

**1.1.2 OSC Notice 11-772 – Notice of Statement of Priorities for Financial Year to End March 31, 2016**

**OSC NOTICE 11-772  
NOTICE OF STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2016**

The *Securities Act* (Act) requires the Ontario Securities Commission (OSC or Commission) to deliver to the Minister of Finance by June 30th of each year a statement of the Commission setting out its priorities for its current financial 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.

In the notice published on April 2, 2015, the Commission set out its draft Statement of Priorities (SoP) and invited public input in advance of finalizing and publishing the 2015-2016 Statement of Priorities. Seventeen responses, focussed on a wide range of issues, were received.

We appreciate the time and effort taken by all of the commenters to review the SoP and provide their thoughtful and helpful feedback. The responses were broadly supportive of the overall direction of the OSC goals and priorities and included:

- a. Support for the OSC's demonstrated commitment to consultation and investor protection
- b. Support for improved regulatory harmonization including pursuit of a national regulator and greater CSA cooperation
- c. Positive acknowledgement of the OSC's ongoing efforts to keep pace with national and international developments

Specific support was noted for the various proposals including the whistleblower program, the review of fixed income and timely and fair adjudication.

A number of comments focused on the pace of regulatory development for various initiatives. These comments varied depending on whether the commenter supported or opposed the initiative. For some initiatives we heard that we may be proceeding too quickly, while for others commenters expressed frustration at the perceived lack of progress. The OSC is mindful of these concerns and will work to address the timeliness of its policy development processes where practical. The OSC is committed to achieving harmonized, national regulatory solutions where practical. As a result, for many of our policy projects where we must collaborate with other regulators, timelines and completion dates are often not entirely within our control. While we will continue to seek CSA-wide solutions that address regulatory issues, we may be forced to introduce Ontario-only solutions if consensus cannot be achieved that addresses the issues in a timely manner.

A high level summary of the comments, and our replies to them, is set out below;

- a. *Our proposed priority on Best Interest Duty received the most attention. Comments covered a range of issues including concerns about the pace of progress and more clarity on the expected timing on finalizing an approach. A number of comments were also provided on related issues such as proficiency and titles.*

We have clarified our proposed direction and the expected timing to bring this issue to a final resolution. As noted last year, we will be reviewing the impact that advisor titles and proficiency standards have on investor protection as part of this priority.

- b. *A number of commenters highlighted seniors' issues as a growing area of risk requiring more focus. One commenter suggested that the OSC create a Seniors Advisory Committee.*

On April 1, 2015 the OSC merged the OSC Office of the Investor and the Investor Education Fund to form the Office of the Investor Policy, Education and Outreach (OIPEO) to provide an enhanced structure to deliver investor protection. Work is underway in the newly integrated OIPEO to develop a strategy and identify key focus areas to achieve critical investor protection outcomes.

We agree that seniors are an extremely important and growing segment of investors that demand attention. Other issues such as fraud prevention and education were also identified as potential risk areas. We are confident that the OIPEO plan that will be finalized in 2015 will be a comprehensive blueprint to address these and other key investor protection issues. The OIPEO will work closely with the Investor Advisory Panel (IAP) to ensure that the views and issues related to seniors and other important investor groups are brought forward and addressed.

- c. *A number of specific enforcement and compliance priorities were suggested including increased focus on unsuitable investment advice, use of titles and the need to set timelines for completing audits of all registrants. One commenter suggested the need for nationwide enforcement bans.*

The OSC will consider these suggestions in managing its enforcement and compliance resources in 2015/2016 and beyond.

- d. *A number of commenters suggested adding an initiative to make registration checks easier and improve access for investors to obtain information (e.g. registration, discipline history and background).*

Ontario became part of the National Registration System in 2013. Proposals to improve the system, including potential changes to its content to better support investors are being developed. Implementation of further enhancements to the system is expected later in 2015.

- e. *Some commenters were critical of current options for investors to seek compensation from losses, and want to see more done to provide protection to investors when they have suffered losses due to breaches of securities laws.*

The OSC is pursuing various methods for effecting compensation for investors, one example was the distribution of frozen funds to harmed investors through the Civil Remedies for Illicit Activities Office.

The OSC does not have the authority to make OBSI decisions binding. The OSC is closely monitoring the recent steps taken to improve dispute resolution through the introduction of amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Participating CSA members (the OSC included) and OBSI have entered into a memorandum of understanding (MOU) that creates a framework for OBSI to monitor performance against the standards set out by the CSA. Included in the MOU is a commitment to an independent evaluation of OBSI's operations and practices. We strongly support this process and expect registrants to abide by their obligations.

- f. *One commenter suggested that the Women on Boards initiative should be broadened to include other forms of diversity.*

We value diversity and believe that a strong board with diverse thinking can enhance corporate governance. At this point, being in the first year of this initiative, we have elected to focus our efforts on studying the impact of the new rule relating to Women on Boards and in Senior Management positions. In three years' time, we will conduct an analysis and come to a determination as to what, if any, additional policy measures are appropriate.

