



# **THE ONTARIO SECURITIES COMMISSION**

## **REPORT ON STATEMENT OF PRIORITIES FOR FISCAL 2005/2006**

**June 2006**

The four goals published in our 2005/2006 Statement of Priorities were taken from our 2004–2008 Business Plan. Under each goal we have set out in a table our progress against the success measures we identified last year. Following the table, each 2005/2006 initiative is presented. Details on our progress towards completion of each initiative are provided below each initiative.

**1) Providing fair, vigorous and timely enforcement**

Measure	Progress	Status												
<p>The current case assessment timeline, where 75% of cases are transferred within six months, will be reduced to less than four months.</p> <p>For surveillance, the average timeline between detection and transfer to investigation/litigation will be reduced from twelve months to less than six months.</p>	<p>Our two intake groups for the Commission are Case Assessment and Surveillance. Surveillance deals with matters involving inappropriate trading and Case Assessment deals with matters involving illegal distributions, disclosure as well as financial and accounting improprieties.</p> <p>Significant improvements have occurred in timelines. The statistics below indicate that the target has been met and exceeded as 77% of cases were transferred to investigations or closed within four months.</p> <table border="1" data-bbox="919 743 1551 846"> <thead> <tr> <th colspan="4">2005/2006</th> </tr> <tr> <th>Total Files</th> <th>&lt;45 days</th> <th>&lt;90 days</th> <th>&lt;120 days</th> </tr> </thead> <tbody> <tr> <td>176</td> <td>42%</td> <td>66%</td> <td>77%</td> </tr> </tbody> </table> <p>New procedures were put in place with Market Regulation Services such that matters are now referred to the OSC upon detection. As a result, this objective has been met and exceeded as the average time between detection and transfer has been reduced to three months.</p>	2005/2006				Total Files	<45 days	<90 days	<120 days	176	42%	66%	77%	<p>Target Met</p>
2005/2006														
Total Files	<45 days	<90 days	<120 days											
176	42%	66%	77%											
<p>Greater cooperation with IMETs will result in an increase in the number of capital markets offenders who are prosecuted.</p>	<p>The OSC has been a significant partner in the RCMP IMETs program from the outset. IMETs staff work in the Joint Intelligence Unit at the OSC to identify and obstruct unlawful market activity before substantial harm has been caused. In 2005–06, three individuals were charged with Criminal Code violations through Toronto IMETs. The size of some of the investigations has delayed further charges.</p>	<p>On Track</p>												
<p>The number of foreign jurisdictions who become signatories to the IOSCO Multi-lateral Memorandum of Understanding (MMOU) for cooperation will increase.</p>	<p>The number of Appendix A signatories (those jurisdictions which meet the rigorous requirements of IOSCO's MMOU) grew by 15% from 26 to 30. The number of Appendix B signatories (those jurisdictions which have committed to change their legislation or practices to become Appendix A signatories) grew from 5 to 9.</p>	<p>Target Met</p>												

**A Improving the effectiveness and transparency of our enforcement work, e.g. through reduced timelines for completing investigations and bringing regulatory proceedings and more timely disclosure of investigations where warranted.**

New processes and procedures in the two intake units (Case Assessment and Surveillance) have led to dramatic improvements in our effectiveness in dealing with more matters in a more expeditious fashion. There was as a 159% increase in the number of intake files opened and at the same time 55% of the files were completed within forty-five days compared to 26% in the previous year. In investigations, it took on average nine months (versus eleven months in 2005) to complete files and 61% of the matters were referred for litigation versus 56% in the previous year. In Litigation, thirty proceedings were initiated involving 81 respondents. The number of new files involving charges in the Ontario Court of Justice also increased. Staff have been involved in more discussions with issuers in respect of their obligation to disclose the existence of an investigation to the marketplace.

**B Focusing additional resources on reducing illegal market conduct.**

A Quick Start Team was created in the Surveillance Unit. Two additional resources plus two existing positions were assigned to this Team. This Team handles all referrals from Market Regulation Services Inc ("RS") and other OSC Branches such as the Contact Centre. Processes were changed to reduce the timelines and increase the effectiveness of the initial reviews. The number of cases increased significantly with a simultaneous reduction in timelines to complete the investigations.

MICA, an expert computer program used for conducting market manipulation and insider trading cases, was rolled out to all of the participants this year. The participants include the British Columbia Securities Commission, Alberta Securities Commission, OSC, L'Autorité des marchés financiers (AMF), RS, the Investment Dealers Association (IDA) and the RCMP. The program reduces the time to conduct investigations. The number of cases that we can review has increased as a result. The OSC led the third party developers in its design, construction, testing and training.

In fiscal 2005/2006, the Commission initiated four new prosecutions in the Ontario Court of Justice pursuant to s. 122 of the Act, in contrast to two prosecutions in the previous fiscal year. One of the prosecutions was an insider trading prosecution.

