



# **ONTARIO SECURITIES COMMISSION**

## **STATEMENT OF PRIORITIES FOR FISCAL 1999/2000**

**June 1999**

## TABLE OF CONTENTS

A. INTRODUCTION .....	1
B. BUSINESS STRATEGY .....	1
C. STRATEGIC CONSIDERATIONS AND KEY CHALLENGES .....	2
D. STRATEGIC GOALS .....	3
E. ORGANIZATIONAL PRIORITIES FOR 1999/2000 .....	4
F. 1999/2000 OPERATIONAL PRIORITIES .....	5
1. Enforcement .....	5
2. Corporate Finance .....	5
3. Capital Markets .....	6
4. Corporate Relations .....	6
5. Corporate Services .....	7
G. 1998/1999 PRIORITIES - THE YEAR IN REVIEW .....	7

## **A. Introduction**

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

1998/99 was the Commission's first full year of operation as a corporation without share capital, funded through the fees which it collects from market participants. In the fall of 1998, the Board of Directors reviewed and affirmed the agency's strategic directions in the context of the increased resources and operational flexibility provided by the new structure.

The Commission is committed to operating in a more strategic and accountable manner and to improving the efficiency and effectiveness of its operations. In 1998, the Commission restructured its operations, creating Capital Markets and Corporate Finance branches with new organizational units focused on markets regulation, investment funds, continuous disclosure and mergers and acquisitions. An aggressive staffing plan was also developed to ensure the Commission has the expertise needed to fulfil its mandate. The 1999/2000 year will continue to be one of change as the Commission continues to build on these initiatives.

This Statement of Priorities articulates the business strategy of the OSC and the Priorities for the 1999/2000 fiscal year.

## **B. Business Strategy**

The OSC will strive to maintain Ontario as an attractive place to invest by fostering a securities market where markets are efficient, open and fair so that viable businesses can raise financing and investors can have confidence in market integrity. The OSC will strive to balance the costs of regulatory intervention against the significance and benefits of regulatory objectives. The focus of the OSC will be to function as a relevant and constructive force in Ontario's capital markets through the establishment of an efficient and effective regulatory environment. Towards this goal, the OSC strongly supports sound and responsible harmonization of policies and co-ordination of activities with other securities regulators.

***Our Vision*** To be recognized as a regulator that establishes standards and aggressively enforces clear and unambiguous rules to protect investors, while at the same time ensuring efficient capital markets for compliant users.

***Our Mandate*** To protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets in Ontario and confidence in their integrity.

***Our Strategy*** To be efficient and proactive in carrying out our mandate...to be intelligently aggressive in applying the rules of the marketplace...to be innovative in applying our regulatory powers to a rapidly changing marketplace.

## **C. Strategic Considerations and Key Challenges**

The OSC recognizes the challenges in its operating environment that it must address to achieve its goals. These challenges are not unique to the OSC and take the form of changes to the business environment, capital markets, market participants and the regulatory framework.

### ***1. Global Integration of Markets and Rapid Pace of Technological Change***

Increasingly, the business environment is subject to global influences where firms are being serviced by integrated banking, insurance and securities conglomerates which operate worldwide. Technology is driving market innovation and facilitating the creation of increasingly more sophisticated financial products, trading techniques and strategies. Competition between markets has increased as services formerly provided locally can now be supplied from remote locations using technology.

### ***2. Increased Dominance of the Secondary Market and Rapid Growth of Market for Investment Funds***

Participation has increased dramatically in secondary markets and is at record levels in the investment fund sector. Investors are becoming increasingly active in seeking information and education about investments. These trends present challenges to effectively inform, educate and protect market participants and meet the elevated need for clear and continuous disclosure of information to investors.

### ***3. Redefining Mandates of Regulators of Financial Services***

Relaxation of restrictions on the types of financial products offered by various financial service providers has caused instances of regulatory overlap as well as gaps in regulatory coverage. As a result, there is a need to redefine the mandates and activities of financial regulators.