- g. *One commenter noted that the SoP did not specifically mention shareholder democracy issues such as, proxy voting and say on pay. They also proposed the addition of priorities related to environmental, social and governance (ESG) disclosure.*

The OSC, together with the CSA, is continuing its work on improving the proxy voting infrastructure. On the January 29, 2015, the CSA published CSA Staff Notice 54-303 *Progress Report on Review of the Proxy Voting Infrastructure* in which we described the results of our findings and next steps, including overseeing the development of industry protocols to improve vote reconciliation practices. We are also continuing to monitor developments in respect of say-on-pay in Canada and other jurisdictions to determine whether it would be necessary and appropriate to mandate say-on-pay under securities regulation. Companies already have an obligation disclose material environmental and governance issues. We have not concluded that it is appropriate at this time to mandate additional ESG disclosures. As a result we will not be amending the SoP to include these issues.

- h. *We heard from some commenters that want to see a priority added to address potential risks arising from regulatory arbitrage opportunities. A number of commenters urged the OSC to take a more active role in discussions being led by the Ministry of Finance related to financial planning. One solution suggested was to merge the OSC and FSCO to achieve consistency in regulatory approaches across retail managed investment products.*

We agree that consistent regulation of like products is an important objective and we strive for that outcome whenever practical. The OSC will be actively monitoring the discussions related to financial planning to understand and, if necessary, provide input on issues that affect investors and market participants. We continue to advocate for harmonized approaches with other regulators, however, any solution involving changes to the current division of regulation across the OSC and FSCO is a government decision and not within the OSC's control.

- i. *One commenter expressed concern about compliance costs and specifically that the OSC is proposing to raise fees by 13.9% in the upcoming year.*

In the revised OSC fee rules, which became effective April 6, 2015, the rates for participation fees, which account for over 80% of OSC revenues were maintained at the 2014 levels and are expected to remain at these levels for three years. Fee

revenues increased due to changes in the market activity and a decision to address market participant requests to return to calculating their fees based on their current fiscal year results. Additional details on the current OSC fee rule can be sourced at: [https://www.osc.gov.on.ca/en/SecuritiesLaw rule 20150205 13-502 noc-approval-rev-rep.htm](https://www.osc.gov.on.ca/en/SecuritiesLaw%20rule%2020150205%2013-502%20noc-approval-rev-rep.htm)

- j. Some commenters were opposed to the current OSC capital formation initiatives including crowdfunding primarily due to concerns about investor protection. Some commenters favoured the move to expand opportunities for capital formation through new exemptions and the need for support for small and medium enterprises (SMEs).*

The OSC believes that providing increased opportunities for capital raising, particularly for start-ups and small and medium enterprises (SMEs), is an important element of fostering fair and efficient capital markets. In proposing new prospectus exemptions, the OSC has considered changes to the exempt market regulatory regime as a whole. The OSC has proposed strong investor protection measures, while supporting the capital raising needs of businesses. Some of the key investor protection measures include:

- Limits on the amount investors can invest in securities acquired under a proposed offering memorandum exemption and proposed crowdfunding exemption
  - The introduction of risk acknowledgment forms to both the accredited investor exemption and family, friends and business associates exemption
  - Ongoing disclosure requirements for non-reporting issuers that raise money in reliance on certain prospectus exemptions
  - Requiring that crowdfunding be conducted through registered portals that have certain gatekeeper responsibilities
- k. Some commenters suggested that the exempt market initiatives move forward at a faster pace and seemingly in the absence of the rigorous research that has been required for the investor protection initiatives. Concerns were expressed about whether the amount of research conducted to assess the potential impact on markets and investors has been sufficient.*

The various OSC exempt market initiatives have moved at an appropriate speed given the complexity of each project and collaboration with our CSA colleagues where appropriate. In developing proposals for new prospectus exemptions, the OSC engaged in extensive research and consultation, including:

- The commissioning of third-party research to gain insight into retail investors' views on investing in SMEs
- Creating an OSC advisory committee made up of volunteers from industry, the securities bar, academia and investor advocates, to advise the OSC on exempt market reform
- Hosting five public town halls and holding 46 targeted stakeholder consultations, including with other Canadian and foreign regulators.

We have also continued to monitor developments in exempt market reform in jurisdictions outside of Canada. The OSC has also reviewed and considered the feedback received from over 800 submissions in response to proposals published for comment in March, 2014. Together, these extensive consultations have informed our proposals.

- l. One commenter expressed concern that regulators have chosen to rely on a risk acknowledgement form (for this and other exemptions such as the Accredited Investor exemption) and have done so without any empirical testing to determine whether it helps protect investors.*

The OSC has drawn on its extensive experience in developing targeted retail disclosure documents such as Fund Facts, in adopting a revised risk acknowledgment form for the accredited investor exemption. The risk acknowledgment form highlights the key risks associated with investing in the exempt market, describes the individual categories of accredited investor in a plain language and asks investors to confirm the category to which they belong. We believe the risk acknowledgment form will provide improved investor protection.

- m. Questions were raised about the OSC's capacity to assure compliance and investor protection in both the public and the expanded exempt markets.*

The OSC is also sensitive to the need for a strong compliance focus in the exempt market. The OSC is developing programs for the oversight of the expanded exempt markets and is very mindful of the need to do this effectively to provide appropriate protections for investors. The OSC will be carefully monitoring the impact and the outcomes achieved by these measures to determine if any additional actions are required.