Insider trading, or tipping, was the subject of one trial in the provincial court (initiated in a prior period), a contested hearing before the Commission, two settlements approved by the Commission resulting in orders made by the Commission pursuant to s. 127 of the Act and three settlements entered into by the Executive Director of the Commission.

### **C Actively monitoring compliance with new rules and devoting more resources to their enforcement.**

The Corporate Finance Branch conducted continuous disclosure reviews which focused on identifying significant issues related to earnings manipulation, corporate governance, timely disclosure, misleading disclosure, audit committee rule compliance and insider reporting with a view to taking enforcement action where appropriate. Considerable resources in both Corporate Finance and Enforcement have been dedicated to pursuing these referrals. Corporate Finance staff have continued to provide support in both the investigation and litigation phases.

During the year, a number of successes were achieved as a result of the two Branches working very closely together:

- ▶ identifying and referring a major case involving accounting fraud which led to charges being laid by IMETs against three executives of a TSX listed company;
- ▶ a disclosure case which resulted in the issuance of a public warning letter on timely disclosure of accounting restatements;
- ▶ a case involving an expedited hearing on failure to file insider reports in which a settlement was reached; and
- ▶ three joint reviews were conducted.

As well, the two Branches continue to meet monthly to discuss potential referrals.

### **D Working with our regulatory partners to respond to the recommendations of the Insider Trading Task Force.**

We have significantly enhanced our coordination of investigations with RS. RS now refers all potential illegal insider trading cases to the Enforcement Branch's Surveillance Unit within five days from the point of detection.

We are working closely with the Toronto Stock Exchange and the Institute of Corporate Directors to develop professional education programs and materials for corporate officers and directors to ensure best practices for information containment and improved awareness of illegal insider trading.

The Commission is also working closely with the TSX as they and the TSX Venture Exchange harmonize and streamline their timely disclosure policies.

The Commission is working with the IDA, with other CSA regulators, and with overseas regulators to address the issue of illegal insider trading emanating from offshore jurisdictions, with a view to achieving dialogue with specific problem jurisdictions and to create a list of problem jurisdictions which do not give indication of improvement. Such a list is intended to be used to ensure that extra due diligence is done to identify the beneficial owners of accounts located in such jurisdictions.

**E Contributing to effective enforcement through increased coordination with other enforcement agencies and regulators, including participation with the RCMP on Integrated Market Enforcement Teams (IMETs), which are designed to respond to major capital market fraud and market-related crimes. The OSC will refer cases to IMETs that are substantially criminal in nature and share expertise to increase the breadth of investigations.**

The Commission continued to second staff to IMETs and share information in respect of potential illegal activity in Ontario’s capital markets. The Commission supported one IMETs investigation which led to charges against three individuals. A forensic accountant was also seconded to the OPP to provide support in a case where charges were laid in an alleged \$60-million fraud. The Enforcement Branch continues to develop coordinated approaches to deal with matters of joint interest with our SRO partners. The best example of a joint approach was the arrangement between the OSC, Mutual Funds Dealers Association (MFDA) and the Investment Dealers Association (IDA) to impose terms and conditions on those dealers that referred the Portus product to their existing clients.

**2) Taking actions that better reflect the needs of the retail investor**

<b>Measure</b>	<b>Progress</b>	<b>Status</b>
<p>OSC service levels will continue to meet standards laid out in the OSC Commitment to Quality Service, as indicated by biennial surveys of public opinion and through internal measures (e.g., telephone inquiries quality score, retention rates for investor education etc.)</p>	<p>This year the OSC conducted the fourth wave of the biennial research program into stakeholder satisfaction. Similar to previous waves, interviews were conducted by Ipsos Reid with registrants, reporting issuers and Inquiry Line users. Compared to previous waves of research with registrants, the OSC continues to post solidly positive - and consistent - service ratings across all measured attributes. Nine in ten (87%) registrants who contacted the OSC say that the issue for which they contacted the OSC was resolved; as well, 80% of those whose issues were resolved were satisfied with the resolution. Notably, a clear majority of registrants (67%) rate the overall service they receive from the OSC in the 7-10 range on a 0 (very poor) to 10 (excellent) scale. A majority of reporting issuers (65%) continue to rate overall service they receive from the OSC in the 7-10 range, though there is a decline of six points in this measure since 2004. However, nine in ten (92%) reporting issuers who contacted the OSC, say that the issue they contacted the OSC about was resolved and 82% of those were satisfied with the resolution. Professionalism and accuracy of information are clearly the OSC's strengths according to both registrants and reporting</p>	<p>Target Met</p>

