

# OSC

Statement of Priorities  
For Fiscal 2007/2008

## Introduction

The *Securities Act* requires the Ontario Securities Commission (OSC) to publish in its Bulletin and to deliver to the Minister by June 30 of each year a statement by the Chair setting out the proposed priorities for the Commission for the current financial year. The OSC remains committed to delivering its regulatory services in a businesslike manner and to working closely with its colleagues within the Canadian Securities Administrators (CSA) and with market participants to ensure that the regulatory system remains relevant to the changing marketplace.

## Our Mandate

The OSC's mandate is set by statute:

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 Role

The OSC safeguards and strengthens the integrity and soundness of Ontario's securities markets for the benefit of domestic and international investors, issuers, intermediaries and other market participants. We operate in a flexible and accountable manner that is responsive to the dynamic securities markets we regulate. We strive to operate in concert with other regulators in Canada and internationally.

## Message from the Chair



The Ontario Securities Commission works to foster confidence in the integrity, fairness and competitiveness of Ontario's capital markets on behalf of investors, public companies and other market participants. Robust markets are essential to the health of the economy of our country.

In this Statement of Priorities, the Commission has set out its strategic goals for meeting its mandate and has identified specific initiatives in support of each goal for the current fiscal year. As you will see, we are focused on conducting effective compliance programs, delivering vigilant enforcement and strengthening investor protection, as well as providing greater organizational accountability.

The OSC will maintain a proactive approach to prevent, detect and deter harm to investors and the overall markets. Moreover, we will work to strengthen the securities regulatory system within Canada's framework of provincial and territorial securities regulators.

I trust our Statement of Priorities will give you a clear understanding of the objectives and direction of the Commission, as we work to provide protection to investors and foster confidence in the integrity of the capital markets in Ontario.

Yours very truly,

A handwritten signature in black ink, appearing to read 'D. Wilson', written in a cursive style.

David Wilson  
Chair and CEO,  
Ontario Securities Commission

## Key challenges

The OSC faces many challenges as it strives to fulfill its mandate and meet its objectives. These challenges include providing strong investor protection, effective compliance and enforcement programs and efficient regulation in a rapidly changing marketplace. Canada's framework of 13 provincial and territorial securities regulators presents a structural challenge in working with other regulators to strengthen the regulatory system. These challenges emphasize the importance of fostering confidence in the fairness and efficiency of the capital markets.

The investor community has grown significantly in recent years, as almost all adult Canadians are now invested in the capital markets through direct retail investments, or indirectly through mutual funds and pension plans. More investors are relying on the capital markets in order to grow their wealth, purchase homes and improve the standard of living for them and their families. Moreover, in an aging society, Ontarians will come to rely more on the capital markets to preserve their assets and generate a steady income in retirement. To meet these demands from investors, the investment industry has created increasingly innovative, and sometimes highly sophisticated, investment products, services, trading strategies and advice.

The expansion of the investor community, both institutional and retail, has intensified issues of investment risk. As individual Canadians have taken more responsibility for their personal financial planning, the need for investor education has also grown. One challenge for the OSC is to continue to better understand and address the needs of investors. We must remain focused on ensuring regulatory compliance and adequacy of disclosure. We must also increase the vigilance of our enforcement activities to prevent, detect and deter harm to both investors and our capital markets. By doing so, we will foster confidence in investors that capital markets are fair and efficient.

Today's securities industry operates in a global marketplace and Canadian public companies compete with corporations around the world for cost-effective sources of capital. Companies rely on the capital markets to provide the funding needed to start new businesses and allow existing businesses to grow. Global competition for capital has contributed to the emergence of new market structures, technological innovations in trading systems and the development of new investment products.

Securities regulators face the challenge of keeping pace with the level of innovation in the marketplace and balancing the costs of regulation. Our regulatory framework must facilitate the competitiveness of Ontario's businesses in a global context and promote the resilience of our capital

markets. Striking the right balance involves developing practical, accountable and transparent regulation and policies, while carefully avoiding placing undue burdens on market participants. Pursuing flexibility and balance will allow our capital markets to continue to attract domestic and foreign capital to meet the needs of Canadian public and private companies.

