

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Financial Statements

December 31, 2022

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

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Year Ended December 31, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Members of Ontario Motor Vehicle Industry Council

Opinion

We have audited the financial statements of Ontario Motor Vehicle Industry Council (the "Council"), which comprise the statement of financial position as at December 31, 2022, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

Emphasis of Matter

We draw attention to *Note 2* to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2021 has been restated, as a result of a change in accounting policy. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the 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.

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

We 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 we identify during our audit.

Hogg, Shain & Scheck PC

Toronto, Ontario
April 13, 2023

Authorized to practise public accounting by the
Chartered Professional Accountants of Ontario

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Financial Position

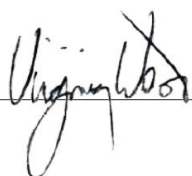
As at December 31, 2022

	2022	2021 <i>(Restated - Note 2)</i>
ASSETS		
Current		
Cash	\$ 5,439,095	\$ 8,963,886
Short-term investments <i>(Note 4)</i>	6,300,000	-
Accounts receivable	135,234	17,725
Prepaid expenses	221,047	183,487
	12,095,376	9,165,098
Investments <i>(Note 5)</i>	8,523,085	16,730,538
Capital assets <i>(Note 6)</i>	3,408,253	3,047,533
	\$ 24,026,714	\$ 28,943,169
LIABILITIES		
Current		
Accounts payable and accrued liabilities <i>(Note 11)</i>	\$ 1,511,075	\$ 1,490,482
Registration fees received in advance	3,862,058	3,918,886
	5,373,133	5,409,368
Deferred contributions - capital assets <i>(Note 7)</i>	184,867	264,094
Deferred lease inducement	135,567	193,667
	5,693,567	5,867,129
NET ASSETS		
Invested in capital assets <i>(Note 8)</i>	3,223,386	2,783,439
Internally restricted reserves <i>(Note 9)</i>	12,179,867	15,844,149
Unrestricted	2,929,894	4,448,452
	18,333,147	23,076,040
	\$ 24,026,714	\$ 28,943,169

Commitments *(Note 12)*

Contingencies *(Note 13)*

APPROVED ON BEHALF OF THE BOARD

 _____ Director

 _____ Director

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Changes in Net Assets

Year Ended December 31, 2022

	Invested in capital assets <i>(Note 8)</i>	Internally restricted operating reserve	Internally restricted IT reserve	Internally restricted contingency reserve	Internally restricted program continuation reserve	Unrestricted	2022	2021 <i>(Restated - Note 2)</i>
NET ASSETS - BEGINNING OF YEAR	\$ 2,783,439	\$ 10,000,000	\$ 720,783	\$ 2,174,577	\$ 2,948,789	\$ 4,448,452	\$ 23,076,040	\$ 24,864,034
Prior period adjustments <i>(Note 2)</i>	-	-	-	-	-	-	-	<i>(2,500,723)</i>
As restated	2,783,439	10,000,000	720,783	2,174,577	2,948,789	4,448,452	23,076,040	22,363,311
Excess (deficiency) of revenues over expenses	-	-	-	-	-	(4,742,893)	(4,742,893)	712,729
Amortization of deferred contributions	79,227	-	-	-	-	(79,227)	-	-
Amortization of capital assets	(308,270)	-	-	-	-	308,270	-	-
Purchase of capital assets	668,990	-	-	-	-	(668,990)	-	-
Interfund transfers	-	-	(479,049)	(736,444)	(2,448,789)	3,664,282	-	-
NET ASSETS - END OF YEAR	\$ 3,223,386	\$ 10,000,000	\$ 241,734	\$ 1,438,133	\$ 500,000	\$ 2,929,894	\$ 18,333,147	\$ 23,076,040