	<p>issuers. Timeliness is a relative weakness - although a clear majority of both registrants and reporting issuers do assign it a positive rating. Service ratings among Inquiry Line users remain positive, but exhibit a moderate decline across all measures since 2004, back to scores recorded in 2000. Courtesy and professionalism are the top service strengths among Inquiry Line users, while accuracy of information, timeliness and level of authority of staff receive the highest negative (0-3) ratings.</p> <p><i>Retention rates for investor education initiatives</i>  73% - the percentage of those polled who could identify at least one characteristic of fraud, when polled an average of 104 days after attending an OSC investor education seminar.  37% - the percentage of those polled that identified the OSC as the organization that advisers had to be registered with in order to sell securities or offer advice, when polled an average of 104 days after attending an OSC investor education seminar.</p> <p><i>Telephone Quality</i>  Although the full-year internal quality assessment fell short of target (6.9 against a target of 7.5 out of 10), call quality scores rose progressively through the past year and exceeded target in the fourth quarter.</p> <table border="1" data-bbox="835 997 1539 1130"> <thead> <tr> <th></th> <th>Q1</th> <th>Q2</th> <th>Q3</th> <th>Q4</th> </tr> </thead> <tbody> <tr> <td><b>2003/2004</b></td> <td>7.4</td> <td>7.0</td> <td>7.1</td> <td>7.4</td> </tr> <tr> <td><b>2004/2005</b></td> <td>7.6</td> <td>7.4</td> <td>7.5</td> <td>6.8</td> </tr> <tr> <td><b>2005/2006</b></td> <td>6.3</td> <td>6.2</td> <td>7.4</td> <td>7.6</td> </tr> </tbody> </table>		Q1	Q2	Q3	Q4	<b>2003/2004</b>	7.4	7.0	7.1	7.4	<b>2004/2005</b>	7.6	7.4	7.5	6.8	<b>2005/2006</b>	6.3	6.2	7.4	7.6	
	Q1	Q2	Q3	Q4																		
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<p>Rule 46-102: <i>Scholarship Plan Dealers</i> will be in force</p>	<p>Rule 46-102 <i>Scholarship Plan Dealers</i> has not been implemented.</p>	<p>To be completed</p>																				
<p>Recommendations will be developed that will establish a more effective and efficient mechanism for consumers of financial services to seek redress for investor losses</p>	<p>Recommendations are being developed to take steps that would make the complaint-handling and redress mechanisms more comprehensible and accessible. Together with the IDA and MFDA and the Ombudsman for Banking Services and Investments (OBSI), we are increasing efforts to make investors aware of the available options for dealing with their</p>	<p>On track</p>																				

	complaints and concerns, including the redress mechanisms available for their particular circumstances. In addition, efforts are continuing on targeted improvements to the complaint-handling process in order to achieve a more effective system.	
Changes will be made to SRO rules to create bylaws that improve the interface between investors and financial services professionals	The SROs have set up a working group to draft rules and policies to implement the principles set out in initiative F below. A draft paper is expected to be published for comment by the end of calendar 2006.	On track

**A Implementing measures to engage the retail investor in the regulatory process, including holding Investor Town Hall meetings and establishing an Investor Advisory Committee (IAC).**

The OSC established the Investor Advisory Committee (IAC) in November 2005 in response to commitments made at the OSC Investor Town Hall in May 2005. The IAC provides the Commission with direct investor input, thus expanding the stakeholder perspectives available. The mandate of the IAC is to provide advice and guidance on any aspect of the OSC that has an impact on investors. The IAC meets for half-day meetings 4-5 times per year. They met for the first time in January 2006 and again in March 2006. Senior OSC staff participate in these meetings and hear the recommendations of IAC members directly.

**B Considering the needs of all our constituents to ensure the promotion of a customer-focused approach in OSC communications and service delivery.**

The OSC Contact Centre is developing more of an assistance role for staff in helping investors navigate the complaint-handling process, and working to improve the interface for investors with complaints. The OSC is also updating online and print consumer information on the complaint-handling process, with the goal of being more helpful to investors.

**C In conjunction with the Investor Education Fund (IEF), developing and distributing targeted, understandable and relevant public education resources designed to help investors protect themselves when making financial decisions.**

Our approach builds on research by the IEF that shows that people seek out financial information at key triggering points in their lives (getting married, having children, changes in health or lifestyle). By targeting specific consumers (women, boomers, new parents, couples) at these key points through lifestyle shows and integrated proactive editorial work with lifestyle publications (Wedding Bells, Chatelaine, Metro), we are capturing a more engaged audience as we heavily market the IEF website in paid and unpaid media work and all marketing and outreach efforts) and by speaking to more people face-to-face. This strategy has garnered recognition as a “best

practice” from our international peers in investor education (Australian Securities and Investment Commission [ASIC] and the North American Securities Administrators Association [NASAA] contacted the OSC for information on this approach).

