



Ontario Securities Commission 2017 – 2020 Business Plan

OSC

ONTARIO
SECURITIES
COMMISSION

Table of Contents

EXECUTIVE SUMMARY	1
Illustrative Recent OSC Accomplishments.....	2
INTRODUCTION.....	4
Mandate and Operating Principles	4
Positioning and Stakeholder Accountability	6
Primary Enabling Legislation – Securities Act (Ontario)	6
Key Stakeholders	6
COMMISSION GOVERNANCE.....	8
Governance Framework.....	8
The Role of Members	9
Overview.....	9
The Role of Members as Regulators of Ontario Capital Markets	9
The Role of Members as the Board of Directors of the Commission.....	10
Commission and Board Support	11
Investor Advisory Panel.....	11
OSC Consultative Committees.....	11
Core Values.....	13
OPERATING ENVIRONMENT	14
Our Environment	14
Risks and Challenges.....	14
Market Context	16
Ontario’s Financial Markets.....	16
Securities Regulation in Canada – Overview	17
The Role of the CSA.....	17
Harmonized Policies and Processes.....	17
National Filing and Disclosure Systems.....	17
Enforcement	18
Capital Markets Regulatory Authority (CMRA).....	18
Oversight of Self-Regulatory Organizations, Exchanges and Clearing Agencies	19
Self-Regulatory Organizations (SROs)	19
Exchanges.....	19
Clearing Organizations	21
Trade Repositories	22
Regulation of Issuers – Offerings and Continuous Disclosure	23
Registration of Dealers, Advisers and Investment Fund Managers.....	23
International Harmonization	24
VISION AND STRATEGIC PRIORITIES.....	25
Strategic Outlook.....	25
Globalization.....	25
The Compliance and Enforcement Toolkit	25
Technological Innovation.....	26
Changing Demographics.....	26
Regulatory Balance	26
OSC 2016 – 2017 Priorities	30

ORGANIZATION, STRUCTURE AND CORE ACTIVITIES	31
Organizational Chart	31
Regulatory Operations Branches/Offices.....	32
Regulatory Advisory Branches/Offices.....	32
Corporate Branches/Offices	33
Staff Summary	34
2016 – 2017 FINANCIAL SUMMARY	35
OSC Revenues and Surplus	35
2016 – 2017 Budget Approach	35
Five Year Financial Forecast.....	37
PERFORMANCE MEASUREMENT	38
Overview	38
Development of Regulatory Performance Measures	38
Activity Measures	38
Market Quality Indicators and Capital Market Dashboards.....	38
Outcome Measures	38
Selected Performance Measures	39
Performance Reporting and Accountability.....	39
Next Steps	39
RISK IDENTIFICATION AND MANAGEMENT	40
Background	40
Key Components of the OSC Risk Management Framework	40
Strategic Risks.....	40
Business Risks	41
HUMAN RESOURCES PLAN	43
COMMUNICATIONS & PUBLIC AFFAIRS PLAN	44
Strategic Focus	44
2016-2017 Focus	44
Media Outreach Strategy	44
Executive Visibility Program	44
Stakeholder Communications	44
OSC Dialogue 2016.....	44
Consultations and Outreach.....	45
Social Media Visibility Program.....	45
Internal Communications.....	45
APPENDIX A – OSC 2016-2017 STATEMENT OF PRIORITIES	46
APPENDIX B – OSC SERVICE COMMITMENT METRICS	49

EXECUTIVE SUMMARY

The OSC Business Plan (the “Plan”) sets out the Ontario Securities Commission’s (“OSC” or “Commission”) key strategies for the years 2017 to 2020 and how it plans to accomplish those strategies. This Plan will continue to guide OSC activities until such time as the Capital Markets Regulatory Authority (CMRA) is operational in 2018.

The first part of the Plan documents the *Mandate and Operating Principles* for the OSC. It also provides background information about the Commission and its governance framework, and an overview of the role of the Members of the Commission and their responsibilities.

