

**1.1.2 OSC Notice 11-768 – Statement of Priorities – Request for Comments Regarding Statement of Priorities for Financial Year to End March 31, 2014**

**ONTARIO SECURITIES COMMISSION  
NOTICE 11-768 – STATEMENT OF PRIORITIES**

**REQUEST FOR COMMENTS  
REGARDING STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2014**

The *Securities Act* requires the Commission to deliver to the Minister and publish in its Bulletin each year a statement of the Chairman setting out the proposed priorities of the Commission for its current fiscal year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities.

The OSC regulates in the context of rapid changes in market structure, technology, investment products and the global regulatory regime. In this environment, the OSC faces a growing array of challenges and must use its finite resources as efficiently as possible. The OSC is mindful that it has more work to do as it builds on the momentum created in recent years from many initiatives, including:

- Bringing more enforcement cases before the provincial court, resulting in more jail sentences, especially against defendants facing fraud allegations, recidivists and respondents who do not comply with Commission orders
- Completing an extensive review of the Maple Group acquisition of TMX Group and finalizing recognition orders with terms and conditions to protect the public interest
- Finalizing a framework for electronic trading to ensure that marketplaces and market participants are managing the risks of electronic trading, including requirements for dealers to have pre-trade controls
- Working with other regulators and gatekeepers to identify and address significant concerns relating to the governance, auditing and listing practices of issuers from emerging markets
- Co-operating with the Bank of Canada, federal Department of Finance, Office of the Superintendent of Financial Institutions and the Canadian Securities Administrators (CSA) to meet Canada's G20 commitments, including work with the CSA to establish a harmonised framework for OTC derivatives
- Collaborating with the CSA and Investment Industry Regulatory Organization of Canada (IIROC) to publish a new regulatory framework for dark liquidity to improve price discovery

This *Statement of Priorities* describes the actions that the OSC will take in 2013-2014 to address each of its priorities and related goals. While the proposed priorities will potentially impact more than one organizational goal, each priority is identified only under the specific goal where the greatest impact is expected. In certain cases, the process required to properly assess the issues, including consultations with market participants, and then to develop and implement appropriate regulatory solutions, may take more than one year to complete.

In an effort to obtain feedback and specific advice on our proposed objectives and initiatives, the Commission is publishing a draft Statement of Priorities which follows this Request for Comments. The Commission will consider the feedback, and make any necessary revisions prior to finalizing and publishing its 2013–2014 Statement of Priorities. The Statement of Priorities, once approved by the Minister, will serve as the guide for the Commission's operations. Shortly after the conclusion of our 2012–2013 fiscal year we will publish on our website a report on our progress against our 2012–2013 priorities.

**Comments**

Interested parties are invited to make written submissions by June 3, 2013 to:

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**April 4, 2013**

[Editor's Note: OSC Notice 11-768 – *Statement of Priorities* is reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of the OSC Notice.]

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# Ontario Securities Commission

2013-2014 – Statement of Priorities

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***Draft for Comment***

**April 4, 2013**

## **Introduction**

The *Securities Act* (Ontario) requires the Ontario Securities Commission (OSC) to publish in its Bulletin, and to deliver to the Minister by June 30 of each year, a statement by the Chair setting out the proposed priorities for the Commission for the current financial year.

This Statement of Priorities sets out the OSC's strategic goals and the specific initiatives that will be pursued in support of each of these goals in the fiscal year commencing April 1, 2013. It also discusses the environmental factors that the OSC considered in setting these goals.

The OSC is accountable for delivering its regulatory services economically, effectively and efficiently.

### ***OSC Vision***

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

### ***OSC Mandate***

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets. The mandate is established by statute.

### ***OSC Organizational Goals***

1. Deliver strong investor protection
2. Deliver responsive regulation
3. Deliver effective enforcement and compliance
4. Support and promote financial stability
5. Run a modern, accountable and efficient organization

## **Key Regulatory Priorities for 2013–2014**

This document describes the actions that the OSC will take in 2013-2014 to address each of the priorities and its related goals. While the proposed priorities will potentially impact more than one organizational goal, each priority is identified only under the specific goal where the greatest impact is expected. In certain cases, the process required to properly assess the issues, including consultations with market participants, and then to develop and implement appropriate regulatory solutions, may take more than one year to complete.

The OSC regulates in a context of rapid changes in market structure, technology, investment products and the global regulatory regime. In this environment, the OSC faces a growing array of challenges and must use its finite resources as efficiently as possible. This *Statement of Priorities* identifies the most important areas where the OSC intends to focus those resources.