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Operations

Year Ended December 31, 2022

	2022	2021 <i>(Restated - Note 2)</i>
REVENUES		
Transaction fees	\$ 12,051,540	\$ 12,410,380
Registration fees	5,380,803	5,479,258
Transfer fees	479,175	488,775
Certification course fees	320,995	302,675
Amortization of deferred contributions <i>(Note 7)</i>	79,227	79,227
Disciplinary fines	65,900	117,450
Investment and other income (loss) <i>(Note 10)</i>	<u>(1,744,055)</u>	868,069
	16,633,585	19,745,834
EXPENSES		
Salaries and benefits <i>(Note 11)</i>	14,210,956	12,838,627
Public awareness	1,901,973	1,973,214
Professional fees	1,728,553	1,077,929
Occupancy <i>(Note 11)</i>	833,844	841,944
General and administrative <i>(Note 11)</i>	747,956	717,000
Per diem allowances	599,649	573,504
Travel	326,627	196,412
Amortization of capital assets	308,270	258,756
Government oversight fees	271,809	247,442
Telecommunications	236,774	199,842
Industry awareness	<u>210,067</u>	108,435
	21,376,478	19,033,105
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (4,742,893)	\$ 712,729

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Cash Flows

Year Ended December 31, 2022

	2022	2021 <i>(Restated - Note 2)</i>
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ (4,742,893)	\$ 712,729
Items not affecting cash:		
Unrealized (gains) losses on investments	2,601,599	(610,124)
Realized capital gains on investments	(664,260)	(183,001)
Amortization of capital assets	308,270	258,756
Amortization of deferred contributions	(79,227)	(79,227)
Amortization of deferred lease inducement	(58,100)	(58,100)
	<u>(2,634,611)</u>	41,033
Changes in non-cash working capital:		
Accounts receivable	(117,509)	(2,125)
Prepaid expenses	(37,560)	(44,390)
Accounts payable and accrued liabilities	20,593	215,474
Registration fees received in advance	(56,828)	(41,799)
	<u>(191,304)</u>	127,160
Cash flows from (used by) operating activities	<u>(2,825,915)</u>	168,193
INVESTING ACTIVITIES		
Change in investments (net)	6,270,114	(9,088)
Purchase of short-term investments	(6,300,000)	-
Purchase of capital assets	(668,990)	(1,720,760)
Cash flows used by investing activities	<u>(698,876)</u>	(1,729,848)
DECREASE IN CASH	(3,524,791)	(1,561,655)
CASH - BEGINNING OF YEAR	8,963,886	10,525,541
CASH - END OF YEAR	\$ 5,439,095	\$ 8,963,886

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

1. NATURE AND PURPOSE OF THE ORGANIZATION

Ontario Motor Vehicle Industry Council (the "Council") is Ontario's first administrative authority created pursuant to the Safety and Consumer Statutes Administration Act ("SCSAA"), with the mandate to administer the Ontario Motor Vehicle Dealers Act (the "MVDA"). This authority was delegated to the Council by the Minister of Consumer and Commercial Relations (the "Minister") on January 7, 1997 through an Administrative Agreement (the "Agreement") with the Minister. The Council is a not-for-profit organization incorporated without share capital under the laws of the Province of Ontario by letters patent dated October 8, 1996.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2022, the Council has chosen to early adopt all of the requirements under additional guidance provided under Part II of the CPA Canada Handbook, Section 3400, *Revenue*. The adoption of these requirements resulted in a change in the revenue recognition accounting policy for registration fees.

This change in accounting policy was applied retrospectively, as permitted by the transition provisions, and resulted in adjustments of the financial statements as follows:

Statement of Financial Position:

	As previously stated	Adjustment	Restated
As at January 1, 2021:			
Net assets, beginning of year	\$ 24,864,034	\$ (2,500,723)	\$ 22,363,311
Registration fees received in advance	1,459,962	2,500,723	3,960,685
As at December 31, 2021:			
Net assets, end of year	25,407,313	(2,331,273)	23,076,040
Registration fees received in advance	\$ 1,587,613	\$ 2,331,273	\$ 3,918,886

Statement of Operations for the year ended December 31, 2021:

	As previously stated	Adjustment	Restated
Registration fees	\$ 5,309,808	\$ 169,450	\$ 5,479,258

Statement of Cash Flows for the year ended December 31, 2021:

	As previously stated	Adjustment	Restated
Registration fees received in advance	\$ 127,651	\$ (169,450)	\$ (41,799)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are the representation of management and have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") in Part III of the CPA Canada Handbook.