The *Operating Environment* provides an overview of the context for the overall Plan and notes important issues affecting the Plan. It provides an outline of the role of the Canadian Securities Administrators (CSA) and describes some of the more important national policy initiatives. This section also describes the roles and responsibilities of the OSC regarding the oversight of self-regulatory organizations (SROs), exchanges, clearing agencies as well as the regulation of issuers, dealers and advisers. In addition, it noted the creation of the CMRA.

Taken together, these two sections establish the regulatory context in which the OSC operates.

An outline of the strategic goals along with the Commission’s key 2016 – 2017 priorities is detailed in the *Vision & Strategic Goals and Priorities* section of the Plan. An organizational chart and details of the core activities for the operational and supporting branches is presented in the section *Organization, Structure and Core Activities*. Strategic goals and initiatives of the OSC, together with the organizational core activities, drive OSC resource requirements and allocations.

The *Financial Summary* outlines the revenues, expenses, surplus/deficit and a five year forecast. Selected performance measures are detailed in the *Performance Measurement* section of the Plan.

Key components of the risk approach are described under *Risk Identification and Management*. Under *Risks and Uncertainties*, key operational and infrastructure risks are described, along with the business continuity plan.

Various strategies, objectives and plans for human resources and communications are described in the *Human Resources Plan* and *Communications & Public Affairs Plan*.

The appendices include additional information about our 2016-2017 OSC Statement of Priorities and OSC Service Commitment.

Illustrative Recent OSC Accomplishments

The OSC remains focused on providing responsive regulation that provides protection to investors and fosters confidence in the capital markets. Some of the key OSC accomplishments achieved towards this objective during 2015-2016 are highlighted below.

1. Re-launched the Investor Office to strengthen and expand stakeholder partnerships with investor advocates (including seniors-focused organizations), government and regulatory bodies, industry associations, and law enforcement, among others
2. Commissioned third party research to assist in advancing a policy decision on mutual fund fees resulting in the release of the Brondesbury Group's literature review and a research paper by Professor Douglas Cumming
3. Advanced disclosure requirements on gender diversity by completing a comprehensive review of TSX listed reporting issuers, publishing the results in a multilateral staff notice and hosting a roundtable discussion of the findings
4. Improved access to capital by introducing a modernized prospectus-exempt rights offering regime and offering memorandum and crowdfunding prospectus exemptions for issuers as well as a registration framework for funding portals
5. Began publishing on its website summary information about reports of exempt distributions filed in Ontario
6. Published a number of proposed rules and amendments advancing regulation of OTC Derivatives including: Proposed NI 94-101 - Mandatory Central Counterparty Clearing of Derivatives, NI 94-102 - Customer Clearing And Protection Of Customer Collateral and Positions, and amendments to Rule 91-507 - Trade Repositories and Derivatives Data Reporting
7. Finalized NI 24-102 Clearing Agency Requirements to adopt international standards
8. Published the proposed policy for the Whistleblower Program for comment following consultations via a consultation paper and roundtable discussions
9. Published our 2015 Enforcement report highlighting how new tools and stronger partnerships with law enforcement agencies resulted in improved enforcement outcomes
10. Released ninety-three percent (93%) of all decisions within six months of the hearing
11. Chaired the OTC Derivatives Regulators' Forum (ODRF) and the OTC Derivatives Regulators Group (ODRG) Cross Border Group and co-chaired the IOSCO Task Force on Derivatives where new work on ISDA credit default determinations was approved by IOSCO Board
12. Acted as Vice-Chair of IOSCO's Policy Committee on Regulation of Secondary Markets, which is currently examining the liquidity of corporate bond markets