1. The OSC is expanding its outreach to investors and community leaders across Ontario to hear their concerns and issues. Staff will meet with investors and other stakeholders at events in their communities to gather feedback that will help inform the development of effective regulatory policy in support of the OSC mandate.
2. The OSC recognizes that cost-effective access to capital is critical to companies of all sizes to grow and develop. To address growing interest in alternative capital raising techniques, such as crowdfunding, the OSC will consider the regulatory issues posed by these new capital-raising strategies. If appropriate, the OSC will propose changes to its current offering rules to facilitate capital formation for small businesses while maintaining important investor protections provided under securities law.
3. In its compliance oversight, the OSC will use outreach to registrants and reporting issuers to foster compliance with relevant regulatory requirements, especially suitability obligations for registrants. Staff will continue the OSC's preventative approach to compliance oversight. Staff will also proactively expand the use of communications strategies to warn investors about potential harm.
4. The OSC is intensifying its enforcement program and will target the most serious harm, including fraudulent activity and the failure to provide investors with full and complete information. The OSC will continue to pursue more cases, especially those involving fraud, before the courts, where it can seek jail sentences for violations of the *Securities Act* (Ontario) and breaches of Commission orders.
5. Keeping pace with the rapid evolution of market structures will remain a key area of focus in 2013-2014. The OSC will examine the issues associated with the evolution of the markets, including the impact of the order protection rule, algorithmic and other electronic trading and market data fees, to determine what regulatory responses may be required.

The OSC always faces pressure to move faster and to coordinate its actions more efficiently as it responds to a range of complex issues. It strives to be as responsive and innovative as possible in its contributions to collaborative policy responses with securities and other regulators. The OSC is committed to enhanced co-operation and information-sharing with the CSA, the International Organization of Securities Commissions (IOSCO) and other international agencies and consulting, when appropriate, with the provincial government.

## Summary of 2013-2014 OSC Priorities

<b><i>Deliver strong investor protection</i></b>	
<b>Issue/Priority</b>	<b>Proposed Actions</b>
<b>1. Investor Outreach and Focus</b>	<ul style="list-style-type: none"> <li>• Engage investors and investor advocacy groups, including the Investor Advisory Panel, through community meetings and outreach, such as the “OSC in the Community”, and focus groups to better understand investors’ key concerns</li> <li>• Publish a list of key findings from consultations</li> </ul>
<b>2. Adviser Responsibilities to Investors</b>	<ul style="list-style-type: none"> <li>• Work with investors and SROs to examine and better understand the impact of imposing a best interest duty on dealers and advisers               <ol style="list-style-type: none"> <li>a) Conduct a “mystery shop” research sweep of advisers to gauge the suitability of advice currently being provided and identify areas of concern and assist in targeting future OSC suitability sweeps</li> <li>b) Publish an initial assessment of the application of a best interest standard for advisers and dealers (including a regulatory impact analysis)</li> </ol> </li> </ul>
<b>3. Disclosure to Investors</b>	<ul style="list-style-type: none"> <li>• Provide investors with more effective and meaningful disclosure:               <ol style="list-style-type: none"> <li>a) Publish a rule requiring advisers and dealers to provide cost disclosure and performance reporting in client statements to investors and communicate progress on implementation</li> <li>b) Publish final proposals for delivery of Fund Facts instead of a mutual fund prospectus</li> <li>c) Develop a summary document for ETFs and consider mechanisms for delivery</li> </ol> </li> </ul>
<b>4. Mutual Fund Fees</b>	<ul style="list-style-type: none"> <li>• Advance the discussion of mutual fund fees and fees for other investment products:               <ol style="list-style-type: none"> <li>a) Consider comments on the discussion paper published by the OSC on the regulatory options available to address embedded commissions and existing inequities in the way mutual fund fees are charged</li> <li>b) Host a stakeholder roundtable and develop recommendations for next steps</li> <li>c) Identify options to move forward and publish a progress update</li> </ol> </li> </ul>
<b><i>Deliver responsive regulation</i></b>	
<b>Issue/Priority</b>	<b>Proposed Actions</b>
<b>5. Capital markets accessibility</b>	<ul style="list-style-type: none"> <li>• Complete stakeholder consultations and assessment of feedback on exempt market consultation paper published in December 2012</li> <li>• Engage businesses and business associations on access to capital, through outreach such as OSC in the Community</li> <li>• Determine options to move forward on expanding ways to access capital for issuers in Ontario and publish progress update</li> </ul>
<b>6. Market Structure Evolution</b>	<ul style="list-style-type: none"> <li>• Examine the evolution of the Canadian capital market structure and the impact of the order protection rule, algorithmic and other electronic trading, and market data fees</li> <li>• Solicit stakeholder feedback on these issues and, where appropriate, develop options for possible regulatory changes and an articulation of market principles</li> </ul>
<b>7. Regulation of Fixed Income Securities</b>	<ul style="list-style-type: none"> <li>• Review the OSC’s regulation of the fixed income market and obtain feedback from key stakeholders</li> <li>• Develop an action plan to address specific key gaps or risks</li> </ul>
<b><i>Deliver effective enforcement and compliance</i></b>	
<b>Issue/Priority</b>	<b>Proposed Actions</b>
<b>8. Serious Securities-related Misconduct</b>	<ul style="list-style-type: none"> <li>• Identify the cases that should be investigated as quasi-criminal or <i>Criminal Code</i> offences, and use the appropriate tools available (e.g. temporary cease trade orders and freeze orders) in order to reduce financial crime</li> <li>• Align staff in specialized teams to build core expertise in criminal and quasi-criminal offences and make better use of technology to detect and halt unlawful activity</li> <li>• Reinforce key strategic alliances with appropriate policing agencies to strengthen and improve investigative tools applied to these cases</li> </ul>