The OSC's primary focus is effective delivery on its core regulatory work. In our SoP we try to only set out our highest priorities and to try to be as transparent and accountable as we can about what we will deliver on those priorities, including when we will deliver and how we will measure our performance. The OSC will also focus resources on several other important initiatives that have been identified for inclusion by various commenters. However, in keeping with our goal to remain focused on and committed to our core work and highest priority items, we will not be adding any additional priorities to our 2015-2016 SoP.

All of the comment letters are available on our website [www.osc.gov.on.ca](http://www.osc.gov.on.ca). The Statement of Priorities will serve as the guide for the Commission's operations. Following delivery of the Statement of Priorities to the Minister, we will also publish on our website a report on our progress against our 2014-2015 priorities.

2015-2016

## OSC STATEMENT OF PRIORITIES

### **Introduction**

We are pleased to present the OSC Chair's Statement of Priorities (SoP) for the Commission for the year commencing April 1, 2015. The *Securities Act* (Ontario) requires the Ontario Securities Commission (OSC) to publish the SoP in its Bulletin and to deliver it to the Minister by June 30 of each year. This SoP also supports the OSC's commitment to delivering its regulatory services effectively and with accountability.

This SoP sets out the OSC's strategic goals and the specific initiatives that the OSC will pursue in support of each of these goals in 2015-2016. The SoP also describes the environmental factors that the OSC has considered in setting these goals.

### **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**

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

### **Our Environment – Challenges and Issues**

Capital market structures and products continue to evolve at a rapid pace. The regulatory framework for Ontario's capital markets is designed to provide protection to investors while fostering fair and efficient capital markets. A wide range of issues and risks challenges the OSC's ability to achieve its vision and mandate. Public confidence in these markets can be affected by many factors, including the stability of the financial system, the economic health of the country and the volatility in the marketplace. Key challenges and issues that may influence our policy agenda and affect our operations and how we use our resources are set out below.

**Globalization** continues to have wide-ranging impacts on our capital markets. Extreme mobility of capital heightens the need for the OSC to support the competitiveness of Ontario capital markets and the importance of regulatory alignment both domestically and around the world. It creates a strong need for engagement and appropriate coordination with foreign regulators to achieve effective cross-jurisdiction enforcement or mutual reliance in other areas that can deliver better regulatory outcomes. The OSC must also remain focused on seeking proportionate regulatory solutions and opportunities to avoid or reduce undue burdens on business as regulatory burden is a key component affecting the competitiveness and efficiency of Ontario's capital markets. Over- or under-regulation may deter innovation, capital raising, and productive and appropriate risk taking.

**Harmonization and Coordination** need to be key focus areas for the OSC given the international, national and interprovincial nature of the markets it regulates and because capital flows are not constrained by borders. The OSC also works with the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country where practicable. The OSC continues to play an active role in international organizations such as the International Organization of Securities Commissions (IOSCO) to influence and promote changes to international securities regulation to benefit Ontario markets and participants.

The OSC is working with the Ontario Government and other participating jurisdictions to implement a cooperative capital markets regulatory regime to deliver more efficient and effective regulation of the capital markets. The OSC must balance the need to maintain an engaged and effective OSC regulatory presence while contributing to a smooth transition to a Capital Markets Regulatory Authority (CMRA) that addresses the needs of investors and market participants.

**Ongoing Structural Changes in our Financial System** will continue to introduce a range of challenges. Evolving business models, growth in exempt market activities (including crowdfunding) and the expanding use of social media and mobile technology will continue to pose regulatory challenges.

**Financial markets are increasingly dispersed and complex** and the complexity of financial products, markets and technology continues to evolve at a rapid pace. For example, growth in clearing through derivatives clearing organizations and new requirements for uncleared swaps and monitoring have implications in terms of market concentration and investor choice. The transparency, fairness and liquidity of fixed income markets can also affect the cost of capital and investor alternatives. Investors also must deal with complexities and variations in the design of investment funds, retail products and hybrid securities.

**Digital evolution** continues to disrupt and transform the capital markets landscape. This evolution can be seen in a wide range of examples that challenge the OSC's ability to maintain an effective and efficient regulatory framework to support rapidly evolving market structures and processes. Evolving market channels (e.g. automated financial advice) could redefine client wealth management expectations as well as the fees charged for advice. Increased dependence on digital connectivity, combined with exponential growth in data, creates challenges with data management and raises potential exposure to resilience issues and disruptions, including cyber security issues.

**Demographics, including a growing seniors' population**, will continue to generate a range of investor-focused issues. Expectations that the OSC will support and protect investors continue to grow and are reinforced by increasingly active investor advocacy groups. The OSC will need to continue to reach out and connect with investors and understand their needs, to advance investor interests and to educate investors about market changes.

**Reliance on advice** is expected to continue to grow to meet changing investor risk profiles and more complex investment choices and structural shifts, such as the continuing shift from defined benefit to defined contribution pension plans. In addition, new Exempt Market offerings are expected to attract many new investors to the capital markets who are inexperienced and would benefit from the advice of investment professionals. As a result, issues related to market conduct, firms' compliance cultures and how advisors meet the interests of their clients will continue to remain important areas of focus. Investors are seeking an environment where reliance on their advisors is well-placed, the advice being provided is suitable, and any conflicts are managed appropriately. Through achievement of these outcomes, the OSC will foster investors' confidence to invest in our capital markets.

