The best way to protect your money is to be an informed investor. Whether you have a financial adviser or invest on your own, it’s wise to verify information about an investment before you buy.

You can learn a great deal about investments and the companies that issue them by reading prospectuses, annual and quarterly reports, and other filings that companies make with the Ontario Securities Commission (OSC). These documents can tell you whether a company is making or losing money and why, and what could affect your investment.

This guide describes what to look for before you invest, where to find information and some tips for protecting your investments.

If you have any questions about investing or would like more information, call the OSC’s Contact Centre at 1-877-785-1555.
The role of the OSC

The OSC regulates Ontario’s capital markets. We provide protection to investors from unfair, improper or fraudulent practices and work to foster fair and efficient capital markets and confidence in their integrity.

We do this by making and enforcing rules under Ontario’s Securities Act and Commodity Futures Act. This includes requiring public companies to disclose key information about their finances and operations in documents like financial statements, the management’s discussion and analysis (MD&A), prospectuses and news releases. We also require insiders of public companies to report their trading in the company’s securities.

We investigate complaints about possible breaches of Ontario securities law, such as misleading disclosure, selective disclosure and insider trading. We have the authority to impose sanctions on individuals and companies that breach Ontario securities law. Sanctions may include reprimands, fines, suspensions and bans from the securities industry.

Violations of Ontario securities law relating to disclosure

- **Misleading disclosure.** A public company publishes inaccurate, incomplete or unbalanced disclosure.
- **Selective disclosure.** A public company discloses material information to a select group, rather than to the general public.
- **Untimely disclosure.** A public company does not disclose a material change in its business when required.
- **Insider trading.** An insider of a public company buys or sells the company’s securities when they have material information that has not generally been disclosed to the public. Examples include details about a planned take-over bid, news of a corporate reorganization or merger, or plans to acquire another company.
What you need to know

Doing your research before you invest can help you make an informed decision. But it doesn’t stop there. Keeping up to date on your investments can help you decide if they’re still right for you. For example, news of the company winning or losing a major customer, launching a product or experiencing a sharp change in profits can dramatically affect the value of your shares.

Try to learn everything you can about:
- the investment
- the company that’s issuing it
- the people who are running the company

The following pages are some things to consider before you invest.
Understand the investment

Find out how the investment works, the costs associated with it and any restrictions it might have.

- **How will this investment make money?** Does it pay dividends or interest? Does it have the potential to go up in value?

- **What must happen for the investment to go up in value?** For example, do real estate values or the company’s market share have to increase?

- **What are the total fees to buy, hold and sell the investment?** After all the fees are paid, how much does the investment have to go up in value for you to break even?

- **What are the specific risks associated with this investment?** For example, how could changing interest rates, an economic recession, new competitors or stock market ups and downs affect its value?

- **How easy would it be to sell the investment if you needed your money right away?**

- **Is this investment suitable for your goals and risk tolerance?**
What you need to know cont’d

Understand the company

Make sure you understand the company’s business and its products or services. Find out whether the company is making money or losing money, and why.

- **How long has the company been in business?**
  Investments in securities issued by a company with little or no operating history or published information may involve greater risk.

- **Is the company making money?**

- **How is it doing compared to its competitors?**

- **What risks could affect the company’s performance?**

- **Are there any “red flags” in the financial statements?**
  Examples include rising expenses in the face of flat sales, significant revenue or revenue growth but no net income or profit, and negative cash flow.

- **What are the assets and debts?**

- **What sources of financing are available to the company?**

- **Are any unusual loans or other transactions discussed in the notes to the financial statements?**
  Also look for any “off-balance sheet” transactions, which usually relate to financing techniques.
What you need to know cont’d

Know who is running the company

Strong management is the backbone of a successful company. While performance of the company’s shares can be a key indicator of success, it doesn’t necessarily reflect good management, especially in the short term.