<b>9. Compliance Focus on Suitability</b>	<ul style="list-style-type: none"> <li>• Complete focused compliance reviews on high risk areas/registrants               <ol style="list-style-type: none"> <li>a) Complete next steps in 2012-2013 compliance suitability sweep and publish results</li> <li>b) Publish guidance for registrants</li> <li>c) Make efficient and timely referrals of serious cases of unsuitable advice to Enforcement</li> </ol> </li> </ul>
<b><i>Support and promote financial stability</i></b>	
<b>Issue/Priority</b>	<b>Proposed Actions</b>
<b>10. Systemic Risk to Financial Markets</b>	<ul style="list-style-type: none"> <li>• Develop rules for an OTC derivatives regulatory framework, including for clearing and trade reporting</li> <li>• Work with CSA colleagues to begin implementation of OTC derivatives regime</li> </ul>
<b><i>Run a modern, accountable and efficient organization</i></b>	
<b>Issue/Priority</b>	<b>Proposed Actions</b>
<b>11. Reliance on Data and Analysis</b>	<ul style="list-style-type: none"> <li>• Demonstrate the OSC's effective use of research, data and analysis through:               <ol style="list-style-type: none"> <li>a) Improved cost-benefit analysis in OSC rule proposals</li> <li>b) Clear examples of use of data and analytical approaches</li> <li>c) Identified market trends and risks</li> <li>d) Evidence of greater use of investor research in OSC policy development and decision-making</li> </ol> </li> </ul>
<b>12. OSC Transparency and Accountability</b>	<ul style="list-style-type: none"> <li>• Commit to better reporting on performance:               <ol style="list-style-type: none"> <li>a) Publish a renewed service and accountability document</li> <li>b) Develop and implement clear performance measures for OSC activities</li> <li>c) Publish year end performance report using new measures</li> </ol> </li> </ul>
<b>13. Update CSA National Systems</b>	<ul style="list-style-type: none"> <li>• Transition the operation of the core CSA national systems to the new service provider</li> <li>• Issue an RFP to design and build a new technology solution(s) to replace the core CSA national systems</li> </ul>

## **The Environment – Risks and Challenges**

Over the past year global economic conditions have improved in many countries. While the number of positive economic signals continues to grow, important challenges and risks remain, and economic growth in many regions remains slower than previously forecast. The recession continues in Europe but growth in Asia is expected to improve. In the United States economic conditions continue to demonstrate improvement, even in the face of fiscal constraints.

These global conditions have had and will continue to have an impact in Canada. While economic growth in Canada slowed in the second half of 2012, the Canadian economy is expected to expand at a faster rate later in 2013, in line with a recovery in the U.S. economy. Weaker global demand for commodities has impacted Canada's equity markets and the S&P/TSX Composite index is underperforming as a result of weaker performance in the materials and energy sectors.

The TSX and TSXV ranked third in the world for equity capital raised in 2012 but IPO activity remains lower than 2011 levels. Corporate bond issuances remain strong given investor appetite for yield. Despite remaining economic uncertainty, the asset management sector continues to show strength, with mutual fund assets and sales now exceeding their pre-crisis peaks.

Capital markets exist for issuers to raise capital and for those with savings to invest. The capital markets are complex and interconnected and the rate of

innovation has increased over the last five years. The complexity of the investment products available has increased and the distinctions between securities, insurance and banking products has blurred as these products become more interchangeable.

This trend has challenged retail investors' ability to determine product suitability. The disclosure documents for investment product offerings are comprehensive but they are not necessarily always comprehensible to all investors. In an environment where it is challenging to achieve attractive returns, these developments may increase the reliance of investors on quality financial advice. The evolution of the wealth management industry away from transaction based fees towards more asset based revenue models may raise new issues with adviser behaviour at a time when there is greater investor need for objective financial advice. Within this context, global regulators are increasingly focused on ensuring investors have access to sound and appropriate advice.

Given continued uncertainty in global equity markets and the historically low interest rate environment, investors – both institutional and retail – have cast a wider net in search of return. More investors have broadened their investments beyond equities and saving and now include fixed income, real estate, private equity and other strategies as they search for better returns. This demand for yield may increase the potential for mis-selling, as investors may be drawn to securities that have a risk profile that may not be consistent with their investment goals, investment horizon or tolerance for risk and may prove to be unsuitable in a changing economic climate. The flow of assets into fixed income securities, either directly or into mutual funds, also raises questions about whether investors understand the impact of interest rate changes on their investments.