A well-functioning investor/advisor relationship is critical to the economic well-being of Ontarians and ultimately to achieving healthy capital markets. The Ontario Government is currently examining policy alternatives for more tailored regulation of financial planning, including analysis of relevant issues (e.g. sufficiency of regulatory frameworks, proficiency and education requirements and the use of multiple titles). Better alignment of the interests of firms and investors can be achieved by improving standards of financial advice, raising competency and increasing transparency regarding financial advice.

**Human capital** continues to be an area of strategic focus for the OSC. The OSC operates in a competitive environment where attracting, motivating and retaining top talent is a key challenge. It will be critically important for the OSC to invest in data and information systems and continue to provide the right tools and training to leverage the talents of its people.

**Increasing regulatory burden** affects the competitiveness and efficiency of Ontario's capital markets. Regulatory burden continues to present challenges for market participants as the complexity of regulatory requirements and the resources required to comply continue to grow. The OSC will need to examine whether the existing rules remain effective, and determine whether they inhibit or promote high-quality capital markets and deliver a system that protects investors and promotes their confidence. The OSC must balance the costs of complying with the regulatory protections that safeguard investor needs with the concern that these costs may induce market participants to access non-traditional, less regulated markets for capital.

#### **OSC 2015-2016 Regulatory Goals**

1. Deliver strong investor protection – *The OSC will champion investor protection, especially for retail investors*
2. Deliver responsive regulation – *The OSC will identify important issues and deal with them in a timely way*
3. Deliver effective compliance, supervision and enforcement – *The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement*
4. Promote financial stability through effective oversight – *The OSC will continue to identify, address and mitigate systemic risk and promote stability by implementing programs to effectively oversee and supervise our capital markets including the OTC derivatives market, the fixed income market, and key infrastructure entities such as clearing agencies.*
5. Be an innovative, accountable and efficient organization – *The OSC will be an innovative and efficient organization through excellence in the execution of its operations, and will demonstrate accountability in fulfilling its mandate and achieving its goals*

The OSC has accomplished much in moving its regulatory agenda forward and has made a number of key advances in the way it approaches its work. The OSC has made important advances in providing guidance to market participants and investors and in using open and consultative processes to assess and address issues. The OSC has significantly grown the level of its cooperation with many entities, including Federal Finance, the Office of the Superintendent of Financial Institutions and the Heads of Agencies, in order to achieve more harmonized and coordinated outcomes. The amount of enforcement activity conducted with police and other enforcement bodies continues to expand, resulting in more successes across a broader range of enforcement actions. The impact of the OSC's efforts internationally is growing, resulting in timely insight, understanding and input into emerging regulatory issues.

Confidence in fair and efficient markets is a prerequisite for economic growth. The OSC is the largest regulator in the largest market in Canada. Our actions have implications for Ontario, for the rest of Canada and, given the global nature of capital markets, internationally. The OSC remains committed to promoting safe, trustworthy and efficient markets in Ontario and has identified a broad range of initiatives to improve the regulatory framework in Ontario. Although the OSC SoP is focused on our plan for 2015-2016, in some cases these initiatives are ongoing from prior years and/or will not be completed within 2015-2016. Initiatives often span more than one year for various reasons including:

- The nature and complexity of most issues warrant careful analysis and review of potential options and implications
- Consultation contributes to better outcomes; however, consultation takes time. This is particularly true in achieving national consensus with other regulators on harmonized approaches
- Regulatory choices can have fundamental and profound impacts on industry. The cost of being wrong can be very significant and the impacts on industry are usually difficult, if not impossible, to reverse

In some instances, specific priorities are not carried forward to the SoP in the following year. This does not necessarily mean that work on the initiative has stopped but rather that its priority relative to other initiatives no longer warrants inclusion in the SoP, the remaining work is minimal, or the next steps involve integrating the changes into the OSC's daily operations.

This document sets out the most important priority areas where the OSC intends to focus resources and actions in 2015-2016. It is important to note that the majority of OSC resources are focused on delivering the core regulatory work (authorizations, reviews, compliance and enforcement) undertaken by the OSC to maintain high standards of regulation in Ontario's capital markets. A smaller proportion of OSC resources are applied to our high profile work on SoP initiatives. Each of the proposed priorities has been aligned under one of the five OSC regulatory goals.

**Goal 1 – Deliver strong investor protection**

The OSC is strongly committed to delivering on its mandate to protect investors and is proposing a number of initiatives to enhance investor protection. Investors need to be confident in the market and products they invest in. A key step to achieving this outcome is to improve the alignment of the interests of advisors and firms with those of investors. Know your client (KYC), know your product (KYP) and suitability are among the most fundamental obligations owed to a client. This is particularly important given the degree to which investors rely on advice.

Investors need to be confident that the advice they receive involving financial products and services is unbiased and of high quality. Investors need to better understand the cost of advice and be assured that compensation structures will not adversely affect the quality of advice they receive or their long term investment outcomes. At a more fundamental level it is important to achieve greater consistency in the level and type of disclosure across similar products. To maximize the value of improved disclosure the OSC also needs to proactively inform and educate investors so they are better prepared and able to invest.