(continues)

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Transaction fees

Dealers are required to remit \$10 for every sale (excluding wholesale transactions), lease, fleet, or "as is" transactions for the prior twelve month period as a component of their registration renewal fee. Dealers are responsible for reporting sales accurately to the Council and to remit the amount due when renewing their registration.

Registration fees

Effective January 1, 2022, the Council has chosen to early adopt all of the requirements under additional guidance of Section 3400, Revenue, refer to *Note 2* for details and resulting adjustments in the financial statements.

Fees charged for registration as a salesperson are for a two-year period and are recognized on a monthly basis as received. Unearned fees are recorded as registration fees received in advance.

Fees charged for registration as a dealer are paid annually and are recognized on a monthly basis as received.

Transfer fees

A transfer fee is charged when a registered salesperson moves from one dealership to another. Transfer fees are recognized upon written notice and when the Council receives payment.

Certification course fees

New applicants for registration must pass a certification course run by the Automotive Business School of Canada on behalf of the Council through Georgian College. Certification course fees are recognized when a new applicant registers for the course.

Disciplinary fines

Disciplinary fines are imposed on registrants through an internal Council disciplinary process. These fines are recognized as revenue when the Council receives payment.

Investment and other income

Investment and other income, which is recorded on an accrual basis, includes interest income, dividends, net realized gains (losses) on sale of investments, and net unrealized gains (losses).

Financial instruments

The Council's financial instruments consist of cash, short-term investments, accounts receivable, investments, and accounts payable.

Financial instruments are initially measured at fair value, and subsequently, at amortized cost, except for investments that are quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in the statement of operations.

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ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial instruments

Financial assets, measured at cost or amortized cost, are tested for impairment if there are indications of possible impairment. A previously recognized impairment loss may be reversed to the extent of the improvement, either directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment loss not been recognized previously. The amount of any write down or reversal is recognized in excess (deficiency) of revenues over expenses for the year.

Investments

Investments in publicly-traded securities are valued based on the latest bid prices, and pooled funds are valued based on unit values reported by the investment managers. Transactions are recorded on a trade date basis and transaction costs, including investment management fees, are expensed as incurred.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Term of lease
Computer software	3 years
Computer hardware	3-4 years
Furniture and fixtures	5 years
Office equipment	5 years

Impairment of long-lived assets

Long-lived assets, comprising of capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to be held and used with the total of the undiscounted cash flows expected from its use and disposition. If the asset is impaired, the impairment loss to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to excess (deficiency) of revenues over expenses during the year. An impairment loss is not reversed if the fair value of the related long-lived asset subsequently increases.

Deferred lease inducement

The Council moved into a new office in 2014 and the lease agreement included a free rent period from May 1, 2014 to April 30, 2015. The benefit of this rent inducement is recognized on a straight-line basis over the term of the lease. Total rent expense is based on the entire cash cost over the term of the lease amortized evenly over the term of the lease.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates include the useful lives of capital assets in calculating amortization, and year-end accrued liabilities. Such estimates are periodically reviewed and any adjustments necessary are reported in excess (deficiency) of revenues over expenses in the year in which they become known. Actual results could differ from these estimates.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

4. SHORT-TERM INVESTMENTS

Short-term investments include Guaranteed Investment Certificates ("GICs") issued by major Canadian chartered banks. The GICs earn interest between 2.70% and 4.55% (2021 - nil), maturing between August and September 2023 (2021 - nil).