### ***4. Public Confidence in the Integrity of the Market***

Market participants and investors want regulators to provide clearer rules, more accessible, user-friendly services and faster response times. Investors are demanding a greater sense of confidence in the integrity of the capital markets. Regulators are being expected to establish standards which ensure the appropriate training and conduct of investment advisors and other registrants.

## **D. Strategic Goals**

As the nature of many of the activities undertaken by the Commission is such that the results can only be achieved over a number of years, strategic goals are reviewed annually to ensure they remain relevant to current market requirements. The strategic goals which follow provide a blueprint for how the OSC intends to direct its resources in 1999/2000.

### ***1. Redefine Approaches to the Financial Regulatory Framework***

Foster the development of consistent and cooperative approaches to financial regulation that ensure the efficiency, fairness and integrity of capital markets.

### ***2. Strengthen the Compliance - Enforcement Continuum***

Target additional resources and enhance the efficiency and effectiveness of OSC compliance and enforcement activities. Compliance activities include registrant compliance, issuer prospectus and continuous disclosure regulation and takeover bid and merger and acquisition regulation.

### ***3. Develop and Implement Integrated Disclosure System***

Develop and implement an integrated disclosure system with increased focus on ongoing reviews of corporate filings and other disclosure documents.

### ***4. Play an Active and Leading Role in Readyng the Canadian Capital Markets for the Year 2000 Issue***

Provide leadership and support the testing of critical systems that support the integrity of the Canadian capital markets. Provide leadership and support the development of contingency plans by all market participants.

### ***5. Improve Inquiry and Complaint Handling Processes***

Ensure that issues raised by constituents are addressed on a timely basis with fairness, consistency and appropriate consideration.

### ***6. Communicate Proactively to Enhance Investor Protection***

Develop and strengthen proactive relationships with constituents including greater emphasis on investor education initiatives.

**7. *Successfully Complete the Transition from Government to Business Orientation -- Implement Internal Infrastructure***

Ensure internal structures and processes provide innovative, efficient, and value added support to OSC program delivery. Effectively manage the OSC transition including increasing staffing by 50% and strengthening our service-focused, performance-based culture.

**8. *Establish OSC as a “Destination Employer”***

Provide a rewarding and satisfying work environment in which employees are capable of and committed to achieving the OSC's business goals.

**E. Organizational Priorities for 1999/2000**

The Commission will continue to recruit aggressively in the 1999/2000 fiscal year to ensure operations are appropriately staffed to provide consistent, timely and reliable services of superior value. Resources will be focused on the following key priorities:

1. Provide leadership in readying the capital markets for Y2K: support industry testing and contingency plan development; perform follow up reviews of registrant and issuer disclosure programs.
2. Significantly increase resources in Capital Markets, Corporate Finance and Enforcement to provide additional focus on monitoring of compliance with disclosure requirements by market participants and increased emphasis on case assessment, investigations and enforcement.
3. Lead initiatives to redefine the mandates and activities of all Canadian regulators of financial service providers. Contribute to increased coordination of financial services regulation within Ontario through participation in Ontario Council of Financial Regulators.
4. In conjunction with CSA partners address issues arising from the proposed restructuring of Canadian exchanges.
5. Provide an effective regulatory regime for existing, alternative, and emerging trading systems including the Internet.
6. Complete fee review with CSA partners and begin to implement restructured fees to bring revenues and costs into closer alignment.
7. Support the establishment and recognition of the Mutual Funds Dealers Association and seek regulatory options to improve the governance of mutual funds.
8. Participate actively in international organizations (e.g. IOSCO) to represent Ontario during the development of regulatory standards and approaches related to international capital markets.
9. Propose reforms of prospectus and continuous disclosure requirements for mutual funds.
10. Develop proficiency standards for financial planning and rules for implementation.

11. Assist the Minister in establishing an advisory committee for Quinquennial legislative review and provide input to the review process.
12. With the Canadian Securities Administrators (CSA), develop an integrated disclosure system proposal to achieve a more flexible offering process and improved standards for continuous disclosure for presentation to CSA and publication for comment.
13. Complete the reformulation of the OSC's deemed rules into formal rules and policies.
14. Revise and publish a proposal regarding statutory civil liability for continuous disclosure.
15. Develop a streamlined regulatory regime for private placements to enhance capital market access for small and medium sized enterprises.