The board of directors is responsible to the shareholders and governs the company’s management. An effective board is objective and works in the best interests of shareholders.

- Who are the CEO and senior officers of the company?
- How long have they been with the company?
- What goals have they set for the company?
- Have they made money for investors in the past?
- How does the CEO’s compensation compare with others in the same industry?
- How much of the company is owned by insiders? This tells you how much control they have.
- How long do insiders hold their shares in the company? This can tell you if insiders are confident in the company’s long-term prospects.
- Is the board of directors an appropriate size for the company?
- Who sits on the board of directors?
- Who sits on the audit committee?
- What experience and qualifications do they have?
- Are the majority of directors independent of the company?
- What are the company’s governance practices?
Where to find information

You can find information about a company and its securities in its disclosure documents and from many third-party sources.

What are disclosure documents?

The OSC requires public companies to file documents such as annual information forms, annual and quarterly financial statements, MD&As, management information circulars, material change reports and prospectuses. They contain information that helps investors assess the company’s management, products, services, finances, its future prospects and risks. Together, these documents are referred to as “disclosure documents”.

The OSC has requirements for when and how information is disclosed by public companies. We review disclosure documents to make sure companies are meeting these requirements. Our goal is to review every public company with a head office in Ontario an average of once every four years.

The fact that a company files documents with the OSC does not make the company immune from fraud or mean it is a “good” investment. You still need to carefully choose your investments and who you deal with.

The tables starting on page 11 outline the documents public companies must file with us and what they can tell you.

A word about annual reports

Most public companies publish an annual report for shareholders at the end of each fiscal year. The annual report includes financial statements and the MD&A. It may also include articles by senior executives and information on significant events.

The OSC doesn’t regulate annual reports, but we do regulate the financial statements and MD&A included in them.
Where to find information cont’d

**What happens if information isn’t disclosed?**

If a company files a disclosure document late—or not at all—or we find that a document contains a significant deficiency, we will place the company on our default list. Depending on the nature of the default, we may issue a “management cease trade order” or an “issuer cease trade order”. In a management cease trade order, the company’s senior management and insiders must stop trading in the company’s securities until the default is corrected. This can happen when the company doesn’t file its financial statements on time but expects to do so quickly, the default is not expected to occur again and there are no other compliance issues.

If the company doesn’t correct a deficiency in a reasonable period of time and it appears that it will likely be in default again, we may issue an issuer cease trade order. This suspends all trading in the company’s securities in Ontario.

If we find inaccurate or incomplete disclosure documents during a review, we may require the company to correct and refile the documents. If this happens, we will publish the company’s name on a refileing and errors list. Names stay on the list for three years.

You can find the default list, cease trade order list, and refileing and errors list under “public companies” on the OSC’s website at www.osc.gov.on.ca.

**Other sources of information**

Information about the companies you invest in is available from a variety of other sources:

- the company itself
- analysts’ reports
- business and investment media
- newsletters, books and other publications
- commercial databases

You can get a lot of useful information from these sources, but remember they only form part of the overall picture of a company. Some sources may be biased or have potential conflicts of interest. For example, an analyst may be commenting on a company that his or her employer provides services for. Other sources, like journalists and authors, may not be qualified investment advisers or analysts. Some may be simply expressing their opinions rather than stating facts. Be critical of what you read and verify facts with independent sources.

Never base your investment decision solely on unsolicited emails, message board postings, websites, chat rooms or company news releases.
Understanding disclosure documents

Disclosure documents give you key information about a company’s plans, its people, businesses and finances. The tables on the following pages are a summary of common disclosure documents public companies in Ontario must file with us. Other documents are required for specific situations like take-over bids.