Investor profiles are diverse and this raises complex challenges. Aging demographics raise a number of investor protection issues. Older Canadians are facing challenges to achieve sufficient investment returns either for their own retirement or for aging parents. New investors, in particular those attracted by new investment alternatives provided by Exempt Markets, may be inexperienced and require expert support and guidance. Other vulnerable investor groups can also be at risk as they strive to support education costs for children or to meet lifestyle consumption goals. As each of these groups searches for yield and/or capital appreciation, its members can become susceptible to fraud and other investment risks that can have life-changing outcomes. The wide disparity in the level of financial literacy and understanding among investor groups is a key source of risk that needs to be addressed through outreach, education and regulation.

Achieving consensus on harmonized approaches to improve investors' confidence and trust in our markets, and the advisors and firms they interact with, will take more than one year to achieve. The priorities set out below are designed to improve the alignment of the expectations of investors and the actions of their advisors and assist investors to more effectively meet the challenging environment they face.

*Putting the Interests of Investors First*

<b>Priority Issue</b>	Advance regulatory reforms that put the interests of investors first
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Develop and evaluate regulatory provisions to create a best interest duty</li> <li>b. Develop and evaluate targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship</li> <li>c. Finalize analysis of advisor compensation practices and address those practices that are inconsistent with current regulatory requirements</li> </ul>

<b>Priority Issue</b>	Advance regulatory reforms that put the interests of investors first
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Analysis of approaches for creating a best interest duty completed and proposals developed</li> <li>b. Analysis of targeted amendments and/or guidance to NI 31-103 completed</li> <li>c. Staff Notice of compensation review findings including expectations for compliance and best practices</li> </ul>

*Reviewing Compensation Arrangements in Mutual Funds and Empowering Investors through Better Disclosure*

<b>Priority Issue</b>	Determine what regulatory action is needed to address embedded commissions and other types of compensation arrangements and improve retail investment product disclosure
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Complete third-party research to determine how mutual fund compensation models may influence advisor behaviour</li> <li>b. Review and evaluate with the CSA the research results and publish the findings</li> <li>c. Support implementation of pre-sale delivery of Fund Facts for mutual funds and continue to work with the CSA to implement the Point of Sale initiative; specifically, publish rules for comment: <ul style="list-style-type: none"> <li>i. to introduce a mandated CSA risk classification methodology to improve the comparability of risk ratings of mutual funds in the Fund Facts</li> <li>ii. to introduce a new summary disclosure document for ETFs (ETF Facts) and require it to be delivered</li> </ul> </li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Third-party research completed and Staff Notice setting out key findings published</li> <li>b. Actionable results identified by the OSC including a recommendation made about embedded commissions and other types of compensation arrangements</li> <li>c. Rules to introduce a mandated CSA risk classification methodology and to introduce a new summary disclosure document for ETFs published for comment</li> </ul>

*Improve Education, Outreach and Advocacy for Investors*

<b>Priority Issue</b>	Advance investor protection and support to retail investors by expanding the OSC's investor engagement, education and outreach
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Improve the OSC's investor focus by integrating the OSC Office of the Investor with the OSC Investor Education Fund to create the new Office of Investor Policy, Education and Outreach, to: <ul style="list-style-type: none"> <li>i. establish and implement the OSC's investor education strategy</li> <li>ii. better inform investors about market events, product innovations and key OSC regulatory and supervisory activities by publishing alerts and bulletins and working with investor networks and organizations on education and outreach campaigns</li> <li>iii. refresh and expand outreach programs, such as OSC in the Community, with a focus on potentially vulnerable investors</li> </ul> </li> <li>b. Obtain a better understanding of investor issues and needs through targeted research, seminars and roundtables</li> <li>c. Respond to the issues identified at the 2014/15 seniors roundtable by: <ul style="list-style-type: none"> <li>i. completing targeted research to improve the OSC's understanding of seniors' financial needs and challenges</li> <li>ii. collaborating with SROs and investor and industry associations to identify ways to be more responsive to seniors</li> </ul> </li> </ul>



<b>Priority Issue</b>	Advance investor protection and support to retail investors by expanding the OSC's investor engagement, education and outreach
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Existing partnerships strengthened and new external relationships created to inform and advance investor focused issues</li> <li>b. Specific recommendations from the seniors roundtable addressed</li> <li>c. Relationships with key senior stakeholder organizations and networks established and strengthened</li> </ul>

**Goal 2 – Deliver responsive regulation**

To meet the OSC's mandate the bulk of its resources are focused on delivering our core regulatory functions. As a gatekeeper to the markets, the OSC vets potential participants to confirm that they are suitable to participate in our markets and interact with investors or to raise capital in our markets. Compliance and enforcement activities continue to play a central role in maintaining and enhancing trust in Ontario's capital markets. Effective registration and compliance oversight regimes, combined with timely enforcement, help deter misconduct and non-compliance by registrants and market participants.

Within the context of today's capital markets, we continue to believe that a national securities regulator will enhance investor protection, foster efficient rulemaking and globally competitive markets in Canada, strengthen our capacity to identify and manage systemic risk and solidify Canada's international reputation for regulating its financial system. While working with the participating jurisdictions to transition smoothly to the CMRA it will be critical for the OSC to maintain high standards of regulation and to keep stakeholders informed and engaged throughout the transition period. The OSC will also need to work with the CSA to seek harmonized approaches to regulation as much as possible.