## **F. 1999/2000 Operational Priorities**

As part of the Commission's comprehensive planning process, each operational area develops plans for the upcoming fiscal year. Key operational priorities for each area are set out below:

### **1. ENFORCEMENT**

- a) Enhance enforcement presence by applying additional resources to undertake higher levels of enforcement activity. Matters opened for investigation will involve substantial breaches of the Act or the public interest.
- b) Implement an interim case management system to better assign and manage caseloads. Decrease the time required to make recommendations in respect of case assessment or investigation files.
- c) Conduct a detailed file review of each open file at least every three months and more frequently on high profile matters and ensure that files that have little likelihood of success are closed at an early stage.
- d) Resolve more impact cases by a recommendation to initiate proceedings, issuing a warning letter, or accepting an undertaking.
- e) Streamline the enforcement process by developing internal and SRO referral protocols.
- f) Document and standardize enforcement policies and procedures.
- g) Coordinate with Corporate Finance to increase the level of regulatory oversight, and enforcement action where appropriate, in respect of continuous disclosure matters.
- h) Coordinate with Compliance and Investment Funds and participate on joint reviews/investigations to increase oversight of the mutual fund industry.

### **2. CORPORATE FINANCE**

- a) Establish new branch: develop new continuous disclosure group and new take over bid and mergers and acquisition group.
- b) Establish mutual reliance review systems; finalize prospectus and application policies and go live; commence development of continuous disclosure MRRS system.
- c) Ensure adequate disclosure to the secondary market. Complete Y2K disclosure review program and commence review of earnings management related issues.
- d) Commence Insider Reporting project to develop a common system for electronic filing of insider trading information.

- e) Publish proposals and instruments for comment: hold period project; distributions outside of a jurisdiction; reverse takeover policy; small business proposal.
- f) Prepare staff recommendations: cease trade order/disclosure defaults; regulation of issuers with foreign auditors.
- g) Continue quality control initiatives and develop precedent systems to document novel and substantive legal and accounting issues.

### **3. CAPITAL MARKETS**

- a) Consider regulatory options for improved governance of mutual funds.
- b) Finalize updated rules for the structure and management of mutual funds including rules for securities lending and use of repurchase agreements and fund of funds.
- c) Finalize and implement new prospectus disclosure requirements for mutual funds and consider options for reform of mutual fund continuous disclosure requirements, including financial statement requirements and management's discussion of fund performance.
- d) Work with the Financial Services Commission of Ontario on harmonizing rules applicable to mutual funds and segregated funds.
- e) Examine the use of mutual funds and pooled funds in Ontario as group retirement alternatives to defined benefit pension plans.
- f) Monitor compliance with the Mutual Funds Sales Practices rule and consider where refinements to the rule are necessary.
- g) Support recognition/implementation of the Mutual Fund Dealers Association through by-law review and development of recognition criteria.
- h) Develop regulatory strategies to effectively address the demutualization of the Toronto Stock Exchange (TSE) and the specialization of stock exchanges within Canada.
- i) Establish rules for regulation of alternate trading systems.
- j) Conduct oversight reviews of TSE and IDA.
- k) Double the number of compliance staff. Perform compliance examinations and inspections of dealers and advisors (who are not members of self regulatory organizations) including a national compliance review.
- l) With CSA partners, develop rules to support the implementation of MRRS and participate in the development of a national registration database with streamlined categories for registration.
- m) Improve registration turnaround times and target resources to ensure unsuitable registrants are not registered.

### **4. CORPORATE RELATIONS**

- a) Create an effective contact centre in the inquiries area through increased staffing, backlog elimination, customer service training and the development and implementation of appropriate technology support. Implement a complaints management process focused on educating investors and providing timely resolution of inquiries and complaints.
- b) Increase emphasis on investor education both directly and in partnership with other organizations through ongoing outreach programs including participation in Investor Education Week, and "Town Hall" events.