If you have a financial adviser, he or she can provide you with these documents. You can also download a company’s disclosure documents from www.sedar.com. Insider trading information is available at www.sedi.ca.
Understanding disclosure documents  cont’d

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| **Annual information form (AIF)** | Detailed information about a company’s:  
- corporate structure  
- directors and officers  
- capital structure  
- strategy  
- products, services and businesses  
- legal proceedings  
- risks | Annually | Investors do not have to be given a copy of the AIF, but it can be found on [www.sedar.com](http://www.sedar.com).  
Not all companies are required to file an AIF. For example, a company listed on the TSX-V is not required to file an AIF. |
| **Financial statements** | A report of a company’s financial information, made up of:  
- income statement  
- cash flow statement  
- balance sheet  
- statement of retained earnings  
- notes  
- audit report (for annual financial statements) | Quarterly and annually | The financial statements, together with the MD&A, can tell you how well the company has performed and the factors that influence its financial ability to perform well in the future. |
| > *Income statement* | How much a company has earned and its expenses for a set period | | This does not necessarily reflect the company’s inflows and outflows of cash.  
Also known as an earnings report, statement of earnings, statement of operations and statement of profit and loss. |

*Chart cont’d on following page.*
### Understanding disclosure documents cont’d

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<td><strong>Financial statements cont’d</strong></td>
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<tr>
<td>&gt; <em>Cash flow statement</em></td>
<td>How money flows in and out of the business from its operating, investing and financing activities</td>
<td></td>
<td>How a company manages its money can say a lot about its ability to withstand market changes or unexpected events.</td>
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<td>&gt; <em>Balance sheet</em></td>
<td>A snapshot of the net worth of a company at a point in time. It shows the company’s assets, liabilities and shareholders’ equity.</td>
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<td>Also known as the statement of financial position.</td>
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| > *Notes*                      | How a company arrived at the numbers in its financial statements and any significant events and conditions that may affect the numbers  
For example, a note may explain that a company’s accounting methods have changed from the previous year, describe transactions with companies or individuals related to the company, or disclose a purchase that may have an effect on the company’s financial condition. |                               | Notes are a critical part of the financial statements and shouldn’t be ignored.  
The accounting policies a company uses can significantly affect its numbers. For example, the method used for revenue recognition will influence the numbers in a company’s financial statements. |
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<td><strong>Insider trading reports</strong></td>
<td>Which insiders of the company are buying and selling the company's shares</td>
<td>In general, within 10 calendar days after a trade or change in an insider’s holdings of a company</td>
<td>Directors, officers and major shareholders are considered “insiders” of a company.</td>
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<td><strong>Management’s discussion and analysis (MD&amp;A)</strong></td>
<td>Management's explanation of events affecting the company's performance and management’s expectations for the coming year.</td>
<td>Quarterly and annually</td>
<td>The MD&amp;A and financial statements are filed at the same time.</td>
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<td></td>
<td>A useful and informative MD&amp;A should offer insight into five key areas:</td>
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<td>If the company does not file a management information circular, the MD&amp;A may also contain information about the board of directors, committees and corporate governance practices.</td>
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### Understanding disclosure documents  cont’d

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<td>Management information circular</td>
<td>Information about the shareholder meeting, voting process, items to be voted on or covered at the meeting, and compensation of directors and officers.</td>
<td>When shareholders elect the board of directors or are asked to vote on significant transactions proposed by a company</td>
<td>This is sent to shareholders so they can make an informed decision about voting their shares and other items covered at the shareholder meeting.</td>
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<td>It may contain other information such as committee reports and corporate governance practices.</td>
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<tr>
<td>Material change report</td>
<td>Details about any material change in the company’s operations or capital that is expected to significantly affect the price of its securities, once it becomes known to the public.</td>
<td>Within 10 days of the material change</td>
<td>It’s up to the company and its management to decide whether a change is material.</td>
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<td>Examples of material changes may include take-over bids, selling or acquiring business units, management changes and new products.</td>
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### Understanding disclosure documents cont’d