The OSC will co-operate with its provincial, territorial and international regulatory colleagues to foster a harmonized and modernized regulatory framework. We will work with the Government of Ontario in supporting measures that are consistent with creating a common regulator, a common set of securities laws and a single fee structure for Canada. Capital markets are an essential part of the engine for economic growth in Ontario, and we believe regulatory reform can benefit investors, business and the province as a whole.

In this context, we must ensure that the OSC conducts itself as an efficient, accountable and flexible organization as it serves investors, issuers, intermediaries and other market participants. We will also continue to maintain excellent internal controls and promote high staff morale.

## Our Goals

The OSC's mandate is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in those markets. To meet this mandate, the Commission has identified four strategic goals to achieve over the next five fiscal years. They are:

1. Identify the important issues and deal with them in a timely way;
2. Deliver fair, vigorous and timely enforcement and compliance programs;
3. Champion investor protection, especially for retail investors; and
4. Support and promote a more flexible, efficient and accountable organization.

The Statement of Priorities is an annual document required under the *Securities Act*. This year's Statement sets out the Commission's strategic goals for the next five years, along with specific initiatives for the 2007/08 fiscal year in support of each of those goals.

## GOAL 1 – Identify the important issues and deal with them in a timely way.

Our goal is to deal with today's concerns, while anticipating tomorrow's challenges. We want to be a strategic leader in fulfilling our mandate to Ontario investors and the Ontario marketplace. We will:

- Consult and collaborate with investors, issuers, intermediaries, other industry participants and academics;
- Identify trends and emerging issues, and develop solutions to address them in a risk-based framework;
- Work with the Government of Ontario, other securities regulators and market participants to strengthen the Canadian securities regulatory system. We will work to further harmonize, streamline and modernize securities laws and eliminate obsolete and redundant requirements to ease the regulatory burden on market participants;
- Continue to examine alternative securities regulatory approaches, such as principles-based regulation, and adopt best regulatory practices from other Canadian and international jurisdictions to support Ontario markets and investors. We will work to enhance the global competitiveness of our capital markets as well as foster co-operative relationships with other securities regulators and standards setters;
- Use the full range of tools available to achieve our mandate, and assign priorities to all our work based on our strategic goals; and
- Ensure our priorities are communicated in a timely and effective manner.

**In 2007/08, specifically we plan to:**

- Achieve progress in strengthening the registration regime by harmonizing, streamlining and modernizing current registration requirements;
- Improve disclosure of executive compensation by proposing amendments to National Instrument 51-102 *Continuous Disclosure Obligations*;
- Harmonize and modernize prospectus requirements by proposing updates to National Instrument 41-101 *General Prospectus Requirements*;
- Complete and implement the revised National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to bring greater transparency to the state of internal control over financial reporting by reporting issuers;

- Re-assess the impact of National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*;
- Identify the appropriate means to address investor protection concerns arising from the sale and distribution of Principal Protected Notes;
- Monitor the implementation of National Instrument 81-107 *Independent Review Committee for Investment Funds* to assess its effectiveness in managing the conflicts of interest facing investment fund managers;
- Propose amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* to provide guidance on fair-value principles that investment funds should use in calculating their net asset value and eliminate the need for investment fund managers to change valuation practices to align with new accounting measurement standards;
- Identify the appropriate regulatory response to market developments in the area of non-conventional investment funds and structured products such as linked notes offered under a shelf prospectus;
- Address recent market developments by working with Market Regulation Services Inc. to update the Alternative Trading System (ATS) rules (National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*) to improve the consistency of rules at the self-regulatory organization (SRO) level and at the Canadian Securities Administrators (CSA) level;
- Implement National Instrument 24-101 *Institutional Trade Matching and Settlement* and support industry progress toward achieving institutional trade matching on the trade date or "T" by July 1, 2008;
- Collaborate with the CSA to develop and implement practices to enable regulators to interpret and apply harmonized securities requirements in a uniform way;
- Work with the CSA to build appropriate interfaces between the OSC and any CSA members that proceed with Phase 2 of the proposed Passport System;
- Align our securities regulatory system with international best practices by participating in the International Monetary Fund/World Bank Financial Sector Assessment Program Update initiative; and
- Assess the policy and operating implications for the marketplace of adopting International Financial Reporting Standards to replace Canadian Generally Accepted Accounting Principles and implement strategies to facilitate the transition.