Our regulatory framework needs to remain current, responsive to the continuing evolution of market structures and products, and supportive of capital formation in Ontario. The OSC must carefully balance the desire to broaden investment alternatives and improve access to capital with the need to maintain appropriate investor protections. To support the implementation of a regulatory framework to expand exempt markets and achieve this balance, the OSC will implement effective oversight and supervision processes. The OSC will need to work effectively with IIROC to achieve outcomes that best respond to these issues.

Where regulatory solutions are not achieving desired outcomes the OSC will need to take action to make necessary changes to achieve appropriate outcomes. Where access and transparency of markets are not sufficient, the OSC will need to look for solutions to improve the fairness and integrity of those markets where the needs of investors and those seeking capital can be achieved with mutual benefit.

The OSC introduced disclosure requirements in 2014 to promote the transparency and representation of women on Boards and in executive and senior management positions at senior exchange-listed issuers. The OSC continues to strongly support this outcome and will seek to maintain momentum on this issue to achieve better corporate decision-making.

*Women on Boards and in Executive and Senior Management Positions*

<b>Priority Issue</b>	Continue efforts to promote transparency and representation of women on Boards and in executive and senior management positions for senior exchange-listed issuers
<b>Action Plan</b>	<ul style="list-style-type: none"> <li>a. Receive and review issuer disclosures on representation of women on Boards and in executive and senior management positions</li> <li>b. Publish results of the disclosure review</li> <li>c. Hold consultation roundtable to discuss results</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Disclosure review completed and results are published</li> <li>b. Continued improvement in the transparency of Board selection and composition for senior exchange-listed issuers</li> </ul>

*Improve Access to Capital*

<b>Priority Issue</b>	Foster capital formation in Ontario while maintaining appropriate investor safeguards
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Develop and publish rules to implement the following:                             <ul style="list-style-type: none"> <li>i. offering memorandum exemption from prospectus requirements</li> <li>ii. crowdfunding regime</li> <li>iii. modernized prospectus-exempt rights offering regime</li> <li>iv. new reporting requirements regarding exempt market distributions</li> </ul> </li> <li>b. With the CSA, develop an enhanced and harmonized report of exempt distributions to facilitate better monitoring of new prospectus exemptions</li> <li>c. Conduct compliance and pre-registration reviews focussing on these new exemptions and EMD portal business models. Meet with SROs to ensure our approaches to oversight are consistent and opportunities for regulatory arbitrage are minimized</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Rules, companion policy and guidance for the proposed new exemptions published for comment and delivered to the Minister for approval</li> <li>b. Significant areas of non-compliance identified are appropriately addressed by registrants. Reduction in non-compliance by registrants</li> <li>c. Improved ability to monitor exempt market activity more efficiently</li> </ul>

*Market Structure Evolution*

<b>Priority Issue</b>	Respond to issues (market data fees, trading fees) arising from the implementation of the Order Protection Rule (OPR)
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. OPR framework amended in response to comments received from publication in 2014/2015, including finalizing approaches for dealing with trading fees and market data fees</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Final changes to update the OPR framework, including approaches for dealing with trading fees and market data fees, are published</li> </ul>

**Goal 3 – Deliver effective compliance, supervision and enforcement**

Effective compliance and strong enforcement are the cornerstones of protecting investors and fostering confidence in capital markets. The importance of effective compliance and supervision continues to grow as domestic market structures, processes and products (expansion of exempt market, new markets) and international (IOSCO, PFMI) guidelines and responsibilities evolve. As part of its core work the OSC will continue to undertake targeted compliance reviews of high risk and new registrants, specifically, online advice and portal business models. We will also conduct targeted prospectus and continuous disclosure reviews of issuers, investment funds and structured products that respond to market developments and product innovations, and publish OSC staff guidance as warranted.

The OSC continues to seek innovative approaches to identify serious breaches of Ontario securities law. Effective enforcement in today's increasingly complex markets requires new tools, enhanced computer forensics and other technological support. The OSC recently announced its intention to pursue a whistleblower program to achieve more timely, actionable information to deter misconduct. Through this initiative the OSC hopes to minimize harm to investors and better preserve the integrity of Ontario capital markets.

The OSC needs to reduce its enforcement timelines, including more timely issuance of its orders, decisions and reasons. A key to achieving this outcome will be measures to improve access to the tribunal and make the hearing process more streamlined, accessible and efficient.

*Enhance Compliance through Effective Inspections, Supervision and Oversight*

<b>Priority Issue</b>	Protect investors and foster confidence in our markets by confirming compliance with our regulatory framework
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Develop and implement programs to effectively oversee an expanded exempt market in Ontario including a risk based supervision program for issuers and registrants and tailored pre-registration reviews and compliance examination programs</li> <li>b. Implement data analysis for systemic risk oversight and market conduct purposes including the development of analytical tools and the creation of snapshot descriptions of the Canadian OTC derivatives market</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. New supervision programs in place and initial results of programs and reports on exempt market activity developed and published</li> <li>b. Systems for oversight and to facilitate systemic analysis of the Ontario derivatives markets will be in place</li> <li>c. Compliance program for the trade reporting rule in place. Reviews of largest derivatives participants commenced</li> </ul>

*Earlier Identification of Fraud and Other Violations*

<b>Priority Issue</b>	Deter misconduct by seeking more timely, actionable information that will allow the OSC to pursue impactful cases of misconduct and serious breaches of securities law
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Complete consultations on proposed OSC whistleblower program</li> <li>b. Respond to comments and publish OSC whistleblower policy, if appropriate</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. OSC whistleblower program launched, if appropriate</li> </ul>