13. The OSC and Canadian Securities Administrators (CSA):

- Published Consultation Paper 33-404 - Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients which seeks comment on a potential best interest standard and targeted amendments to NI 31-103
- Finalized amendments to the Order Protection Rule addressing intentional order processing delays
- Published proposed rules aimed at introducing a new summary disclosure document for ETFs (ETF Facts) and amendments relating to the CSA Mutual Fund Risk Classification Methodology for Use in the Fund Facts and ETF
- Published CSA Staff Notice and Request for Comment 21-315 Next Steps in Regulation and Transparency of the Fixed Income Market, which describes the steps to enhance regulation in the fixed income market and identifies opportunities to improve market transparency and better protect investor interests
- Published NI 62-104 – Take-over Bids and Issuer Bids, which includes amendments that give boards of issuer's subject to an unsolicited take-over bid more time to respond to the bid and facilitates shareholders making an informed, voluntary and collective decision to tender into the bid
- Published amendments to NI 62-104 and NI 62-103 The Early Warning System and Related Take-over Bid and Insider Reporting Issues that improve the transparency and timeliness of disclosure about significant ownership interests in reporting issuers
- Published Multilateral Staff Notice 54-304 Final Report on Review of the Proxy Voting Infrastructure and Request for Comments on Proposed Meeting Vote Reconciliation Protocols setting out expectations and guidance for improving the processes involved in the tabulation of proxy votes

INTRODUCTION

The Commission is a regulatory agency of the Ontario government which operates on a cost recovery basis. The OSC is required under the *Agencies & Appointments Directive* (which is the key government directive setting out governance and accountability) to annually provide a multi-year Business Plan to the Minister of Finance. This Business Plan sets out the OSC's core strategy for the years 2017 through 2020 including the initiatives for the upcoming year that will be undertaken toward this strategy.

The OSC has overall accountability for the effective administration of the *Securities Act* (Ontario) (the "Act") as well as the *Commodity Futures Act* (Ontario) (the "Acts"). While the OSC oversees securities regulation for Ontario, capital markets in Canada are highly integrated. Accordingly, much of the OSC's activity is often coordinated with the activities of other provincial and territorial securities regulators, primarily through the CSA.

Since financial services in general and securities markets in particular are increasingly global in their conduct, influence and evolution, developments outside Canada also affect operational activities of the OSC as well as the ability to achieve its mandate.

The financial summary in this Plan outlines forecast costs and revenues over a five year period. Other aspects of this Plan focus on current period initiatives. Since business planning is not a discrete one time exercise, modification to various aspects should be anticipated in response to emerging issues and changing market conditions, although material changes to our strategic goals, values, and the nature of overall operations are not expected.

Mandate and Operating Principles

The mandate of the OSC is set out in the Act and is dual in nature – to provide protection to investors from unfair or fraudulent practices, and to foster fair and efficient capital markets and confidence in those markets. The primary means for achieving this mandate consist of:

- Setting/defining requirements for accurate and timely disclosure of information necessary for investors to make informed decisions;
- Establishing restrictions on fraudulent and unfair market practices and procedures;
- Fair, efficient and transparent market structures;
- Establishing requirements for the maintenance of high standards of fitness and business conduct for market participants; and
- Timely, open and efficient administration of enforcement, compliance and adjudication activities under the Act.

Other considerations in achieving its mandate include:

- Controlled delegation of specific oversight to SROs (subject to appropriate OSC supervision);

- Responsible harmonization and coordination of regulatory practices with other jurisdictions (through the CSA and IOSCO for example); and
- Balancing the burden placed on market participants with the value of the regulatory objectives to be achieved.