- c) Conduct base-line opinion survey regarding consumer, investor, industry confidence/service satisfaction regarding OSC key functions.
- d) Complete a corporate communications plan integrating corporate communications, issues management, media relations and public speaking strategies.
- e) Provide educational information in various languages.
- f) Develop effective and consistent lines of communication with organizations that represent market participants in sectors that complement or overlap with the securities sector.

## **5. CORPORATE SERVICES**

- a) Complete planned recruitment for operational areas and consolidate the Commission in expanded and renovated space.
- b) Develop Balanced Scorecard architecture and results reporting mechanism for the Commission.
- c) Develop and implement new individual performance management system and criteria for performance pay.
- d) Ensure internal information technology systems are Y2K ready and upgrade technology infrastructure.
- e) Develop/implement new program applications: document management; case management; records management; data warehouse; executive information system.

## **G. 1998/1999 Priorities - The Year in Review**

The Commission achieved substantial progress against the priorities it identified in its 1998/99 Statement of Priorities. The accomplishments are presented to correspond to the order in which the priorities were published last year.

The financial and human resource infrastructure required to support self-funded status was established enabling the Commission to end the service arrangements which had been put in place with the Ministry of Finance. A comprehensive planning and budgeting process was undertaken and the development of results measurements was begun to enable the Commission to monitor its effectiveness and ensure accountability for the use of resources. An aggressive national campaign was launched to recruit additional skilled staff to the agency, particularly in the areas of compliance and enforcement.

The Commission assumed a strong leadership role in raising awareness and providing guidance on the implications of the Year 2000 issue. The CSA adopted a National Instrument requiring registered firms to file information relating to their Y2K preparations and announced that action will be taken against registered firms that fail to comply with Y2K requirements. Resources will continue to be targeted to monitoring the planning and preparation of industry participants; ensuring successful completion of industry testing and to ensuring adequate disclosure to investors.

Significant progress towards harmonization of Canadian securities regulatory system was achieved through the negotiation of a memorandum of understanding among the Canadian

Securities Administrators (CSA) formalizing the Mutual Reliance Review System which will streamline the prospectus, application and registration processes.

In conjunction with the CSA, the Commission proposed and implemented a number of reformulated rules. Key among these was the implementation of the early warning rule, the underwriting conflict rule and a revision of Rule 9.1 re: insider bids, issuer bids, going private transactions and related party transactions.

In the area of mutual fund regulatory reform, the Mutual Fund Sales Practice rule was put in place to establish certain minimum standards of conduct for industry participants. The OSC provided guidance and financial assistance in the establishment of the Mutual Fund Dealers Association which is proposed to act as a national self regulatory body to oversee the activities of mutual fund dealers. In conjunction with the CSA, the OSC published a new prospectus disclosure regime for mutual funds designed to build on the successes of the simplified prospectus system in place for mutual funds since the early 1980's.

The recent release of a concept paper on Market Regulation describes a proposed regulatory model that would result in more comparable regulatory treatment of similar products and services. The release of the Mining Standards Task Force Report provided a number of recommendations aimed at increasing disclosure standards for mining companies.

Activity in the area of investor education increased significantly. The OSC participated with regulators from twenty other nations to hold the first Investor Education Week. A broad range of information was disseminated through Town Hall meetings, investor education kits and other materials. In July 1998, the OSC launched its website, providing electronic access to a variety of information and services.

Preliminary discussions aimed at developing a modified approach to revenues have taken place with other CSA regulators. The goal is to reduce revenues to the level of expenditures, simplify fee structures and provide a more stable and equitable revenue base.

The OSC completed a number of enforcement actions including those involving Dino P. DeLellis and Belteco Holdings Inc. Enforcement actions against David Singh, Infinity Investment Counsel Ltd. and Fortune Financial Corporation, as well as Maple Leaf Sports and Entertainment Ltd., resulted in material financial settlements which will be used to fund activities aimed at educating and protecting investors.