*Enhance Enforcement and Adjudicative Processes*

<b>Priority Issue</b>	Achieve better outcomes from OSC enforcement and adjudicative processes by introducing better tools, analytics and approaches
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Improve technological support to Enforcement staff, including the Joint Serious Offences Team, through enhanced computer forensics and the capacity to conduct e-discoveries and e-hearings</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. The OSC's e-hearing directive and applicable case management guidelines result in reduced case timelines</li> </ul>

*Timely, Fair and Efficient Adjudication*

<b>Priority Issue</b>	The OSC will improve its case management and adjudicative processes through more transparent policies, practices and procedures and more timely issuance of its orders, decisions and reasons
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Continue the implementation of its Electronic Case Management System and Hearing system and use of technology to enhance accessibility for respondents and the public by holding electronic hearings</li> <li>b. Implement and monitor adherence to its internal guideline for the timely release of decisions within six months</li> </ul>

<b>Priority Issue</b>	The OSC will improve its case management and adjudicative processes through more transparent policies, practices and procedures and more timely issuance of its orders, decisions and reasons
	c. Adhere to newly adopted Case Management Practice Directive regarding a new Case Management Timeline for Enforcement Proceedings
<b>Success Measures/ Expected Outcomes</b>	<p>a. The Electronic Case Management and Hearing System will be implemented and monitoring of issues and enhancements to the newly designed system will be made as appropriate</p> <p>b. Improved access to the tribunal. The efficiency and timeliness of tribunal adjudicative hearing and deliberation processes will be improved. Decisions will be released within six months</p> <p>c. The Tribunal will monitor the implementation of its newly adopted Case Management Timeline for Enforcement proceedings, and address arising issues</p>

**Goal 4 – Promote financial stability through effective oversight**

Capital markets have become increasingly interconnected by technology, business models and investment flows. The interconnectedness of markets creates the potential for systemic risk within the wider financial framework, and securities regulators have assumed an important role in maintaining its stability. Success in managing this complex area will have a significant impact on market confidence and ultimately the health of our capital markets. It is critical for the OSC to work with other financial market regulators to design and build a regulatory framework and operational programs to effectively oversee and supervise the OTC derivatives market and its participants.

There are approximately \$500 billion in corporate bonds outstanding in Canada and almost \$500 billion in corporate bonds traded in the Canadian secondary market in 2014. In Canada, corporate bond trading is subject to limited post-trade transparency for both regulators and investors. The OSC is taking steps to enhance regulation in the fixed income market and to identify opportunities where changes to regulatory approaches could improve market transparency and better protect investor interests.

*Promote Financial Stability through Effective Oversight*

<b>Priority Issue</b>	Advance OSC systemic risk oversight and analytic capabilities
<b>Action Plan/ Next Steps</b>	<p>a. Develop rules for the clearing of OTC derivatives</p> <p>b. Develop a registrant regulation framework for derivatives market participants</p> <p>c. Implement rules and a compliance program for OTC derivatives trade reporting</p> <p>d. Implement rule/policy framework for clearing agencies to incorporate CPMI/IOSCO revised standards</p> <p>e. Develop recommendations to implement Principle 14 Segregation and Portability under the CPMI IOSCO Principles for Financial Market Infrastructures</p>
<b>Success Measures/ Expected Outcomes</b>	<p>a. Clearing and reporting rules for OTC derivatives that align with international standards and meet G20 commitments will be in place</p> <p>b. National Instrument for Registration of Derivatives Dealers published for comment</p> <p>c. Notice that outlines recommendations for implementation of segregation and portability (other than for OTC derivatives) published</p>

*Regulation of the Fixed Income Market*

<b>Priority Issue</b>	Enhance regulation in the fixed income market by increasing transparency, improving market integrity and evaluating access
<b>Action Plan</b>	a. Publish a regulatory plan, working with IIROC, that addresses key issues identified in the fixed income review, including requirements to increase post trade transparency
<b>Success Measures/ Expected Outcomes</b>	a. Plan published and implementation of proposed changes underway b. Improved post-trade transparency allowing more informed decision-making among all market participants

**Goal 5 – Be an innovative, accountable and efficient organization**

Securities regulators are facing growing pressures to respond appropriately to market issues while avoiding over-regulation. The need for a cost-effective regulatory framework is critical as capital moves more quickly across multiple marketplaces that span jurisdictional borders. The OSC is strengthening its core functions, including compliance and enforcement, and adjusting how it works to develop the capacity to efficiently deliver the right regulation for investors, market participants and markets. The OSC needs to continue its efforts to upgrade procedures, practices and systems as part of a commitment to robust processes and high-quality execution, including:

- Implementing a consistent organizational approach for managing risks
- Increasing reliance on research and analytics in the way we work, including conducting regulatory impact analyses prior to initiating proposed policy projects
- Expanding the use of technology to gather and analyze data and other information, including information required for compliance and adjudicative matters

Management and staff will continue these efforts to reposition the organization as a more proactive and agile securities regulator that fosters the integrity of capital markets in Ontario.