## GOAL 2 – Deliver fair, vigorous and timely enforcement and compliance programs.

Timely and appropriate compliance and enforcement are integral to fostering confidence in capital markets and preventing harm to investors. The Canadian regulatory and enforcement framework is perceived by many stakeholders to be fragmented and not operating in an effective or efficient manner. To address this, we will:

- Focus additional enforcement and compliance resources and ensure effective coordination among OSC branches relating to improper market conduct;
- Identify gaps in the enforcement framework and co-operate with others to find practical solutions;
- Improve the effectiveness of our enforcement work through reduced timelines for completing investigations and bringing regulatory proceedings forward;
- Provide leadership and assistance to improve collaboration among Canadian and international regulatory and criminal law enforcement agencies;
- Foster inter-jurisdictional co-operation to improve the coordination of investigative efforts, enforcement, and legal tools for enforcement; and
- Increase our transparency through timely and effective communications of enforcement actions where warranted.

**In 2007/08, specifically we plan to:**

- Articulate and promote a coherent statement of enforcement and compliance priorities;
- Improve the internal processes for identifying and referring cases to enforcement under a risk-based approach to regulation;
- Increase the number of enforcement proceedings commenced within four months of the date of transfer to litigation, where there have not been settlement discussions;
- Increase the effectiveness of the protection provided to investors against frauds and scams by creating a specialized multi-disciplinary unit dedicated to investigating economic crimes such as illegal distributions and unregistered trading in securities;

- Implement further improvements to the electronic processing and storage of documentary evidence to permit more efficient and effective access by investigators and counsel and provide enhanced disclosure of documents;
- Increase the efficiency and value of the continuous disclosure review program for corporate issuers by continuing to implement an industry-specialization approach. External resources will be employed where specialized industry knowledge is needed to achieve program objectives;
- Increase utilization of coordinated inter-Branch compliance field reviews of investment fund market participants;
- Support efforts of federal, provincial and territorial ministers responsible for justice to develop recommendations to improve the enforcement regime in Canada for securities fraud and other economic crimes. Play a leadership role by co-chairing the Task Force on Securities Fraud Enforcement, which plans to report its recommendations to the ministers in November 2007; and
- Work with the International Organization of Securities Commissions (IOSCO) and other international bodies to enhance global co-operation in enforcement matters.

### GOAL 3 – Champion investor protection, especially for retail investors.

The interests and needs of investors, particularly retail investors, will continue to be strongly reflected in all the OSC's operations. In addition to our enforcement activities, investor education and awareness and timely access to accurate information are important components of investor protection. We will:

- Continue to reflect investor interests in all that we do;
- Increase support for investor education;
- Continue to support and grow plain-language initiatives for investors to achieve better communications;
- Work with the Government and self-regulatory organizations (SROs) to improve investor access to timely and affordable means of redress. This includes improving investor awareness of, and access to, existing mechanisms for resolution of complaints and restitution, such as those offered by the Ombudsman for Banking Services and Investments (OBSI);
- Work with the SROs and lead or support initiatives that recognize the importance of the adviser to the retail investor, and strengthen and improve the adviser/retail investor relationship;
- Communicate our commitment to investor protection and the importance of that commitment;
- Increase and enhance targeted outreach efforts to the investor through such vehicles as Investor Town Halls and the Investor Advisory Committee; and
- Increase the involvement of other industry groups, such as SROs, through their participation and information exchange.

#### **In 2007/08, specifically we plan to:**

- Work with the Joint Forum of Financial Market Regulators to publish for comment a proposed framework for point-of-sale disclosure that would require clear, concise and plain-language product and sales fee disclosure for investors in mutual funds and segregated funds;
- Improve our understanding of investor expectations of the complaint-handling process, working in partnership with the SROs and OBSI, and also research and consider more effective means for the resolution of complaints and restitution;

- Work with the Joint Forum of Financial Market Regulators to enhance the effectiveness of the Financial Services OmbudsNetwork;
- Hear directly from retail investors by co-hosting a 2007 Investor Town Hall with the SROs and OBSI;
- Seek retail investor perspectives on key issues such as the investor/adviser relationship, transparency and accountability;
- Collaborate with the Canadian Securities Administrators (CSA) to continue to improve our processes for providing timely alerts and other information to investors;
- Broaden implementation of reviews of investment fund prospectuses and continuous/integrated disclosure to assess sufficiency of disclosure and identify emerging issues, including trends in fees;
- Explore opportunities for enabling investors to receive, compare and analyze financial information through eXtensible Business Reporting Language (XBRL); and
- Review, in conjunction with the CSA, technological solutions that will improve public access to information on a CSA-administered system.