The mandate and principal means for achieving it are set out in the Act. There are strong links between the priorities of the Ministry of Finance, as identified in the Ministry's *Results-Based Plan 2016-2017*, and the OSC's mandate. Some of those links are:

Ministry of Finance Priority	OSC Support
<p>Support the growth of the financial services sector by:</p> <ul style="list-style-type: none"> • Advancing a modern and flexible approach to regulation • Strengthening consumer and investor protection • Promoting Toronto as a global financial hub 	<p>Ontario's financial services sector is a world leader and a significant contributor to the province's economy. It provides thousands of jobs and creates significant economic activity. Firms need access to capital if they are to create jobs and achieve sustainable economic growth. By fostering confidence in Ontario's capital markets, the OSC supports an environment where capital is available on competitive terms</p>
<p>Progress on the establishment of the Capital Markets Regulatory Authority (CMRA) that will ensure consistent, fair and transparent rules for investors, issuers and other capital market participants</p>	<p>While working with the participating jurisdictions to create a new organization and achieve a smooth transition to the CMRA, it will be critical for the OSC to retain high standards of regulation and to keep stakeholders informed and engaged throughout the transition period</p>
<p>Modernizing capital markets regulation by proposing changes to update securities laws and continue to strengthen the financial services sector by:</p> <ul style="list-style-type: none"> • Strengthening enforcement provisions • Providing protection for whistleblowers • Updating the Securities Act to allow information obtained in investigations to be used in a broader array of proceedings 	<p>The OSC will work to support the Government in their efforts to protect consumers and investors and bolster the stability and efficiency of financial markets</p>

Positioning and Stakeholder Accountability

Primary Enabling Legislation – Securities Act (Ontario)

The OSC is accountable to the Minister of Finance who is in turn accountable to the Legislature for the Commission's fulfilment of its mandate and its compliance with government policies, and for reporting to the Legislature on the affairs of the Commission.

The OSC annually provides the Minister with the following key reports:

- Audited Financial Statements;
- Annual Business Plan;
- Annual Statement of Priorities (SoP);
- SoP Report Card (a progress report against the prior year SoP); and
- Annual Report.

In addition, the Ministry is informed on operational matters through a series of ongoing scheduled work-in-progress meetings.

Key Stakeholders

Key stakeholders most directly affected by the OSC include the following:

- Investors, both retail and institutional, are directly affected by the policy setting, compliance monitoring and enforcement activities of the OSC;
- Investor advisory and advocacy groups (e.g. Investor Advisory Panel (IAP), FAIR Canada);
- Issuers (public/private companies and investment funds) seeking to raise capital or whose securities trade on recognized markets in Ontario and investment funds, rely on fair and efficient markets and are affected by our policies, compliance monitoring and enforcement programs;
- Self-regulatory organizations (SRO), such as the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA), operate under the direct oversight of the OSC;
- Investment Fund Managers who offer investment funds in Ontario;
- Directors and Officers of reporting issuers are directly affected by OSC regulation;
- Portfolio Managers and Exempt Market Dealers are subject to registration and monitoring programs of the OSC;
- Registrants, both at the firm level and the individual level, operating in Ontario are affected by the rules and policies of the OSC either directly or indirectly through the delegation of OSC authority to appropriate SROs;

- Exchanges and alternative trading systems are subject to operational reviews and monitoring;
- Designated ratings organizations are subject to review and monitoring; and
- Clearing agencies (such the Canadian Depository for Securities) are recognized and subject to reviews and monitoring.

In addition, other important stakeholders affected by the OSC's operations include:

- The Ontario public, since healthy securities markets have a beneficial impact on the overall health of the Ontario economy;
- Other provincial and territorial securities regulators, principally through the CSA; and
- Other financial service regulators, such as the Financial Services Commission of Ontario (FSCO), and the Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada and the Department of Finance (Canada) with whom the OSC interacts on various areas of common concern in financial services regulation.

COMMISSION GOVERNANCE

The Commission, as the regulatory body responsible for overseeing the capital markets in Ontario, administers and enforces the Acts. The Act establishes the Commission as a corporation without share capital with a Board of Directors consisting of the members of the Commission (Members). The Commission is composed of at least nine and not more than sixteen Members, each of whom is appointed by the Lieutenant Governor in Council.