Market structure has also seen significant change and innovation over the last five years. The increased use of technologies such as high frequency and algorithmic trading and greater integration of markets across provincial and national boundaries have resulted in substantial changes in how markets operate. Market participants face an array of issues, including lower levels of retail activity, new trading strategies, multiple trading platforms, differentiated fee structures, and rising data costs. These factors affect the financial viability of market participants, challenge existing business models, and may lead to greater consolidation or require additional innovation in how business is conducted.

All of these changes have added to the risks that must be addressed by regulators here in Ontario and globally. In addition to its core activities of registration, review of disclosure, compliance monitoring, enforcement activities and policy development, the OSC must identify, assess, and determine the appropriate regulatory responses to issues in a world where a failure in one area of the marketplace can have significant systemic consequences. New issues continue to emerge, such as integrated market oversight and financial benchmarks, that raise concerns about transparency and accountability and require new regulatory responses and oversight in areas not previously subject to such scrutiny. To ensure the ongoing competitiveness and attractiveness of Ontario's capital markets, the OSC will remain actively engaged internationally, with organizations such as the International Organization of Securities Commissions (IOSCO). The OSC will be



involved in the development of international regulatory standards with a view to aligning these standards to the unique features of Ontario's capital markets.

Enforcement continues to play a central role in maintaining and enhancing trust in Ontario's capital markets. New challenges include international investigations that underscore the need for comparable regulatory regimes globally and the importance of international regulatory co-operation. Consultation both domestically and abroad is becoming a more integral element of OSC operations as many of its enforcement investigations and actions involve activity beyond Ontario's borders.

The OSC is working to address feedback from stakeholders about improving accountability by increasing transparency of its regulatory performance. Throughout this document, when success measures refer to stakeholder feedback, that is meant to include a broad range of stakeholders including investors, registrants and issuers and OSC advisory committees.

As the OSC's work continues to expand, new tools and resources with specialized skills will be required to meet the evolving demands that it faces. The OSC has the additional challenge of trying to address these issues while adhering to the Ontario government's fiscal constraints. As the OSC moves to meet its challenges, it will continue to aggressively pursue process efficiencies, do more with its existing resources and report on its progress.

# 1. What the OSC is doing to deliver strong investor protection

## Investor Outreach and Focus

The OSC is strengthening its efforts for the protection of investors in everything it does. The OSC's Office of the Investor (OI) was created to strengthen the OSC's investor engagement and co-ordinate all investor-related initiatives, including working with the Investor Education Fund and supporting the OSC Investor Advisory Panel. The OI is leading the effort to elevate investor engagement in order to better identify and address relevant issues and concerns. It will coordinate initiatives with investors, advocacy groups, other regulators and OSC staff. In addition, more resources are being devoted to identifying, understanding and addressing emerging risks, capital market trends and new product developments that may affect investors, particularly retail investors.

Investor confidence in the capital markets can be affected by many factors including the stability of the financial system, the degree investors feel protected and their perception of the effectiveness of market supervision and enforcement activities. A key challenge for the OSC is to demonstrate effective market oversight to foster fair and efficient capital markets.

<b>Priority 1 Issue</b>	<b>Investor confidence has been shaken resulting in reduced market participation. The OSC must reach out to investors to determine the steps needed to protect their interests</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Engage investors and investor advocacy groups, including the Investor Advisory Panel, through community meetings and outreach, such as the "OSC in the Community", and focus groups to better understand investors' key concerns</li> <li>2. Publish a list of key findings from consultations</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Surveys and direct stakeholder feedback will confirm:             <ol style="list-style-type: none"> <li>a) The OSC is focused on the right issues to protect investor interests</li> <li>b) Support for the consultation approach</li> </ol> </li> <li>2. OSC policy and regulatory proposals will reflect a better understanding of investor issues</li> </ol>

## Adviser Responsibilities to Investors

Issuers, product manufacturers and intermediaries must meet high standards of conduct and disclosure in order to earn the trust and confidence of investors. While disclosure is important, the provision of fair advice by qualified advisers is a key element that affects investor confidence. There are concerns that the current standard of conduct may not adequately address the information and financial literacy imbalances that exist between advisers and dealers and their retail clients.

The CSA published a consultation paper in 2012 that examined whether there is a need for an explicit statutory best interest duty (or other standard) to apply to advisers and dealers who advise retail investors. The OSC received a significant number of comments through this process. At issue is whether or not the current standard of suitability applicable to advisers and dealers when dealing with their clients offers sufficient investor protection. This is a complex issue that requires careful consideration in order to protect investors while recognizing challenges to

the current business models of market participants. This initiative will remain a priority in 2013-2014.