As a result of this strategy, visits to the IEF website have increased significantly. A visit is a period or session of a user's continuous browsing on our website. During this visit, the user may view as many pages as they want without increasing the number of visits the site experiences. Average monthly visits for the fiscal year was 45,550 - 35% higher than last year's 33,761 monthly average and 14% higher than this year's goal of 40,000 (Fiscal 2003-04 was 14,671).

**D Supporting the Ontario Government in responding to the SCFEA recommendation relating to the establishment of a workable mechanism that would allow investors to pursue restitution in a timely and affordable manner, including studying existing avenues that provide for redress for consumers of financial services and making recommendations to address any deficiencies that may exist in the current system.**

Feedback received through the Investor Town Hall hosted by the OSC reinforced our appreciation that investors are interested in a more workable restitution mechanism and improvement in the complaint-handling process for the securities industry. Recommendations are being developed to take steps that would make the complaint-handling and redress mechanisms more comprehensible and accessible. Together with the IDA and MFDA and the Ombudsman for Banking Services and Investments (OBSI), we are increasing efforts to make investors aware of the available options for dealing with their complaints and concerns, including the redress mechanisms available for their particular circumstances. In addition, efforts are continuing on targeted improvements to the complaint-handling process in order to achieve a more effective system.

**E Proposing rule 46-102: *Scholarship Plan Dealers*.**

The OSC is leading a CSA project to develop a draft rule.

**F Working with our CSA colleagues and Self-Regulatory Organizations (SROs) to introduce principles to improve the interface between investors and financial services professionals including:**

- **Transparency of performance against promise**
- **Clarity of relationship (on both sides)**
- **Transparency of compensation and conflicts of interest**

The SROs have set up a working group to draft rules and policies to implement the principles set out above. A draft paper is expected to be published for comment by the end of calendar 2006. The group has been working on developing a clear, concise point-of-sale

document that explains the key attributes of a mutual fund, its risks, the fees associated with the fund and a description of how the dealer selling the fund is compensated. Because the point of sale document will include an explanation of a dealer's compensation, the project is being coordinated with the Registration Reform project. This project also requires us to re-examine how disclosure documents are delivered at the point of sale. Another important facet of the project is to create a standard "cooling-off period" for fund purchases.

**G Working with the Investment Dealers Association of Canada to improve its arbitration process.**

The IDA and other SROs participated the Investor Town Hall meeting hosted by the OSC on May 31, 2005, where we heard issues related to the needs of the retail investor, including the IDA's arbitration process. The IDA is considering ways to provide additional transparency to investors about the arbitration system and how it works. The discussions on this topic will continue.

**3) Promoting a harmonized, simplified securities regulatory system for Canada**

<b>Measure</b>	<b>Progress</b>	<b>Status</b>
Rules will be developed to implement a revised and re-focused national regulatory regime for securities intermediaries.	The work plan developed by the CSA for highly harmonized and streamlined securities laws (HHSL) focuses on key areas that will make a significant difference for market participants. Initiatives under the CSA work plan include such projects as the Registration Reform Project, prospectus requirements project, take-over and issuer bid rule and point of sale disclosure project. Work began on the CSA Registration Reform Project. During 2006/2007 we will draft new legislation and rules that will reduce regulatory costs for registrants by streamlining and harmonizing requirements.	On track
National Instrument 81-107: Independent Review Committee for Investment Funds will be introduced	Proposed NI 81-107 was published for second comment in May 2005. We believe the proposed rule will achieve the recommendation made by the Legislative Standing Committee on Finance and Economic Affairs (SCFEA) in October, 2004, that the OSC and Canadian Securities Administrators (CSA) require publicly offered mutual funds to establish and maintain an independent governance body that provides for "substantial investor protection". Absent any material changes, we plan to publish the final rule by summer 2006.	Target Met
National Instrument 81-106: Investment Fund Continuous Disclosure will be in force supported by implementation of a continuous disclosure	On June 1, 2005, the CSA continuous disclosure rule for investment funds came into force. With the coming into force of NI 81-106, the Investment Funds Branch began implementation of a continuous disclosure review program for investment funds. Reviews began in October, 2005.	Target Met