The OSC Board of Directors oversees the management of the financial and other affairs of the Commission. Currently, the Board is composed of fourteen members. Three are full-time Members of the Commission and eleven are part-time Members. The full-time Members are Maureen Jensen, Chair, Monica Kowal and D. Grant Vingoe, Vice-Chairs. The part-time Members are: Peter W. Currie, William J. Furlong, Edward P. Kerwin, Deborah Leckman, Janet Leiper, Alan Lenczner, Timothy Moseley, Christopher Portner, Judith Robertson, Garnet Fenn, and AnneMarie Ryan.

Members are appointed for a fixed term by the Lieutenant Governor in Council upon the recommendation of the Minister of Finance and Cabinet. Candidates for appointment are recommended to the Minister by the Chair following a rigorous internal process led by the Governance and Nominating Committee of the Board. The Committee regularly reviews the individual qualifications, attributes, skills and experience of the Members to ensure that Members, individually and collectively, meet the standards necessary to exercise their responsibilities effectively. The Committee uses the Member Profile to identify any gaps in attributes, skills and qualifications that may arise as a result of an upcoming vacancy on the Commission.

Appointments are made according to the procedures of the Public Appointments Secretariat, which is responsible for overseeing public appointments to provincial agencies, and are subject to the Act and the *Agencies & Appointments Directive*. In making its recommendations to the Minister, the Commission supports the government's diversity policy set out in every position posted to the website of the Public Appointments Secretariat, that government appointees reflect the diversity of the people of Ontario and deliver services and decisions in a non-partisan, professional, ethical and competent manner with a commitment to the principles and values of public service.

Further, the Commission strives to follow best practices relating to all aspects of corporate governance, including the multi-lateral amendments made in 2014 to the policies outlined in National Instrument 58-101 *Disclosure of Corporate Governance Practices* relating to the representation of women on boards. The Commission makes every effort to ensure that women are actively sought out in the recruitment and nomination process. The Commission's objective is to have approximately equal representation of male and female Members; however, achieving this objective at any particular time is balanced with the objective of ensuring that the Members of the Commission collectively possess the required mix of skills and experience necessary to enable the Commission to carry out its mandate.

Governance Framework

Although structured as a corporation, the Commission is a regulatory body and its purpose is mandated by statute. The Act establishes the Commission's role in regulating capital markets, sets out the fundamental principles that the Commission shall have regard to in overseeing the administration and

enforcement of the Act, and outlines the basic governance and accountability structure for the Commission.

The Commission, unlike a business corporation, does not have shareholders to whom the Board of Directors report. Instead, the Commission is accountable to the Minister responsible for securities regulation and, through the Minister, to the Ontario Legislature. The Commission is required to enter into a Memorandum of Understanding (MOU) with the Minister. The MOU sets out: (a) the accountability relationship between the Commission and the Minister, the Board of Directors and the Minister, and the Chair and the Minister; (b) the respective roles and responsibilities of the Minister, the Deputy Minister, the Chair, the Members, and the Executive Director; and (c) the requirement for the Commission to provide the Minister with an Annual Report and an Annual Business Plan. The MOU can be found on the Commission’s website.

The Role of Members

Overview

The Members of the Commission discharge their responsibilities under the Acts through two independent but related roles: as regulators of Ontario capital markets and as members of the Board of Directors of the Commission. A brief outline of these two primary roles follows.

The Role of Members as Regulators of Ontario Capital Markets

A high level outline of the roles of the Commission and Board of Directors is set out in the table below.

COMMISSION MEMBERS AS REGULATORS	
POLICY FUNCTION	ADJUDICATIVE FUNCTION
Policy Strategy	Conducting Hearings (including reviews of SRO decisions)
Regulatory Initiatives	Oversight of Adjudicative Processes and Procedures
Administration of Ontario Securities Act	SRO Oversight

The Commission’s regulatory responsibilities are exercised through the Commission’s rule and policy-making function and the Commission’s adjudicative function. While these functions are distinct, in both cases the Commission’s powers are exercised in furtherance of investor protection and in aid of fostering fair and efficient markets, while having regard to the fundamental principles described earlier.

