference in the periods covered, we have not provided a discussion of the variance between the 2018 and 2017 operating results because such a comparison would not be meaningful.

In April 2017, CMAIO's Board approved a budget of \$15,108 to support the initiatives described in the approved Business Plan for fiscal year 2018. In June 2017, it was determined that the planned timeline to launch CMRA by the end of 2018 would not be achievable. This was primarily due to the expected appeal to the Supreme Court of Canada on the constitutionality of elements of the Cooperative System. Following the end of the 2018 fiscal year, the participating governments subsequently announced a delay in the launch timeline.

Given the uncertainty surrounding the launch timeline, CMAIO acted with prudence in the use of remaining launch funding. Steps taken to reduce and defer spending included deferring the recruitment of additional staff and delaying work on initiatives that would become stale or would have to be re-performed.

As a result, total expenses were \$6,506 for the year (2017 – 3,514), which is \$8,602, or 57% lower than the amount budgeted. Below, we provide explanation for the major categories that contribute to the variance.

<i>(in thousands of dollars)</i>	% of expenses	2018 Actual	2018 Budget	Variance \$	%
Compensation and benefits	74.7%	4,857	7,301	2,444	33%
External services	17.5%	1,137	7,113	5,976	84%
Other administration	7.6%	497	671	174	26%
Amortization	0.2%	15	23	8	35%
Total expenses	100.0%	6,506	15,108	8,602	57%

Compensation and benefits costs were \$2,444 (33%) lower than planned for the current year. This expense component is comprised of both staff and director compensation. Staff compensation was lower as a result of the deferral of recruiting staff arising from the expected delay in launch timing. This included delaying the recruitment of staff (\$962) and delaying the recruitment of the Chief Adjudicator and supporting staff (\$752). Additionally, approximately \$230 in staff expenses for the development of the CMRA website have been capitalized under intangible assets. Director compensation was below plan by \$404 as a result of the Board holding five fewer Board meetings than were planned in the year.

External services refers primarily to spending on consulting support for the operational merger and integration of the Participating Regulatory Organizations. External services were underspent by \$5,976 (84%). Spending on external services was limited to those initiatives that were deemed necessary and

would not become stale or would need to be re-performed. The majority of the spending in this category was to advance development work in the following areas:

- CMRA vision, mission and brand.
- CMRA organization design and total rewards strategy.
- CMRA website and intranet.

Other administration costs, which included travel and hospitality costs, were \$174 (26%) under plan as a result of lower training and general administration costs. Also contributing to the variance was the reduction in Board meetings, which required less travel for out of town directors.

No Tribunal costs were incurred because the Chief Adjudicator was not appointed during the year.

CMAIO shares office space with the CSTO and premises costs for this space is borne by CSTO, as outlined in the funding agreement.

Liquidity and financial position

CMAIO had net financial assets of \$1,409 as at March 31, 2018 (2017 - \$3,259). Net financial assets are comprised of cash of \$2,353 (2017 - \$3,766) and accounts receivable of \$50 (2017 - \$101), partially offset by accounts payable and accrued liabilities of \$994 (2017 - \$608).

Cash

At March 31, 2018, CMAIO held cash of \$2,353. Cash flows from operating activities resulted in a decrease in the cash balance of \$1,183 (2017 – increase of \$3,810). The purchase of equipment and the development of the website, resulted in an additional decrease in cash of \$231 (2017 - \$44). The ending cash balance will be used to pay the remaining liabilities as well as cover costs projected in the 2019 budget as the funding request for 2019 will be reduced by the amount of deferred contributions.

Accounts receivable

Accounts receivable were \$50 (2017 - \$101) and consist mainly of the amount recoverable from the Government of Canada for GST and HST paid during the second half of the year of \$47.

Prepaid expenses

Prepaid expenses totaled \$137 (2017 - \$158) and consist of the cost of prepaid flight passes (\$77), the prepaid portion for information technology services (\$35) and prepaid insurance (\$25).

Equipment and intangible assets

Equipment totaling \$23 (2017 - \$35) is comprised mainly of computing and mobile devices for staff and Directors. Intangible assets total \$233 (2017 - \$6), mainly for the development of the CMRA website, and for software purchases. The website is being developed for CMRA and accordingly, no amortization is being taken on these amounts.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities totaled \$994 (2017 - \$608) and are comprised of \$236 (2017 - \$398) in trade payables and \$758 (2017 - \$210) in accrued staff and director compensation, of which \$467 is for employee incentive awards.

2019 Business Plan

In February 2018, the CMAIO Board approved a business plan for 2019 that considered (i) the prudent use of the current available funding in light of the extended launch timeline now confirmed by the Participating Jurisdictions; and (ii) the need to address funding over the extended launch timeline.