compliance program for investment funds		
Cost benefit analyses (CBA) will be completed for major initiatives to clearly identify costs and benefits for stakeholders	<p>The process of CBA has now been extended to all major initiatives of the CSA, helping to minimize the cost of regulation and ensure significant benefits in regulatory initiatives across Canada. The following CBAs were completed in the past two years.</p> <ul style="list-style-type: none"> <li>• 45-501; A Study of the Economic Impact of OSC Rule 45-501 Exempt Distributions; (2004)</li> <li>• 52-110 Multilateral Instrument 52-110 Audit Committees (2004)</li> <li>• 52-111: Reporting on Internal Control over Financial reporting (2004)</li> <li>• 81-107: Independent Review Committees for Mutual Funds; (2004)</li> <li>• 45-106 : Prospectus and Registration Exemptions (2005)</li> <li>• Business Trigger (part of Registration Reform (2005))</li> </ul>	Target Met
We will be a leader in fostering and implementing non-legislative, non-rule alternatives where alternative solutions are appropriate and supported by a better cost/benefit relationship than new regulation	<p>National Instrument 58-101 <i>Disclosure of Corporate Governance Practices</i> and National Policy 58-201 <i>Corporate Governance Guidelines</i> came into force on June 30, 2005. The Policy, which applies to all reporting issuers other than investment funds, provides guidance on corporate governance practices. While the guidelines included in the Policy are not intended to be prescriptive, issuers are encouraged to consider them in developing their own corporate governance practices. Issuers are required by the Instrument to disclose their corporate governance practices. Where a guideline included in the Policy has not been adopted by an issuer, the issuer is generally required to disclose how it has addressed the underlying objective of the guideline. In recognition of concerns about how the Policy and Instrument affect controlled companies, we are conducting a study to examine the governance of those entities. After completing the study, we will consider whether to change how the Policy and Instrument treat controlled companies.</p> <p>CSA Staff Notice 81-314 - <i>Removal of Foreign Content Restrictions for Registered Plans</i>. The purpose of this Staff Notice, released on March 18, 2005, was to set out staff's guidance in response to a federal government budget proposal to remove foreign content restrictions for registered plans.</p> <p>We use approaches such as the Annual Compliance Report as an alternative way to raise issues and identify best practices and to summarize our findings from reviews of ICPMs</p>	On track

	<p>(advisers). The report sets out the most frequent deficiencies identified during our reviews, as well as recommended best practices for each of the identified deficiencies. This year we also identified the top three most significant deficiencies as well. We also periodically issue reports summarizing the findings from targeted, focused reviews (such as our recent review of limited market dealers).</p> <p>Another example is our approach to foreign exchanges where we identified the factors that would be considered in an application by an exchange based in another jurisdiction and the general regulatory framework for such exchanges in a Staff Notice published in the OSC Bulletin.</p>	
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**A Supporting the Ontario Government, in promoting measures that are consistent with creating a single regulator, single securities code and a single fee structure.**

The OSC supports the Ontario Government’s goal to move towards a common regulator, a common set of securities laws and a single fee structure. As we move towards this goal, we will continue to work with our colleagues within the Canadian Securities Administrators (CSA) to achieve meaningful progress in harmonizing, streamlining and strengthening securities regulation. This will allow market participants and investors to benefit from uniform regulatory standards that are applied consistently across Canada. It will also improve regulatory efficiency and reduce the cost of capital. The OSC is participating with other CSA members to strengthen elements of the mutual reliance system to create a more efficient one stop shopping for issuers and registrants, to further harmonize securities laws and to streamline administrative practices. As part of this process, securities regulators have streamlined administrative procedures to improve efficiency by reducing, for example, prospectus review periods.

The CSA work plan for highly harmonized and streamlined securities laws focuses on key areas that will provide the greatest benefit to market participants. For this reason, the CSA is targeting completion of national rules for registration, prospectus requirements, take-over and issuer bid obligations and insider reporting requirements. The CSA have also developed a package of legislative amendments to facilitate harmonization and streamlining across Canada, remove obsolete or unnecessary requirements in securities statutes and enable regulators to further harmonize regulatory requirements in rules.

National Instrument 45-106 *Prospectus and Registration Exemptions*: NI 45-106 came into force on September 14, 2005. Prior to its implementation, prospectus and registration exemptions in Ontario were located in various local and national exemption instruments as well as in the Ontario *Securities Act* and its Regulation. NI 45-106 rolled-in over 50 exemptions from these various sources thereby replacing five local and national exemption instruments, 47 exemptions in the Ontario *Securities Act* and five exemptions in the

Regulation. As a result of NI 45-106 the exemptions regime in Ontario is part of a substantially more harmonized, streamlined and simplified securities regulatory regime in Canada.

The OSC also worked with the CSA to streamline the short form prospectus system. National Instrument 44-101 *Short Form Prospectus Distributions* broadens access to the short form prospectus system to allow more issuers to benefit from the streamlined regime. The new rule, which came into effect on December 30, 2005, more fully integrates the disclosure systems for the primary and secondary markets. The changes are designed to allow issuers to efficiently access the capital markets by depending increasingly on their existing continuous disclosure record. Prior to this change, there were 683 issuers in Canada who were eligible to use the short form regime since eligibility for equity securities was restricted to issuers with \$75,000,000 market capitalization. Now that short form eligibility is based primarily on listing, as of March 31, 2006 approximately 4,600 issuers can access the markets using a short form prospectus, provided they comply with their continuous disclosure requirements and have filed a one-time Notice of Intention to use the short form system. As of March 3, 2006, approximately 102 additional issuers have filed their Notice indicating their intention to utilize this expedited system.