Policy Function

The Commission regulates the Ontario capital markets by making rules that have the force of law (and granting exemptions where appropriate) and by adopting policies that influence the behaviour of capital market participants. The Commission exercises its regulatory oversight functions to achieve the objectives of the Acts. The Commission sets regulatory priorities on an annual basis and oversees their

implementation by Commission staff. The Commission meets every two weeks to deal with regulatory matters.

Adjudicative Function

In regulating Ontario's capital markets the Commission also performs an adjudicative function.

Panels of Members, acting independently, hear enforcement matters (including proceedings involving alleged violations of the Acts, regulations, and rules; and proceedings involving conduct contrary to the public interest), conduct hearings involving regulatory policy issues, and hearings and reviews of decisions of SRO's and decisions of Commission directors. The Commission, as a whole, also has a responsibility to oversee the Commission's adjudicative processes and procedures generally. Members perform their adjudicative function by serving on adjudicative panels that conduct hearings and render decisions independently of the Commission as a whole.

Conducting Hearings

Adjudicative panels of the Commission, composed of one or more Members, conduct hearings on proceedings brought before the Commission. In these hearings, the panel may be asked, for example, to issue an order imposing a sanction in the public interest, to issue an order freezing assets, to review a decision made by Commission staff, or to review a decision of an SRO. The way in which these proceedings are conducted is governed by the *Statutory Powers Procedure Act* (Ontario), the Commission's *Rules of Practice*, and principles of administrative law. The Act provides for appeal of final decisions of the Commission to the Divisional Court.

Oversight of Adjudicative Processes and Procedures

The Commission is responsible for the conduct of proceedings in a fair, independent, and transparent manner and addressing adjudicative matters in a timely fashion. To assist it in the discharge of this responsibility, the Commission established a standing policy committee, the Adjudicative Committee.

The Role of Members as the Board of Directors of the Commission

The Members comprise the Board of Directors of the Commission. Acting in that capacity, the Members oversee the management of the financial and other affairs of the Commission, including the Commission's strategic planning, resource allocation, risk management, financial reporting policies and procedures, management information systems, and the effectiveness of internal controls.

The Board exercises its oversight through regular, quarterly meetings of the full Board and regular meetings of the three standing committees of the Board: Audit and Finance Committee, Governance and Nominating Committee, and Human Resources and Compensation Committee. A fourth standing committee of the Members, the Adjudicative Committee, advises the Commission on adjudicative policy issues. From time to time the Board has established other temporary committees or retained consultants or other advisors to advise it on specific matters.

COMMISSION MEMBERS AS BOARD OF DIRECTORS

Strategic Planning	Financial Review, Reporting and Disclosure
Risk Assessment and Internal Controls	Board Governance
Executive and Management Oversight	Appointment of Members
Integrity and Ethical Standards	

The OSC has adopted the *Commission Charter of Governance Roles and Responsibilities* (“Charter”) to delineate its role and responsibilities and to ensure transparency in its governance structure. Members, either directly or through committees of the Board, are responsible for performing the duties set out in the Charter, and will perform further duties as may be necessary or appropriate for the Members to fulfil their governance and regulatory responsibilities.

Commission and Board Support

The Commission appoints the Secretary to the Commission, who reports directly to the Board and the Chair. The Office of the Secretary provides independent legal and administrative support to the Members in the discharge of their various statutory obligations. The Commission/Board, as well as the Executive, are supported in their roles by staff from the OSC regulatory operations, regulatory advisory and corporate branches.

Investor Advisory Panel

The Commission created the Investor Advisory Panel (“IAP”) to provide it with advice on investor perspectives on OSC priorities, draft rules and policies. Funding for the IAP is provided from the OSC budget. Nominees for the panel (up to nine members) are recommended by a committee of Part-time Members for appointment by the Chair of the Commission.