## GOAL 4 – Support and promote a more flexible, efficient and accountable organization.


The OSC's strength is its people. We will make the best use of all our resources, including people, technology, research and financial, to achieve timely and effective execution of all that we do. We expect OSC Commissioners and employees to maintain the highest standards of conduct and personal integrity and to deal openly and fairly with all of our stakeholders. We shall continue to constantly advance our business competence and effectiveness. We will:

- Continuously monitor and improve the efficiency and effectiveness of our operations;
- Be responsive and flexible as an organization and treat all stakeholders with respect and fairness;
- Leverage information technology effectively to support our operations and optimize our electronic interface with our stakeholders;
- Secure the most appropriate resources and justify their acquisition through cost-benefit analyses and similar tools;
- Identify skills requirements and ensure that we attract, retain and motivate staff who possess the required skills, and continue improving and enhancing our succession plans;
- Increase the knowledge management and risk analysis capabilities of the OSC;
- Supplement OSC staff resources with external resources where appropriate; and
- Identify those situations where greater reliance on other jurisdictions or organizations is appropriate.

### **In 2007/08, specifically we plan to:**

- Develop more expertise and rigour in the conduct of cost-benefit analyses to enhance the development of cost-effective regulation without compromising investor protection;
- Identify opportunities for improving service to the public and market participants who make inquiries of and/or complaints to the OSC;
- Update the OSC's IT strategic plan, recognizing the technology needs of the Commission and its stakeholders;

- Work with the other provincial and territorial securities regulators to develop an IT strategic plan for the Canadian Securities Administrators;
- Implement improved internal knowledge-management initiatives across the OSC;
- Continue to develop an OSC human resources strategic plan that strengthens initiatives for leadership development, succession planning and compensation policies; and
- Review and strengthen the OSC's robust standards of ethics, integrity and accountability, consistent with the Government of Ontario's planned implementation of the new *Public Service of Ontario Act, 2006*.

 The OSC's Statement of Priorities for Fiscal 2007-2008 can be found on [www.osc.gov.on.ca](http://www.osc.gov.on.ca).

## 2007/2008 Financial Outlook

The coming year is the second year of a three-year cycle for setting fees, which began April 1, 2006. The budgeted growth in revenues during 2007/08 is due solely to market forces, which affect the revenues of registrants and the capital of issuers, on which the fees are based. There is no proposed increase in the fees.

Higher than anticipated market growth in 2006/07 resulted in actual revenues that were \$11.1 million higher than originally forecast. Delays in hiring positions approved in the 2006/07 budget led to \$558,000 of underspending on salaries and benefits, which also contributed to a surplus. As anticipated, the budget for 2007/08 is for a deficit in order to reduce our surplus and return the surplus to market participants by way of fees that are lower than would otherwise be the case.

Salaries and benefits make up 73% of the OSC's budget for 2007/08. This is the only area of expenditure that exceeds 10% of expenses. The 18.9% growth in the expense budget for the year is due to the addition of staff, primarily in enforcement, along with enforcement-related services to address the actions outlined above. The OSC has also reviewed its priorities and is redeploying existing staff to meet the identified goals. The increase in budget includes increases in occupancy costs, training and other costs that are a result of the staff increases. This is also reflected in the increased capital expenditures, which include the cost of refurbishing and equipping the additional space.

### 2007/2008 Budget versus 2006/2007 Actual

(Thousands)	2006/2007 Actual	2007/2008 Budget	Change	%
				Change
Revenues	\$ 71,067	\$ 75,189	\$ 4,122	5.8
Expenses	\$ 69,304	\$ 82,437	\$ 13,133	18.9
Excess/(deficit) of revenue over expenses	\$ 1,763	\$ (7,248)	\$ (9,011)	
Capital expenditures	\$ 988	\$ 3,698	\$ 2,710	274.3



As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown Corporation accountable to the Ontario Legislature through the Minister responsible for securities regulation.

## ONTARIO SECURITIES COMMISSION

### Statement of Priorities for fiscal 2007/2008

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