Under the prior short form prospectus regime, issuers were required to file, and have reviewed and cleared by the CSA, an Initial Annual Information Form (AIF) prior to being eligible to use the short form system. This was an additional impediment to using the expedited system. In most cases, the review and clearing of an Initial AIF took approximately ten days in Ontario. Under the new regime, issuers need only file an AIF with their annual financial statements and a Notice of Intention to be qualified. There is no regulatory clearance requirement. AIFs are reviewed by our continuous disclosure review program.

**B Working with the CSA to further harmonize securities legislation to create a more efficient and seamless single window access for market participants by:**

- **streamlining the Mutual Reliance Review System and improving the National Registration System (NRS) by harmonizing registration categories and market conduct requirements**
- **addressing issues relating to clarity of market participants' relationships with the investor and greater transparency of fees and conflicts of interest**

The National Registration System (NRS) was implemented on April 4, 2005. The purpose of the NRS is to improve the current registration system through a mutual reliance process. This process will reduce unnecessary duplication in the analysis of applications made in multiple jurisdictions or in subsequent jurisdictions. A key NRS benefit is that participants only need to deal with their principal regulator and do not have to deal with multiple regulators. The impact of this benefit can be measured through submissions made under NRS through the National Registration Database.

Over the period April 4, 2005 to March 31, 2006 4,187 submissions were made for sponsored individuals under NRS. These submissions resulted in 12,802 applications before regulators. In other words, most NRS submissions went on average to three jurisdictions. As a result registrants had two-thirds fewer contacts with regulators across the country. The OSC received 1,954 NRS submissions and was the principal regulator in 1,470 or 75%.

**C Lead a CSA project to review the recognized SROs and system of regulatory oversight to identify areas for improvement, reduce duplication and inconsistency and enhance effectiveness.**

The project committee met with the SROs to discuss the issues. A report with recommended improvements will be completed by summer 2006.

**D Proposing National Instrument 81-107: Independent Review Committee for Investment Funds to create an independent governance and oversight regime for investment funds.**

Proposed NI 81-107 was published for second comment in May 2005. The proposed rule will impose a minimum, consistent standard of governance for all publicly offered investment funds (this includes conventional mutual funds, commodity pools, scholarship plans, labour-sponsored or venture capital funds, and closed-end funds and funds that are listed and posted for trading on a stock exchange or quoted on an over-the-counter market). Currently, there is no requirement that an investment fund have a governance body. Under the proposed rule, every investment fund that is a reporting issuer must have an independent review committee (IRC) to oversee all potential conflicts of interest faced by the fund manager in the operation of the investment fund.

The Investment Funds Branch is leading a CSA group on this initiative. CSA staff have been reviewing the comments received on the proposed rule and considering possible regulatory responses. Absent any material changes, we expect to publish the final rule by summer 2006.

**E Proposing National Instrument 81-106: Investment Fund Continuous Disclosure and implementing continuous disclosure compliance capability in the Investment Funds Branch.**

This rule harmonizes and centralizes continuous disclosure obligations for all investment funds. It also introduces new types of disclosure, for example, of management reports of fund performance and proxy voting policies and procedures. An audio webcast explaining the new continuous disclosure requirements for investment funds was recorded and made available through the OSC website beginning on May 16, 2005. We published a CSA staff notice of frequently asked questions on November 25, 2005.

OSC staff intend to monitor closely the effectiveness of the application of the rule over the first year or two, with a view to making appropriate revisions as necessary. With the coming into force of NI 81-106, the Investment Funds Branch began implementation of a continuous disclosure review program for investment funds. Reviews began in October, 2005. We expect our reviews will focus on overall compliance with the NI 81-106 regime (the correct CD documents filed in a timely manner) as well as the new disclosure requirements introduced in NI 81-106, such as management reports of fund performance. We anticipate publishing our findings on overall compliance with NI 81-106 by March, 2007.

**F Supporting the Ontario Government in its statutory mandate to review the Commodity Futures Act.**

On May 26, 2005, Minister Phillips appointed an advisory committee to review Ontario's Commodity Futures Act (CFA) to ensure Ontario benefits from a modern regulatory regime that provides stronger investor confidence and protection. This is the first review of the CFA. As required by statute, the CFA Review Committee's interim report was delivered to the Minister at the end of May. A final report is expected by September 30, 2006.