<b>Priority 2 Issue</b>	<b>An expectation gap exists if investors incorrectly assume that their adviser/dealer must always give advice that is in their best interests. As a result the current standard of conduct applicable to advisers and dealers may not adequately protect retail investors</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Work with investors and SROs to examine and better understand the impact of imposing a best interest duty on dealers and advisers               <ol style="list-style-type: none"> <li>a) Conduct a “mystery shop” research sweep of advisers to gauge the suitability of advice currently being provided, identify areas of concern and assist in targeting future OSC suitability sweeps</li> <li>b) Publish an initial assessment of the application of a best interest standard for advisers and dealers (including a regulatory impact analysis)</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Positive stakeholder feedback on engagement in the consultation process and the quality and balance of the OSC’s policy and impact analysis</li> <li>2. Research sweeps completed and summary report presented to the Commission</li> </ol>

## **Disclosure to Investors**

Research indicates that many investors have trouble finding and understanding the information that is set out in a prospectus. Many investors also lack an adequate understanding of investment and performance terms, and the risks and costs (explicit or embedded) of financial products and services. Detailed testing and research on investor preferences for mutual fund information has also confirmed that investors prefer to receive a concise summary of key information, including a simple explanation of expenses and fees, dealer compensation and investor rights.

Financial literacy research reinforces the need for clear and simple disclosure to not only help investors make investment decisions, but to facilitate investor protection. The Fund Facts document for mutual funds is now available to investors, and the CSA is working on further enhancements, particularly around risk disclosure. Increasingly complex investment products, such as leveraged, exchange-traded funds, are another area where investor protection could be significantly improved by providing investors with a clear, short summary document. This document could be used to assist investors in their decision-making processes and discussions with their dealer representatives.

Performance reporting is essential for investors if they are to be able to assess their progress towards meeting their financial goals and to determine the value of the professional advice they receive. Research shows that a significant proportion of investors are not receiving this information, and that where information is provided it is not in a form they can use. The OSC will continue to work with the CSA to complete a rule to introduce mandatory cost disclosure and performance reporting in client statements. The rule will provide investors with significantly more information about the cost and performance of their investments and will introduce a common baseline of requirements applicable to all dealers and advisers. This is a multi-year initiative that will better position retail investors to determine whether they have an effective investment plan, realistic expectations for their investment returns and whether they are getting good value from their dealer/adviser.

<b>Priority 3 Issue</b>	<b>Investors are at risk and may not make informed decisions because they often do not understand or use the information provided to them, in particular because the information may be unclear, complex or not consistent across different product types</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Provide investors with more effective and meaningful disclosure:               <ol style="list-style-type: none"> <li>a) Publish a rule requiring advisers and dealers to provide cost disclosure and performance reporting in client statements to investors and communicate progress on implementation</li> <li>b) Publish final proposals for delivery of Fund Facts instead of a mutual fund prospectus</li> <li>c) Develop a summary document for ETFs and consider mechanisms for delivery</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Disclosure improvements (Fund Facts, ETF summary disclosure) are advanced</li> <li>2. Feedback received on approaches assists in moving these improvements forward</li> <li>3. Cost disclosure and performance reporting rule will be in effect and implementation will begin</li> </ol>

## **Mutual Fund Fees**

Mutual funds make up the largest share of investable assets for the typical Canadian household. Most mutual funds are purchased through an adviser. Research indicates that many investors do not understand the costs of mutual funds before investing, and many have a limited understanding of the different types of costs associated with mutual funds, including embedded trailing commissions.

To date, the OSC has focused its efforts on enhancing the transparency of fund fees for investors. A number of comparative studies on fund fees indicate that Canadian mutual fund fees are among the highest in the world. In light of this and other key issues, including concerns of cross-subsidization and conflicts of interest associated with the fee structure of Canadian mutual funds, the OSC will continue to examine whether regulatory reforms are needed to address investor protection and fairness issues.

<b>Priority 4 Issue</b>	<b>Many investors do not understand the actual costs of investing in mutual funds and other investment products. The fee structure used by mutual funds in Canada may raise investor protection and fairness issues</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Advance the discussion of mutual fund fees and fees for other investment products:               <ol style="list-style-type: none"> <li>a) Consider comments on the discussion paper published by the OSC on the regulatory options available to address embedded commissions and existing inequities in the way mutual fund fees are charged</li> <li>b) Host a stakeholder roundtable and develop recommendations for next steps</li> <li>c) Identify options to move forward and publish a progress update</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Positive feedback from stakeholders on engagement in the consultation process (e.g. roundtables, IAP) and the quality of OSC's policy and impact analysis process</li> <li>2. Analysis of comments will be completed and options for next steps identified</li> </ol>

## **2. What the OSC is doing to deliver responsive regulation**

### **Capital markets accessibility**

The OSC is working to identify gaps and opportunities in the areas of capital market accessibility and capital formation through extensive engagement with investors and industry. This engagement includes outreach through targeted meetings with investors and market participants and consultations with OSC advisory committees.

Policy initiatives are underway to improve shareholder democracy and protection, including final rules for a new, clear and fair regime for the use of shareholder rights plans. In addition, the OSC is committed to using a more evidence-based policy making approach as a key to delivering effective financial market regulation. This approach includes greater use of market data to assist the OSC’s analysis of developments, risks and opportunities in the markets. In the private market, the OSC will review the capital-raising exemptions to determine if there are opportunities to improve access to capital for issuers while maintaining an appropriate level of investor protection.