5. INVESTMENTS

	2022	2021
Cash and cash equivalents	\$ 1,840,206	\$ 1,949,072
Fixed income		
Canadian	4,786,825	4,176,437
Foreign	206,601	-
Alternative asset classes	1,689,453	1,784,214
Equities		
Foreign	-	6,650,819
Canadian	-	2,169,996
	\$ 8,523,085	\$ 16,730,538

Fixed-income investments yield interest between 0.50% and 7.10% (2021 - 0.50% and 7.10%) and have maturities ranging from September 2025 to March 2050 (2021 - June 2022 to December 2051). Alternative asset classes consist of investments in private placements in long-term health care funds.

6. CAPITAL ASSETS

	Cost	Accumulated amortization	2022 Net book value	2021 Net book value
Leasehold improvements	\$ 1,602,661	\$ 1,202,917	\$ 399,744	\$ 565,155
Computer software	2,840,191	63,268	2,776,923	2,304,853
Computer hardware	651,224	486,249	164,975	142,000
Furniture and fixtures	255,001	205,727	49,274	26,532
Office equipment	86,487	69,150	17,337	8,993
	\$ 5,435,564	\$ 2,027,311	\$ 3,408,253	\$ 3,047,533

Computer software includes \$2,770,018 (2021 - \$2,279,217) for a CRM replacement which was not in use at year-end, and was not amortized.

7. DEFERRED CONTRIBUTIONS - CAPITAL ASSETS

	2022	2021
Balance, beginning of year	\$ 264,094	\$ 343,321
Amortization of deferred contributions	(79,227)	(79,227)
Balance, end of year	\$ 184,867	\$ 264,094

In 2014, the Council received contributions under the terms of the lease of its new premises to pay for leasehold improvements. The contributions are amortized into revenues on the same basis as the related leasehold improvements, which is the term of the lease.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

8. INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets, which represents internally financed capital assets, are calculated as follows:

	<u>2022</u>	<u>2021</u>
Capital assets, net	\$ 3,408,253	\$ 3,047,533
Less: unamortized deferred contributions - capital assets	<u>(184,867)</u>	<u>(264,094)</u>
	<u>\$ 3,223,386</u>	<u>\$ 2,783,439</u>

9. INTERNALLY RESTRICTED RESERVES

Internally restricted reserves have been established by the Council's Board of Directors (the "Board") for specific purposes, as follows:

	<u>2022</u>	<u>2021</u>
Operating reserve (a)	\$ 10,000,000	\$ 10,000,000
IT reserve (b)	241,734	720,783
Contingency reserve (c)	1,438,133	2,174,577
Program continuation reserve (d)	<u>500,000</u>	<u>2,948,789</u>
	<u>\$ 12,179,867</u>	<u>\$ 15,844,149</u>

(a) During fiscal 2010, the Council created an operating reserve equivalent to six months of annual operating expenses, excluding amortization of capital assets, for the purposes of maintaining funds in the unforeseen events of winding down operations or experiencing operating shortfalls.

(b) During 2019, the Council established an internally restricted reserve for capital projects, comprised of funds restricted for information technology capital improvements expected to take place within the following three years.

During 2020, the Board approved a change in the name to *IT reserve* to allow for both capital and operating information technology improvements.

(c) During 2019, the Council established an internally restricted reserve for contingencies or other specific purposes as designated by the Board. During 2022, the Board approved an interfund transfer in the amount of \$500,000 from this reserve to unrestricted net assets.