**G Examining "best execution", including assessing the impact of "soft dollar arrangements", market structure and market fragmentation and developing policies to address these issues.**

On December 16, 2005, Notice 23-303: Update on Concept Paper 23-402 – Best Execution and Soft Dollar Arrangements was published. Staff have considered the comments. Amendments will be proposed to best execution provisions and a proposed rule on soft dollar arrangements will be released for comment in 2006.

**H Pursuing measures to strengthen the Canadian securities clearing and settlement system, including supporting the adoption of uniform securities transfer legislation and the implementation of fully electronic straight-through processing and electronic audit trails.**

On December 1, 2005, the Ontario government introduced Bill 41, Securities Transfer Act, 2005, a legislative package that is largely based on a model *Uniform Securities Transfer Act* developed over the years by a CSA task force led by Commission staff. Bill 41, which was passed on May 18, 2006 and is awaiting proclamation, has been described as one of the most comprehensive packages of legislative reforms that Ontario commercial law has seen since the introduction of the Personal Property Security Act in the 1980s.

Other achievements included:

- ▶ introduction of a new, modernized clearing agency recognition order governing CDS adopted by the Commission in July 2005
- ▶ amendments to the *Securities Act* that require clearing agencies to seek recognition, or exemption from recognition, before they can operate in Ontario and that clarify the definition of "clearing agency"
- ▶ publication for comment of revised NI 24-101 in March 2006

**I Support Joint Forum of Financial Market Regulators initiatives to achieve greater regulatory co-ordination and consistency across the financial sector. Examples include:**

- **completing work on harmonizing Point of Sale Disclosure for mutual funds and segregated funds**
- **identifying and analyzing differences in regulatory treatment of mutual funds, segregated funds, pension funds and other pooled investment fund products.**

The CSA Point of Sale project is part of a Joint Forum of Financial Market Regulators initiative. One of the objectives of the initiative is to create a consistent point of sale disclosure document for conventional mutual funds and segregated funds on the basis that the two products are very similar and the information investors get about them should be easy to understand and comparable.

**4) Contributing to Canada’s role as an active and respected player in the global capital market**

Measure	Progress	Status
Harmonized measures developed internationally will be implemented domestically	Implementing global standards makes good sense since it can contribute to convergence in regulation (where appropriate) and the implementation of high quality standards, thereby reducing regulatory burdens and the risk of regulatory arbitrage. The Five Year Review Committee recommended that the OSC continue	Ongoing

	<p>its ongoing participation in IOSCO initiatives and urged the OSC to adopt, in a timely fashion, changes to its rules to implement IOSCO's standards.</p> <p>The OSC plays an active role on the IOSCO Implementation Task Force (the ITF). The OSC has taken a leadership role in drafting a reference guide for use with the IOSCO Principles and Methodology. Ontario and Quebec are the only provinces represented on the ITF.</p> <p>The OSC participates actively in the ongoing review of and comment on proposed new International Financial Reporting Standards and International Standards on Auditing, standards that, progressively, are being imported into Canada.</p>	
<p>OSC representatives will be leaders in important initiatives undertaken by international regulatory associations, such as IOSCO</p>	<ul style="list-style-type: none"> <li>• David Wilson sits on IOSCO's Executive Committee, Technical Committee, Presidents' Committee, and Inter-American Regional Committee.</li> <li>• Paul Moore chairs the IOSCO MOU Monitoring Group.</li> <li>• Susan Wolburgh Jenah actively participates in the IOSCO Task Force on Corporate Governance and the IOSCO Task Force on Non-Audit Services.</li> <li>• Randee Pavalow chairs Standing Committee 3 on Market Intermediaries.</li> <li>• Senior OSC staff participate in IOSCO's five Technical Committee Standing Committees. A number of significant international initiatives have been undertaken by the five Standing Committees, including the publication of reports regarding: (a) hedge funds and fund governance, (b) the evolution of exchanges, (c) the compliance function of market intermediaries, (d) outsourcing of financial services for market intermediaries, and (e) international disclosure principles for cross-border offerings and listings of debt securities by foreign issuers.</li> <li>• Senior OSC staff made significant contributions to these publications and to the numerous other initiatives being undertaken by the Standing Committees. Other initiatives include the passing of an 'asset freezing' resolution by the IOSCO Executive Committee, based on the asset freezing power contained in the <i>Securities Act</i> (Ontario). Finally, a number of domestic policy projects, such as those relating to investment fund governance and hedge funds, have drawn on the research, discussions and publications in which senior OSC staff have participated at the international level.</li> </ul>	<p>Ongoing</p>

**A Play a leadership role in the work of International Organization of Securities Commissions (IOSCO), by supporting IOSCO's efforts to increase implementation levels of IOSCO standards across its membership and by participating in activities designed to:**

- **improve cooperation in cross-border investigations through the IOSCO MMOU**
- **develop best practices in a variety of areas applicable to investment funds**
- **improve the relevance and reliability of financial information available to investors by harmonizing and strengthening financial reporting and auditing standards and the related supporting infrastructure, including mechanisms for independent oversight of audit firms**
- **provide consistent guidance on the role and regulation of market intermediaries**

The number of Appendix A signatories (those jurisdictions which meet the rigorous requirements of IOSCO's MMOU) grew by 15% from 26 to 30. The number of Appendix B signatories (those jurisdictions which have committed to change their legislation or practices to become Appendix A signatories) grew from five to nine.