The plan for 2019 focuses on moving workstream initiatives forward using existing resources and prioritising activities appropriately for the extended launch timeline. Accordingly, the following objectives, among others, are planned for 2019:

- Manage the Master Implementation Plan
- Lead the operational / regulatory or Phase 2 workstreams
- Advance organization design development for roles and accountabilities
- Continue stakeholder outreach, vision and brand strategies
- Formalize CSA relations
- Engage PRO leadership and employees in change management
- Consult with the Council of Ministers on legislation, regulations, CMRA accountability framework, and legal combination of Participating Regulatory Organizations into CMRA
- Provide regulatory orientation to CMAIO Directors
- Assess launch funding requirements due to the extended timeline
- Work with participating jurisdictions on impact of the Supreme Court of Canada decision regarding the constitutionality of elements of the Cooperative System

Given the delay in the launch timeline, recruitment of the Chief Adjudicator, as well as staff to support the Chief Adjudicator will not occur in fiscal year 2019.



Financial Statements

Capital Markets Authority Implementation
Organization

March 31, 2018

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Independent Auditor's Report

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To the Members of
Capital Markets Authority Implementation Organization

We have audited the accompanying financial statements of the Capital Markets Authority Implementation Organization, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in net assets and cash flows for the year ended March 31, 2018 and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Markets Authority Implementation Organization as at March 31, 2018, and the results of its operations and its cash flows for the year ended March 31, 2018 in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Canada
June 13, 2018



Chartered Professional Accountants
Licensed Public Accountants

Capital Markets Authority Implementation Organization

Statement of Financial Position

March 31

2018

2017

Assets

Current

Cash	\$ 2,352,770	\$ 3,766,085
Accounts receivable (Note 4)	50,080	101,343
Prepaid expenses	<u>136,784</u>	<u>157,932</u>
	2,539,634	4,025,360

Equipment (Note 5)	23,310	34,668
Intangible assets (Note 6)	<u>233,244</u>	<u>6,190</u>
	<u>\$ 2,796,188</u>	<u>\$ 4,066,218</u>

Liabilities

Current

Accounts payable and accrued liabilities	\$ 994,069	\$ 608,135
Deferred contributions (Note 7)	<u>1,802,119</u>	<u>3,458,083</u>
	2,796,188	4,066,218

Net assets

Unrestricted	<u>-</u>	<u>-</u>
	<u>\$ 2,796,188</u>	<u>\$ 4,066,218</u>

On behalf of the Board

_____ Director

_____ Director

Capital Markets Authority Implementation Organization

Statement of Operations and Changes in Net Assets

Year/period ended March 31

2018

2017
(Note 1)

Revenue

Funding (Note 2)	\$ 6,463,244	\$ 3,499,017
Investment income	<u>43,140</u>	<u>15,355</u>
	6,506,384	3,514,372

Expenses

Compensation and benefits	4,857,286	2,254,558
External services	1,137,118	919,199
Other administration	497,070	337,555
Amortization	<u>14,910</u>	<u>3,060</u>
	6,506,384	3,514,372

Excess of revenue over expenses	-	-
Net assets, beginning of period	<u>-</u>	<u>-</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Capital Markets Authority Implementation Organization

Statement of Cash Flows

Year/period ended March 31

2018

2017
(Note 1)

Increase (decrease) in cash and cash equivalents

Operating		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash		
Amortization of equipment	12,475	1,946
Amortization of intangible assets	2,435	1,114
	<u>14,910</u>	<u>3,060</u>
Net change in non-cash working capital items		
Accounts receivable	51,263	(101,343)
Prepaid expenses	21,148	(157,932)
Accounts payable and accrued liabilities	385,934	608,135
Deferred contributions	<u>(1,655,964)</u>	<u>3,458,083</u>
	<u>(1,197,619)</u>	<u>3,806,943</u>
Cash flows from operating activities	<u>(1,182,709)</u>	<u>3,810,003</u>
Investing		
Purchase of equipment	(1,117)	(36,614)
Purchase of intangible assets	<u>(229,489)</u>	<u>(7,304)</u>
	<u>(230,606)</u>	<u>(43,918)</u>
Net change in cash during the period	(1,413,315)	3,766,085
Cash, beginning of period	<u>3,766,085</u>	-
Cash, end of period	<u>\$ 2,352,770</u>	<u>\$ 3,766,085</u>

See accompanying notes to the financial statements.

Capital Markets Authority Implementation Organization

Notes to the Financial Statements

March 31, 2018

1. Nature of operations

Capital Markets Authority Implementation Organization (the "Organization") was incorporated on July 20, 2015 as a not-for-profit corporation without share capital under the Canada Not-for-Profit Corporation Act, and became operational on August 8, 2016. Any startup costs incurred prior to August 8, 2016 were absorbed by the Canadian Securities Regulation Regime Transition Office ("CSTO"), under the terms of their funding agreement. As such, these financial statements represent the operations of the Organization for the year ending March 31, 2018, and the comparative period of August 8, 2016 to March 31, 2017.

