



2020 Annual General Meeting CEO Remarks – Michael Beard

July 23, 2020

Thank you, Glenda, and good morning everyone. I would like to start by saying that I hope you, your family and friends have remained safe and healthy in the face of this pandemic.

Usually, the purpose of the AGM is a report back to all of you about how RECO fared in 2019, and also to provide a glimpse into the future. But, 2019 seems so long ago now, and so much has happened in our own industry and in the world in the last little while...

The planet has almost ground to a halt as the result of a serious pandemic, NASA launched astronauts to the International Space Station on a privately built spacecraft, the US President was impeached, the UK left the European Union, Canada implemented a ban on assault rifles, a new dinosaur was discovered in Canada (the 'reaper of death'), even the Royal family is starting to produce some interesting reading.

But even though our own news may seem minor in comparison, one really newsworthy item about the entire real estate industry in Ontario, is that it will always figure out a way to make things work. At RECO, I am proud of the way that we too were able to very quickly respond, and keep all cylinders firing in very different circumstances that we could never have anticipated.

Indeed, our strategic focus includes resiliency and sustainability, so this has been top of mind for us. The Government's appropriate decision to declare real estate as an essential service was a rallying cry for us all to "make it happen", and we did. Congratulations to everyone.

Our Annual General Meeting is an important opportunity for us to reflect on our collective progress in raising the bar on professional conduct in Ontario. This is a goal we all share.

By working together we will ensure a real estate marketplace in Ontario where buyers and sellers are well-informed and protected, and where transactions are conducted fairly.

Last year, I spoke about the important role of professionalism and transparency, and our move towards becoming a more modern regulator. This has proven to be an appropriate strategy which we remain committed to execute.

Now, more than ever, consumers and registrants are relying on RECO's expertise and guidance to help them navigate the marketplace.



I am proud to present RECO's 2019 Annual Report that summarizes another year of solid progress, innovative change, some challenges, and many accomplishments.

Within its pages, you will have the opportunity to learn more about RECO programs, aspirations, and relationships with stakeholders throughout the province.

Consumer protection in the public interest is at the core of RECO's mandate. While the vast majority of registrants take ethics and compliance very seriously, some behaviour results in complaints to RECO. By holding each other accountable, registrants are elevating the reputation of the profession and protecting consumers.

RECO staff work through the disciplinary process to hold registrants accountable when they fail to meet their obligations.

As Glenda referenced, and Joe will share more on in a few minutes, 2019 was a very productive year that brought many improvements to our operations, opportunities for registrants and enhanced our ability to protect consumers.

It is important for RECO to be working with industry in order to be up to date with industry developments and issues. In 2019 we did that by attending tradeshow, we hosted a new outreach program, and we had several engagements and attended many industry and board events across the province.

Many of those exchanges sparked improvements and new initiatives that dovetailed, and often verified, the accuracy of our data-driven findings.

We are grateful to those who facilitated these opportunities and look forward to more in the future.

The positive impacts of the actions taken to refine services and improve efficiency throughout the year, are reflected in the 2019 Service Standards Report Card.

I am pleased to share with you that service indicators show a year-over-year improvement in the majority of categories. In 2019, we introduced a new service standard category to manage and improve the processing times of new applications, and by the end of the year we had exceeded our targets.

RECO works hard to help registrants remain in good standing through understanding and meeting their responsibilities under REBBA. You should also know that, RECO is committed to helping consumers understand their rights and responsibilities in real estate transactions too.

We hear from Registrants that many consumers still do not understand their own responsibilities when conducting a transaction, and we are working to help with that.

Now, I would like to go over RECO's 2019 financials...



A strong focus on our revenues and spend resulted in a strong year financially for RECO. We continue to recognize that RECO's revenues come from Registrants who have an expectation that we are responsible and accountable with these monies, and so they should.

2019 revenues increased at a rate greater than expenses, resulting in an increase in revenues over expenses of 1.1m compared to 2018.

Let's dig a little deeper into revenues...

The majority of the increased revenues simply flowed from the net increase in the number of registrants. Additionally, increased disciplinary activity, as well as a change in the way in which RECO recognizes revenues from fines, resulted in more "other" revenues in 2019.

Moving on to expenses...

Increased expenses in 2019 were the result of investment in:

1. the new real estate education program
2. IT and system enhancements and the impact of the flow through of organizational structural changes that were initiated in 2016 and concluded in 2018.

When it comes to capital expenses....