The OSC continues to work closely with IOSCO's Standing Committee 4 on the screening of new applicants. The OSC contributes significantly to the work of SC4 in assisting and communicating with jurisdictions that wish to become IOSCO MMOU signatories. The OSC chairs the IOSCO MMOU Monitoring Group of signatories and, as such, is heavily involved in the monitoring by signatories of issues arising with respect to the operation and implementation of the IOSCO MMOU.

The OSC supported and contributed to the development of international guidance on fund governance, and is continuing to support the development of international guidance on hedge fund valuations.

The OSC, through its involvement with IOSCO's Standing Committee 1 "Multinational Disclosure and Accounting", contributes significantly to the development of financial reporting and auditing standards established by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB). Our Chief Accountant is a member of the Consultative Advisory Group of the International Auditing and Assurance Standards Board, the Consultative Advisory Group of the International Ethics Standards Board for Accountants, and the Standards Advisory Council of the International Accounting Standards Board. The OSC is also participating in the development of an IOSCO database that will allow regulators to share information about the application of international financial reporting standards in specific circumstances in which regulators have been involved.

The OSC chairs IOSCO Technical Committee Standing Committee 3 (SC3) "The Regulation of Market Intermediaries". Under the OSC's chairmanship, SC3 has published a number of reports relating to the role and regulation of market intermediaries. Most recently, SC3 published a report entitled 'The Compliance Function at Market Intermediaries'.

**B Play a leadership role with international regulatory associations such as the Council of Securities Regulators of the Americas (COSRA) and the national and international Joint Forums of Financial Regulators, including activities designed to:**

- **develop initiatives to enhance access to capital by small and medium sized enterprises in the Americas, while providing an appropriate level of investor protection**
- **develop high-level cross-sectoral business continuity principles for financial firms and their regulators**
- **assess differences in regulatory practices regarding risk management across the banking, insurance and securities sectors**

The OSC chairs the COSRA Small and Medium sized Enterprise Education Task Force. Under its chairmanship, the Task Force developed a list of programs for smaller companies about accessing the capital markets. The list will be posted on the IOSCO website and will therefore be easily accessible to the public. The OSC also participated in the first annual COSRA Small Business Forum that took place in May.

The OSC shares a seat on the International Joint Forum (IJF) with the AMF (Quebec). The OSC contributed to the IJF business continuity paper, and offered specific drafting guidance and one example (the SARS illustration) that was ultimately used in the paper. Through its seat on the IJF, the OSC contributed to the development and publication of the IJF paper relating to the management of liquidity risk in financial groups.

NASAA carries out its work through standing Section Committees and Project Groups. Support teams assist the Project Groups in collecting information about local regulatory practices. OSC staff participate in several of these Section Committees, Project Groups and support teams.

**C Foster inter-jurisdictional co-operation to reduce impediments to information sharing and enforcement support.**

The OSC, through IOSCO, has committed to improving the quality of information-sharing on enforcement matters internationally. Many jurisdictions have historically been unable to provide substantive information necessary to effectively pursue investigations. The OSC is a signatory to the MMOU, which was developed in 2002 to encourage jurisdictions to achieve high standards of

cooperation in the exchange of information in enforcement matters. As the number of signatories increases, the number of ‘safe havens’ should decrease. Assistance is more frequently provided to foreign jurisdictions under the provisions of the MMOU.

During the year we worked on nine enforcement files of mutual interest with other regulators including the SEC, FSA and ASIC. Requests for assistance from other jurisdictions continue to increase.

	2003/2004	2004/2005	2005/2006
Assistance Requests from other jurisdictions	164	731	775

**D Continue development of internal control guidelines as set out in MI 52-111 *Reporting on Internal Controls over Financial Reporting*.**

After considering public comments, the CSA decided not to proceed with the approach to reporting on internal control over financial reporting proposed in MI 52-111. In March 2006, the CSA announced that it proposed to expand Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to require the CEO and CFO of a reporting issuer to certify annually that they have evaluated the effectiveness of the issuer's internal control over financial reporting and disclosed in the annual MD&A their conclusions about effectiveness. These requirements will apply to all reporting issuers, other than investment funds, in all jurisdictions. Issuers will not be required to obtain from their auditors an opinion on the effectiveness of internal controls over financial reporting.