(d) During 2020, the Board established an internally restricted reserve to allow for the continuation of various Public Awareness, Industry Awareness, and other programs. During 2022, the Board approved an interfund transfer in the amount of \$2,448,789 from this reserve to unrestricted net assets.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

10. INVESTMENT AND OTHER INCOME (LOSS)

	2022	2021
Realized capital gains	\$ 664,260	\$ 183,001
Interest income	153,377	42,790
Other	39,907	650
Dividend income	-	31,504
Unrealized gains (losses)	(2,601,599)	610,124
	\$ (1,744,055)	\$ 868,069

11. MOTOR VEHICLE DEALERS COMPENSATION FUND

The Motor Vehicle Dealers Compensation Fund (the "Fund") was established on July 1, 1986 under the MVDA, to stand in place of registered motor vehicle dealers (the "Participants") where a Participant has refused, failed, or been unable to pay a claim registered against that Participant. Claims are submitted by consumers and approved by the Board of Trustees. The Fund pays claims to consumers up to a maximum of \$45,000 per claim. In accordance with the MVDA, it is compulsory for motor vehicle dealers to pay an initial payment to the Fund in order to obtain registration in Ontario.

The Council has the ability to appoint six of the nine seats on the Board of Trustees of the Fund, and the Council provides office space and administrative services to the Fund. The financial statements of the Fund have not been consolidated in these financial statements.

Summary financial information for the Fund's fiscal year ended October 31, 2022 are as follows:

	2022	2021
Financial position:		
Assets	\$ 9,309,709	\$ 10,334,698
Liabilities	(198,372)	(36,414)
Unrestricted net assets	\$ 9,111,337	\$ 10,298,284
Results of operations:		
Revenues	\$ (282,457)	\$ 1,328,101
Expenses	(904,490)	(696,643)
Excess (deficiency) of revenues over expenses	\$ (1,186,947)	\$ 631,458
Cash flows:		
Cash flows used by operating activities	\$ (55,775)	\$ (63,034)
Cash flows from (used by) investing activities	85,755	(2,865,603)
Net increase (decrease) in cash	\$ 29,980	\$ (2,928,637)

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ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

11. MOTOR VEHICLE DEALERS COMPENSATION FUND (continued)

There were no significant transactions from November 1 to December 31, 2022.

As of September 2019, the Council committed to pay all operating expenses of the Fund until August 31, 2024, with the exception of claims and trustee fees which the Fund continues to pay as per sections 71 and 72 of the MVDA. Included in the Council's statement of operations are \$290,194 (2021 - \$275,145) related to salaries and benefits allocated to the Fund based on an estimate of the Council's staff time to administer the Fund, and \$182,347 (2021 - \$156,659) related to occupancy and general and administrative expenses.

Accounts payable includes \$23,652 (2021 - \$1,870) for amounts collected by the Council on behalf of the Fund related to contributions from first-time vehicle dealer business applications.

Transactions with the Fund are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to between the parties.

12. COMMITMENTS

The Council is committed under premises and equipment lease agreements until June 2026. Upcoming future minimum lease payments are as follows:

2023	\$ 952,401
2024	969,878
2025	332,452
2026	3,044
	<hr/>
	<u>\$ 2,257,775</u>

13. CONTINGENCIES

Claims have been made against the Council in the normal course of operations. The Council believes these claims are without merit. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

14. FINANCIAL INSTRUMENTS

The Council is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate, and manage these risks. The following analysis provides information about the Council's risk exposure and concentration as of December 31, 2022, which is consistent with the prior year.

Credit risk

Credit risk arises from the potential that a counter-party will fail to perform its obligations. The Council is exposed to credit risk on any investments that are not publicly traded.

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ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2022

14. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Council is subject to market risk on its investments.

The Council manages its investment portfolio to earn investment income and invests according to a Statement of Investment Policy approved by the Board. The Council is not involved in any derivative financial instruments for trading purposes.

Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

Currency risk

Currency risk is the risk to the Council that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Council is exposed to foreign currency exchange risk on its investments in foreign equities.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the market interest rates. The Council is exposed to interest rate risk on its short-term investments and fixed-income investments.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency and interest rate risks), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Council is exposed to other price risk on its investments in equities.

It is management's opinion that the Council is not exposed to significant liquidity risk.