Priority 5 Issue	Businesses and investors may not have adequate access to capital or investment opportunities in the exempt market
Action Plan	<ol style="list-style-type: none"> <li>1. Complete stakeholder consultations and assessment of feedback on exempt market consultation paper published in December 2012</li> <li>2. Engage businesses and business associations on access to capital, through outreach such as OSC in the Community</li> <li>3. Determine options to move forward on expanding ways to access capital for issuers in Ontario and publish progress update</li> </ol>
Success Measures	<ol style="list-style-type: none"> <li>1. The OSC will better understand the risks and opportunities associated with expanding access to capital in the exempt market</li> <li>2. Analysis of feedback will be completed</li> <li>3. Proposals will clearly reflect the balance between promoting access to capital and efficient capital formation with investor protection</li> </ol>

## **Market Structure Evolution**

The OSC will continue its work on initiatives that aim to foster fair and efficient markets and trading. Markets have experienced significant change and innovation in their structures over the past five years, largely due to advancements in technology and increased competition. It is an enduring objective of the OSC’s work in this area that markets remain fair and participants have confidence in market quality and integrity, including order-entry, execution and settlement processes.

The OSC needs to review its existing oversight programs and, where necessary, design and implement enhanced, risk-based oversight programs that are focused on areas of greatest risk and harm and meet the needs of changing markets. During 2013-2014, the OSC will conduct oversight reviews of regulated entities (Investment Industry Regulatory Organization of Canada and CDS Inc.) to assess current compliance and whether the terms and conditions of their recognition orders continue to be appropriate.

The use of technology has increased the speed, capacity and complexity of trading securities. Many questions have been raised about the impact of high frequency trading (HFT) on the efficiency and quality of markets and about the risks posed by the technologies that support HFT and other forms of electronic trading. The OSC has introduced requirements for controls and testing of algorithms, and for mechanisms to terminate a participant’s access. These requirements are intended to manage the risks associated with electronic trading generally and would apply to HFT and other algorithmic trading. To keep pace with current and future developments, the OSC will need to design controls to mitigate the risks of

technological changes and review whether existing rules are appropriate in this environment.

<b>Priority 6 Issue</b>	<b>The continued rapid evolution of market structures and trading strategies is a potential source of risk</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Examine the evolution of the Canadian capital market structure and the impact of the order protection rule, algorithmic and other electronic trading, and market data fees</li> <li>2. Solicit stakeholder feedback on these issues and, where appropriate, develop options for possible regulatory changes and an articulation of market principles</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Results of the issues examined will be published</li> <li>2. Positive external feedback on the consultation process and quality of OSC's policy and impact analysis</li> </ol>

### **Regulation of Fixed Income Securities**

Fixed income securities have a broad scope and a pervasive impact on the economy. Fixed income markets, and in particular interest rates, are affected by international economic issues. Issues such as transparency and investor search for yield in a low interest rate environment are a potential source of risk. The OSC needs to better understand the significant issues affecting fixed income securities and those who invest in them, and to review its current approach to regulation to determine if any changes are required.

<b>Priority 7 Issue</b>	<b>The OSC needs to review its oversight of fixed income markets to determine if changes in regulatory approach are required</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Review the OSC's regulation of the fixed income market and obtain feedback from key stakeholders</li> <li>2. Develop an action plan to address specific key gaps or risks</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Review completed, results published and recommendations provided to the Commission</li> <li>2. Positive external feedback on the consultation process and quality of OSC's policy and impact analysis</li> </ol>

### **3. What the OSC is doing to deliver effective compliance and enforcement**

The OSC will continue to focus on the need to promote improved, proactive compliance and credible deterrence, and to take effective enforcement action where warranted. The OSC will protect the interests of investors by taking action against firms and individuals who do not comply with Ontario securities law and/or act in a manner contrary to the public interest.

The OSC is committed to improving the efficiency and effectiveness of its enforcement processes, and will take the following steps towards this outcome:

- Optimize resource allocation by adopting a more risk-based approach to case triage

- Maximize the use of market intelligence/surveillance and data analysis capabilities, including increased use of technology
- Coordinate information-gathering processes and protocols that leverage staff expertise and facilitate proactive supervision
- Utilize the entire spectrum of compliance/enforcement tools
- Increase focus on addressing criminal behaviour by seeking additional enforcement tools

The OSC will seek to improve the efficiency and timelines of its enforcement work through targeted case selection, the use of co-ordinated multi-Branch work plans and various strategies to increase early detection of illegal securities-related activity.

### **Serious Securities-related Misconduct**

The OSC will specifically increase its focus on seeking criminal or quasi-criminal sanctions when appropriate.