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| **News release**  | A public statement from the company about a material change that might influence whether investors buy, hold or sell their investment. | Companies must issue press releases disclosing material changes promptly. | The news release is usually filed before the material change report.  
Companies may also issue news releases about topics other than material changes. These may be found on the company’s website.  
Many company websites and news services, such as Canada NewsWire at [www.newswire.ca](http://www.newswire.ca) allow you to be added to an e-mail distribution list for specific company or industry announcements.  
Read news releases carefully. The news release is management’s view and you should compare or verify the information with other sources. Be on guard against e-mailed or faxed “news releases” from dishonest stock promoters or individuals trying to stir up interest in a company or overstate its achievements. |
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| **Prospectus** | Material facts relating to the securities a company is planning to offer to the public, including:  
- a history of the company and a description of its operations  
- a description of the securities being offered  
- a list of directors and officers  
- financial statements  
- a summary of the major risk factors affecting the company  
- how the company will spend the money it raises by issuing the securities | Before the company issues shares or other securities to the public | This must be given to everyone who buys the security.  
A company may file a “long form” or “short form” prospectus.  
A long form prospectus contains information about the company and the new securities issue in one document.  
A short form prospectus gives investors important highlights about the new securities issue. It provides a list of disclosure documents filed on SEDAR that form part of the prospectus but are not included in it.  
Although prospectuses must be filed with the OSC, we do not assess the merit of the investment opportunity or the accuracy of the information.  
Some securities can be sold without a prospectus. These are called “exempt securities”. If you buy an exempt security, you may not have the same legal rights as you do when you buy securities under a prospectus. |
Protecting yourself

Protect yourself by getting informed before you invest and staying informed after you invest. The following are some tips to keep in mind.

Before you invest

- Read the prospectus, management information circular or most recent annual report. You can ask your financial adviser for copies or download them from www.sedar.com.
- Understand the risks—in general, the higher the expected rate of return, the greater the risk. You could lose some or all of your investment.
- Know the fees to buy, hold or sell the investment. Check to see if there is a penalty or charge if you have to sell the investment quickly or before its maturity date.
- Be suspicious if the person giving you information or advice is a stranger, guarantees you high investment returns, tells you there is little or no risk, or offers you a “hot tip” or “insider information”.
- Don’t give in to high-pressure sales tactics like limited time offers. Take your time making your investment decisions and never sign documents you have not read carefully.
- Check the registration and qualifications of your investment representative. You can call the OSC at 1-877-785-1555.
- If you have any questions or concerns about the investment, get a second opinion from a financial adviser, lawyer, accountant, or call the OSC for assistance.
- Never invest in anything that you don’t fully understand.
Exempt securities

Some securities can be sold without a prospectus. These are called “exempt” securities. Examples include hedge funds and principal-protected notes. These investments are not for everyone. If you buy an exempt security, you may not have the same legal rights as you do when you buy under a prospectus.

If you are interested in these types of investments, ask a financial adviser to explain how they work, including any guarantees, the risks and the fees.

Find out if other investment strategies may be more appropriate for you. Financial advisers have an obligation to ensure that they recommend only investments that are suitable for their clients.

After you invest

- Keep all information you receive about the investment, copies of forms you sign and notes of any conversations you have with your investment representative.
- Review and file your account statements and trade confirmations. Contact your investment representative or their company if you find any discrepancies.
- Keep up to date on the investment and what’s happening with the company.
- Periodically review the investment to see if it’s still suitable for you.
- Pay careful attention to public announcements and information you receive about transactions such as tender offers, mergers, reorganizations or other third-party actions. These transactions often involve complex investment decisions. Be sure you fully understand the terms of any offer to exchange or sell your shares before you act.
Contact the OSC before you invest

Anyone selling securities or offering investment advice in Ontario must be registered with the OSC, unless they have an exemption. Most securities require a prospectus before they are issued to the public, unless they have an exemption. You can contact us to check whether someone is registered or an investment is offered by prospectus.

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