The Organization is exempt from income tax under Section 149(1) of the Income Tax Act.

The Organization has been incorporated to assist in the transition to and implementation of the Capital Markets Regulatory Authority ("CMRA"). This includes (i) assisting in the transition to and implementation of the regulatory and adjudicative/tribunal divisions; (ii) managing and executing the operational merger of existing provincial and territorial securities regulatory bodies or operations from Participating Jurisdictions into CMRA; and (iii) doing all such other things that are incidental or ancillary to achieve the above.

2. Funding

The Organization is funded by the Federal government through a funding agreement with CSTO. The operations of the Organization are dependent on the funding it receives from CSTO. The termination of this agreement would have a material adverse impact on the Organization's results and financial position.

All funding received from CSTO is considered externally restricted based on the terms within the funding agreement whereby any residual funds held by CMAIO shall be returned to CSTO.

3. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO). The more significant accounting policies adopted are outlined below.

Use of estimates

The preparation of the Organization's financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Financial instruments

The Organization's financial instruments comprise cash, accounts receivable and accounts payable. Financial assets and liabilities are initially recognized at their fair value. The Organization subsequently measures all financial assets and financial liabilities at amortized cost, except for cash, which is recorded at fair value.

Capital Markets Authority Implementation Organization

Notes to the Financial Statements

March 31, 2018

3. Summary of significant accounting policies - continued

Equipment

Equipment is recorded at cost and is being amortized over its estimated useful life. The annual amortization rate is as follows:

Computer equipment	3 years straight-line
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The estimated useful life of equipment is reviewed by management and adjusted if necessary.

When equipment no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its residual value.

Intangible assets

Intangible assets are comprised of computer software and website development costs.

Computer software is recorded at cost and amortized over its useful life.

Computer software	3 years straight-line
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Website developments costs represent costs incurred to develop the CMRA website. The Organization has elected to capitalize these costs. Although the website is being developed by the Organization, it will be used after the launch of CMRA. Website development costs are recorded at cost.

When an intangible asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its residual value.

Revenue recognition

The organization follows the deferral method for recognizing externally restricted contributions whereby funding received is initially recorded as deferred contributions and is recognized as revenue in the year in which the related expenses are incurred.

Contributed materials and services

Under the terms of the funding agreement with CSTO, CSTO provides the Organization with administrative support services and office space at no cost to the Organization. Contributed goods and services are not reflected in these financial statements.

4. Accounts receivable

	<u>2018</u>	<u>2017</u>
Miscellaneous receivables	\$ 2,752	\$ 3,302
GST/HST receivable	<u>47,328</u>	<u>98,041</u>
	<u>\$ 50,080</u>	<u>\$ 101,343</u>

Capital Markets Authority Implementation Organization

Notes to the Financial Statements

March 31, 2018

5. Equipment

			<u>2018</u>	<u>2017</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 37,731	\$ 14,421	\$ 23,310	\$ 34,668

6. Intangible assets

			<u>2018</u>	<u>2017</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer software	\$ 7,304	\$ 3,549	\$ 3,755	\$ 6,190
Website development costs	<u>229,489</u>	-	<u>229,489</u>	-
	<u>\$ 236,793</u>	<u>\$ 3,549</u>	<u>\$ 233,244</u>	<u>\$ 6,190</u>

The website is being developed for CMRA and accordingly, no amortization is being taken on these amounts.

7. Deferred contributions

	<u>2018</u>	<u>2017 (Note1)</u>
Deferred contributions, beginning of period	\$ 3,458,083	\$ -
Funds received	4,807,280	6,957,100
Less: revenue recognized	<u>(6,463,244)</u>	<u>(3,499,017)</u>
Deferred contributions, end of period	<u>\$ 1,802,119</u>	<u>\$ 3,458,083</u>

8. Financial instruments

Transactions in financial instruments may result in the Organization assuming or transferring to another party one of more of the financial risks described below. The required disclosures provide information that assists users of the financial statements in assessing the extent of risk related to financial instruments.

Capital Markets Authority Implementation Organization

Notes to the Financial Statements

March 31, 2018

8. Financial instruments - continued

Credit risk

The Organization's credit risk is primarily with respect to their accounts receivable. Given the nature and source of outstanding receivables, the Organization does not consider credit risk to be significant.

Interest rate risk

Interest rate risk is the risk that the fair value (price risk) or future cash flows (cash flow risk) of a financial instrument will fluctuate because of changes in market interest rates. The Organization is not exposed to interest rate risk due to the nature of their financial instruments.

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to liquidity risk mainly in respect of its accounts payable. The Organization manages liquidity risk by maintaining cash balances in excess of outstanding obligations.

Currency risk

Currency risk is the risk to the Organization that arises from fluctuations in foreign exchange rates. The Organization is not exposed to significant currency risk as transactions in foreign currencies are limited.