<b>Priority 8 Issue</b>	<b>The OSC will vigorously pursue serious securities-related misconduct by bringing an increased number of criminal and quasi-criminal proceedings</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Identify the cases that should be investigated as quasi-criminal or <i>Criminal Code</i> offences, and use the appropriate tools available (e.g. temporary cease trade orders and freeze orders) in order to reduce financial crime</li> <li>2. Align staff in specialized teams to build core expertise in criminal and quasi-criminal offences and make better use of technology to detect and halt unlawful activity</li> <li>3. Reinforce key strategic alliances with appropriate policing agencies to strengthen and improve investigative tools applied to these cases</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. More proceedings being commenced in provincial court</li> <li>2. Feedback confirms public support for this approach</li> </ol>

### **Compliance Focus on Suitability**

Growth in the range and complexity of investment products is challenging the ability of retail investors to understand investment products and leading to increased investor reliance on financial advice. This has increased the need for the OSC to:

- Better educate investors about the dangers they may face from unregistered entities and advisers
- Clearly communicate expectations and guidance to registrants, including the need to have effective compliance systems and controls in place
- Confirm that the advice being provided to investors is suitable and unbiased through “mystery shopping” and other compliance reviews
- Work with standard setters to advance registrant proficiency through changes to professional standards and industry examinations

<b>Priority 9 Issue</b>	<b>Investors are at risk if advisers fail to provide suitable investment advice</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Complete focused compliance reviews on high risk areas/registrants               <ol style="list-style-type: none"> <li>a) Complete next steps in 2012-2013 compliance suitability sweep and publish results</li> <li>b) Publish guidance for registrants</li> <li>c) Make efficient and timely referrals of serious cases of unsuitable advice to Enforcement</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Reviews identify issues and result in improved compliance by registrants; highest risk areas with greatest harms are addressed</li> <li>2. Positive feedback from stakeholders on the effectiveness of the compliance review program</li> </ol>

#### **4. What the OSC is doing to promote financial stability**

The OSC is actively involved in efforts by international organizations, such as IOSCO, to develop, implement and promote adherence to internationally-recognised and consistent standards of regulation, oversight and enforcement. Increasingly interconnected global capital markets create systemic risk both in Ontario’s capital markets and markets internationally, and ultimately transmit risk among the world’s economies.

Recent issues related to the setting of LIBOR have generated increased focus on the integrity and accuracy of financial benchmarks. The OSC will continue to work with other regulatory authorities to develop a clear framework that addresses these concerns globally. This work will also provide guidance for the development of a proposed regulatory framework for the oversight of key financial benchmarks in Canada.

In accordance with Canada’s G20 commitments, the OSC is committed to the development of a regulatory system for OTC derivatives that promotes financial stability and which can be supported by strong systemic risk oversight. The key goals of this regulatory system include reducing systemic counterparty risk, enabling greater transparency of OTC markets, and harmonising standards for clearing houses.

<b>Priority 10 Issue</b>	<b>Increasingly interconnected global financial markets present systemic risk to financial market stability</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Develop rules for an OTC derivatives regulatory framework, including for clearing and trade reporting</li> <li>2. Work with CSA colleagues to begin implementation of OTC derivatives regime</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Rules establishing an appropriate regulatory regime are published and progress on regime implementation is underway</li> </ol>



## **5. What the OSC is doing to be a modern, efficient and accountable organization**

A number of the priorities below address the key strategies set out in the OSC 2012-2015 Strategic Plan to make the OSC a more proactive, agile and effective securities regulator.

The OSC strives to be efficient, effective and accountable in delivering its mandate. The ongoing demands of regulating the capital markets mean that the OSC work environment must be progressive and resources, processes and systems must continually evolve to meet new market developments and challenges. To meet this challenge the OSC will:

- Improve its regulatory capacity through the development of people and expertise (e.g., training, secondments), and the creation of resource room to focus on priorities
- Improve the timeliness, effectiveness and efficiency of Commission adjudicative processes, including design and implementation of a new tribunal e-hearing and filing system
- Invest in IT infrastructure to provide better tools to gather and use data and information to support a fact-based approach to investor issues, market developments and rule-making

### **Reliance on Data and Analysis**

The OSC is committed to increasing its reliance on data and analysis in undertaking its work.

<b>Priority 11 Issue</b>	<b>Continued growth in the complexity of products, trading approaches and the interconnectedness of markets requires greater reliance on data and analysis to support OSC work</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Demonstrate the OSC's effective use of research, data and analysis through:             <ol style="list-style-type: none"> <li>a) Improved cost-benefit analysis in OSC rule proposals</li> <li>b) Clear examples of use of data and analytical approaches</li> <li>c) Identified market trends and risks</li> <li>d) Evidence of greater use of investor research in OSC policy development and decision-making</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Improved impact analysis content in consultation documents and notices of rules</li> <li>2. Visible use of data to support regulatory changes to the exempt market</li> <li>3. Positive stakeholder feedback on the approach and quality of OSC's policy and impact analysis</li> </ol>

### **OSC Transparency and Accountability**

The OSC will take steps to be a more transparent and accountable regulator. The OSC will provide continuous and transparent stakeholder communications so that stakeholders know what the OSC is doing, how it is doing it and why it is doing it. The OSC will also demonstrate improved accountability through more detailed financial disclosure and performance reporting against its priorities.