RECO's Capital expenses remain low, and were reduced in 2019 as the move towards cloud-based IT functionality continued.

So how does all of this impact RECO's fund balances?

Mainly as a result of the increased revenues over expenses described before, the unrestricted reserves increased in 2019. The Board implemented a new investment policy in 2019, the effects of which will materialize over the next few years as the terms of existing investments expire.

So how do things look for next the next year: 2020?

While it is not usual to provide an updated forecast for the following year at an AGM, I believe the current circumstances and general financial uncertainty in many industries makes it necessary to provide some insight to 2020 today.

At this time, we are anticipating that any revenue reduction in 2020 as a result of COVID will be offset through prudent cost management.

The 2020 budget was created well before the impacts of the pandemic emerged, and RECO has been at work to ensure we can predict and manage our expenses against a somewhat less predictable revenue flow for 2020 and beyond. As a not for profit with low



variable costs and low net margins, a reduction of revenue can very quickly impact the bottom line.

With an abundance of caution, we are estimating that revenues will drop by about \$2m against budget in 2020.

As I mentioned earlier, RECO's revenues are mostly driven by the number of registrants, and this estimate reflects a reduction in the number of registrants as originally budgeted. The number of incoming registrants stalled in 2020 for a few months as OREA and Humber pivoted to move to full virtual learning platforms.

While Humber implemented virtual simulations and exams several weeks ago, and OREA has now also implemented virtual examinations, it remains to be seen exactly how many OREA students complete in 2020 and in 2021, now that OREA has been granted an extension by RECO from December 2020 to March 2021.

We will manage our expenses by reviewing any planned initiatives, but we are very aware that most of RECO's expenses are in the area of human resources. To set off the anticipated lower revenues, we have implemented strict control of any hiring and renewal of contracts, while ensuring we remain well positioned to continue to deliver our mandate.

As a result of these efforts and planning, we feel we are well positioned to deliver on a bottom line that is of a similar order of magnitude as what was contemplated in the 2020 budget as presented in the Annual Report.

In 2019, RECO updated the revenue recognition methodology of monies received as premiums for registrant insurance to reflect that RECO is an agent of the insurer. This is consistent with the CPA Canada Handbook, and was approved by the Board. This results in the premiums being treated as a flow through, with zero impact to RECO's financials.

Administration of the insurance requirements is an important responsibility to protect both consumers and registrants. In pursuit of that goal, RECO negotiates comprehensive coverage with insurers.

The insurance program provides three types of protection for Registrants and Consumers:

1. Consumer deposit protection;
2. Commission protection insurance for Registrants; and,
3. Errors and Omissions insurance coverage to protect both the Registrant and the Consumer.

In 2019, the overall excess of revenues over expenses improved by \$450k, to a total of \$2.7m. This allowed RECO to increase reserves for both the Program Stability Fund and Administration Fund. The increase helps RECO protect registrants against future significant increases to insurance premiums.



That concludes the financial highlights presentation...

Please allow me to close these remarks on a personal note.

This is my third year presenting RECO's annual results, and I am doing so with great pride.

It is an honour to lead and work with so many competent and committed individuals in fulfilling our mission of supporting a fair, safe and informed real estate marketplace through effective and innovative regulation.

On behalf of all of us at RECO, I extend our gratitude to the RECO Board of Directors for their oversight, counsel, and ongoing strategic guidance. I have no doubt that the Board's drive to become more a modern, strategic oversight based board based on a solid foundation of good governance, has paid dividends in the form of many of the successes that we are reporting on today.

I also extend a special thank you to RECO Chair, Glenda Brindle, for her continuous support of RECO's bold vision.

Glenda has the rare combination of both being a successful registrant, and a well-respected contributor to the regulatory framework in several industries in Ontario.

And, to the Ministry, for their confidence as we continue to serve the real estate industry in Ontario, in the public interest, on their behalf.

I would also like to take this moment to acknowledge the RECO team for all of their work through 2019 and more immediately, over the course of the past few months.

By leaning into the challenges of transitioning to a remote workforce, the team shifted quickly into the virtual model in place today – with minimal downtime. Their hard work and dedication to fulfilling RECO's mandate is admirable.

As a result, we have continued to make progress against the goals to deliver innovative, progressive regulation.

The milestones of 2019 inspire us to continue to bring RECO's Vision, Mission and Strategic Goals to life in our everyday work and have prepared us for the marketplace changes on the horizon.

Thank you and stay safe.