Harmonization and coordination are key elements in achieving cost-effective regulation. Increasingly, the OSC must deal with regulatory matters that are international, not just provincial or national, in their scope, such as the oversight of emerging markets issuers and the regulation of OTC derivatives. More than ever before, the OSC regulates within the context of a global marketplace, which underlines the imperative of engaging with our international counterparts, especially through IOSCO, to deliver proactive regulation. The OSC needs to provide leadership to the multinational reform agenda on matters that promote the convergence of stronger international market conduct standards that benefit investors and market participants. Participation in international regulatory fora allows the OSC to obtain timely insight and understanding of emerging compliance and regulatory issues to develop an informed, proactive oversight approach.

*Effectively Influence the International Regulatory Agenda*

<b>Priority Issue</b>	Influence the international regulatory agenda to reflect the needs of Ontario's markets
<b>Action Plan/ Next Steps</b>	a. Enhance our ability to influence and shape the international standard setting process by seeking leadership roles within IOSCO (e.g., Chair committees and task forces) b. Perform greater proactive analyses of risks/issues identified by other jurisdictions globally by participating in bi-lateral meetings with key regulatory partners
<b>Success Measures/ Expected Outcomes</b>	a. Other regulators seek our views and advice in developing regulatory standards because of the value we bring b. Ontario's interests are reflected in international initiatives that relate to issues affecting our markets c. Canadian regulatory framework keeps pace with global regulatory developments. Harmonized regulatory approaches internationally and within the CSA, where applicable, reduce regulatory burden on our market participants

*Proactive use of Data and Research*

<b>Priority Issue</b>	Improve policy development and regulatory outcomes by increasing the integration of economic and quantitative analysis, including regulatory impact analyses, in the development of policies and rules
<b>Action Plan/ Next Steps</b>	<ul style="list-style-type: none"> <li>a. Continue to develop data collection, management and assessment practices</li> <li>b. Demonstrate enhanced use of economic analysis, research and data analysis within the OSC including completing a regulatory impact analysis for proposed policy projects</li> </ul>
<b>Success Measures/ Expected Outcomes</b>	<ul style="list-style-type: none"> <li>a. Use of research reflected in OSC policy initiatives and OSC publications</li> <li>b. Completion of one major research project</li> </ul>

**2015-2016 Financial Outlook**

*OSC Revenues and Surplus*

The OSC is forecasting 2015-2016 revenues to increase by 11.4% from 2014-2015 actual revenues. The forecast reflects fee rates set out in the OSC's fee rules (13-502 and 13-503), which became effective April 6, 2015. The key change to the new fee rules is the return to the previous method of calculating participation fees. Under the new rules, we will use the most recent financial year information, as opposed to a reference fiscal year. As a result, fees due to the OSC will become less predictable as the amount payable by market participants will increase or decrease based on actual changes in business conditions and performance. Under the new fee rules, the OSC expects to generate a surplus of \$6.6 million in 2015-2016 to add to its expected 2014-2015 ending surplus of \$14.3 million, for a total surplus of \$20.9 million as at March 2016. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2015-2016, a smaller surplus in 2016-2017 and a deficit in 2017-2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The budget approved by the OSC Board for 2015-2016 is in line with this expectation. As a result, the above-noted ending general surplus is expected to be \$19.2 million by the end of 2017-2018.

*2015-2016 Budget Approach*

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2015-2016 SoP sets out the OSC's key priorities to meet these challenges. Achievement of these priorities is a key driver of the proposed increases to the 2015-2016 OSC Budget as this will require focused investments in the following four areas:

- improving education, outreach and advocacy through creation of the new Office of Investor Policy, Education and Outreach
- development of a new regulatory framework (including supervision and oversight) for the derivatives market
- enhanced oversight of the exempt market
- improving the OSC's information technology, in particular to support a greater reliance on data and research.

The budget reflects an increase of 6.0% from the 2014–2015 budget. Salaries and benefits, which comprise \$80.7 million or 73.9% of the budget, represent an increase of \$4.8 million or 5.9% over 2014–2015 spending. The key reasons for this increase are:

- approval of new positions to support the investments noted above
- underspending in 2014-2015 by maintaining vacancies for longer than planned as a cost control measure and due to some shifting or deferring of priorities as a result of the CMRA initiative. Therefore, budgeting of full-year costs for vacancies and staff hired throughout 2014–2015 contributes to the increase.

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the fact that budget amounts will decrease, or remain flat in approximately 40% of its operating branches. The budget also includes resources for work toward the successful implementation of the CMRA.

**Notices / News Releases**

The capital budget primarily reflects the build-out of recently acquired additional space, as well as the cost to support the OSC's information technology needs, including a data warehouse to support Derivatives oversight.

(thousands)	<b>2014-15 Budget</b>	<b>2014-2015 Actual</b>	<b>2015-2016 Budget</b>	<b>2015-2016 Budget to 2014-2015 Budget</b>		<b>2015-2016 Budget to 2014-2015 Actual</b>	
Revenues	\$101,325	\$103,936	\$115,782	\$14,457	<b>14.3%</b>	\$11,846	<b>11.4%</b>
Expenses	\$102,976	\$95,875	\$109,182	\$6,206	<b>6.0%</b>	\$13,307	<b>13.9%</b>
Deficiency of Revenue Compared with Expenses	(\$1,651)	\$8,061	\$6,600	\$8,251		(\$1,461)	
Capital Expenditures	\$3,349	\$1,616	\$3,101	(\$248)		\$1,485	