<b>Priority 12 Issue</b>	<b>The OSC needs to better demonstrate accountability for its operational performance</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Commit to better reporting on performance: <ol style="list-style-type: none"> <li>a) Publish a renewed service and accountability document</li> <li>b) Develop and implement clear performance measures for OSC activities</li> <li>c) Publish year end performance report using new measures</li> </ol> </li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Positive feedback from stakeholders on the impact and effectiveness of these initiatives</li> <li>2. Improved performance measures reflected in 2014/2015 Statement of Priorities</li> </ol>

### **Update CSA National Systems**

Compliance costs have been identified as an issue for market participants. Market participants interface with the OSC either directly or indirectly through CSA national systems. The OSC is committed to easing this burden by improving its electronic filing, data collection and payment processes. The OSC will improve market participant access and increase the efficiency and effectiveness of its operations by substantially reducing manually-filed information in 2013/2014.

The core CSA national systems (e.g., SEDAR, SEDI and NRD) have been in place for over a decade. The contracts with the service provider that currently operates the core CSA national systems on behalf of the CSA are scheduled to expire this fiscal year, and a new service provider will take over these operations. In addition, plans are underway to replace the core CSA national systems with updated systems which will improve functionality and usability. The OSC will work closely with the CSA in order to reflect the needs of its market participants in these initiatives.

<b>Priority 13 Issue</b>	<b>The core CSA national systems need to be updated and a new service provider needs to be established</b>
<b>Action Plan</b>	<ol style="list-style-type: none"> <li>1. Transition the operation of the core CSA national systems to the new service provider</li> <li>2. Issue an RFP to design and build a new technology solution(s) to replace the core CSA national systems</li> </ol>
<b>Success Measures</b>	<ol style="list-style-type: none"> <li>1. Operation of current systems - seamless transition of the operation of the core CSA national systems to the new service provider with minimal disruption to stakeholders</li> <li>2. Update systems - a vendor has been retained and the design of the replacement system is underway. At completion (post 2013-2014), improved functionality and user access at lower cost to market participants will be confirmed through positive stakeholder feedback</li> </ol>

## 2013 – 2014 Financial Outlook

### OSC Budget Summary

(\$000's)	2012-13	2012-13	2013-14	2013-14 Budget to 2012-13 Budget		2013-14 Budget to 2012-13 Actual	
	Budget	Actual	Budget	\$\$\$ Change	% Change	\$\$\$ Change	% Change
Revenues	93,525	87,800	101,160	7,635	<b>8.2</b>	13,360	<b>15.2</b>
Expenses	99,985	97,125	103,550	3,565	<b>3.6</b>	6,425	<b>6.6</b>
Deficiency of Revenue compared with Expenses	(6,460)	(9,325)	(2,390)	4,070		6,935	
Capital Expenditures	8,060	9,060	5,660	(2,400)		(3,400)	

### Revenues and Surplus

The OSC is forecasting 2013–2014 revenues to increase by 15.2% from 2012–2013 revenues. The forecast reflects the new fees and rates set out in the OSC's fee rules (13-502 and 13-503), which became effective April 1, 2013.

The fee increases were necessary for two reasons. First, the majority of the fee increases are required to address the current operating deficit and return the OSC to cost recovery. Second, additional revenues are needed to fund new resources to meet evolving regulatory responsibilities, many of which are driven by IOSCO and the Financial Stability Board (FSB) at the international level. To maintain competitive capital markets in Canada, the OSC must align its regulatory framework to be consistent with important global reforms and standards including G20 commitments (OTC derivatives and systemic risk), increasingly complex international enforcement matters, changing oversight responsibilities related to market infrastructure entities and new complex products.

As planned, the OSC expects to continue to operate at a deficit in 2013–2014 and the OSC accumulated surplus is projected to decrease to \$1.8 million as at March 31, 2014.

## **OSC Expenses - Budget Approach**

The OSC must continue to improve its capacity to keep up with market developments, innovation and investor concerns. The OSC needs to continue to strengthen its institutional capacity in key areas, including:

- building its derivatives capacity
- expanding the new Office of the Investor
- building capacity and expertise in important areas such as complex products and infrastructure oversight
- expanding its research and data analysis capabilities to support a more data-based approach to issues and policy development

The 2013–2014 OSC Budget is focused on investment in the key strategies identified in the three-year OSC Strategic Plan. Activities of strategic focus were allocated budget increases; however, budgets for the majority of OSC programs were held at last year levels or decreased.

The budget reflects an increase of \$6.4 million or 6.6% over 2012–2013 spending and 3.6% above the 2012–2013 budget. Salaries and benefits, which comprise \$76.6 million or 74.0% of the budget, reflect an increase of \$4.0 million or 5.4% over 2012–2013 spending. This increase mainly reflects costs for:

- the full-year costs for staff hired throughout 2012–2013 to fill existing vacancies
- the new positions approved to achieve the OSC's strategic plan including:
  - a) support for the establishment of an enforcement team to focus on criminal activity
  - b) to address new market structure issues and oversight responsibilities
  - c) to undertake the analytical and research work so the OSC can take a more fact based approach to its operational and policy work