The IAP functions as an independent advisory committee to the Commission. The IAP has a mandate to represent the views of investors by providing the Commission with written comments on proposed rules and policies, the OSC Statement of Priorities and concept papers and will consider specific issues at the request of the Commission.

OSC Consultative Committees

The Executive and staff of the OSC operating branches are supported by various consultative committees that have been established for one or more of the following purposes:

- To provide a broad range of ideas and expertise as new policy initiatives are developed;
- To help the OSC understand how a specific, recently implemented policy is affecting capital market participants; and
- To improve the OSC’s understanding of the concerns and issues faced by a particular stakeholder group on an ongoing basis.

A list of the key consultative committees includes:

Market Structure Advisory Committee (MSAC) – serves as a forum to discuss issues associated with market structure and marketplace operations in the Canadian and global capital markets. The MSAC also acts as a source of feedback to OSC staff on the development of policy and rule-making initiatives that promote investor protection, fair and efficient capital markets and confidence in those markets.

Small and Medium Enterprises Committee (SMEC) – advises OSC staff on a range of projects, including the planning, implementation and communication of the OSC's review program, as well as policy and rule-making initiatives relevant to small issuers. The SMEC also serves as a forum to advise OSC staff on the emerging issues and unique challenges faced by small issuers.

Exempt Market Advisory Committee (EMAC) – advises OSC staff on regulatory approaches to the capital raising segment of the exempt market.

Investment Funds Product Advisory Committee (IFPAC) – advises OSC staff on emerging product developments and innovations occurring in the investment fund industry. The IFPAC discusses the impact of these developments, as well as emerging issues.

Continuous Disclosure Advisory Committee (CDAC) – serves as a source of information, advice and commentary to the OSC relating to the review of continuous disclosure filings made by reporting issuers, and policy issues related to continuous disclosure.

Mining Technical Advisory and Monitoring Committee (MTAMC) – provides advice to the CSA on technical issues relating to the mining industry.

Securities Advisory Committee (SAC) – provides advice to the OSC on a variety of matters, including regulatory and policy initiatives and important capital markets trends.

Registrant Advisory Committee (RAC) – discusses and recommends solutions regarding registration related issues. The RAC is also joined by regulators from the SROs on a quarterly basis in order to discuss issues.

Securities Proceedings Advisory Committee (SPAC) - an advisory committee to the Office of the Secretary that provides comments and advice on policy and procedural initiatives relating to the Commission's administrative tribunal proceedings.

Seniors Expert Advisory Committee (SEAC) - a new committee being constituted to provide staff with expert opinion and input on policy, operational, education and outreach activities of the OSC designed for and targeted at older investors and their needs.

More information about OSC Advisory Committees and their members is available at www.osc.gov.on.ca.

Core Values

The OSC operating with the following core values:

Professional

Protecting the public interest is our purpose and our passion
We value dialogue with the marketplace
We are professional, fair-minded and act without bias

People

To get respect, we give it
Diversity and inclusion bring out our best
Teamwork makes us strong

Ethical

We are trustworthy and act with integrity
We strive to do the right thing
We take accountability for what we say and do

OPERATING ENVIRONMENT

Our Environment

Each year, the OSC develops its Business Plan and sets goals and priorities to promote the achievement of its vision and the fulfillment of its mandate. The OSC does this in the context of current and forecast economic conditions, evolving market practices, developing trends and issues, as well as changes in public expectations.

Risks and Challenges

Continued slow economic growth in much of the world has meant that the Canadian economy is faced with a complex and uncertain path forward. Conditions have improved over the past year, but Canada's resource sector continues to feel the impact of lower commodity prices, especially in the oil and gas sector. The adjustment to lower prices has been more notable in areas of the country more focused on the resource sector. These areas have seen weakened employment and housing markets as a result.

However, there is more to the Canadian economy than natural resources. The non-resource sector has been somewhat buoyed by strength in the US economy, a lower dollar and low interest rates. Another area of economic strength has been consumer spending. Consumers have continued to spend, in large part supported by continued low interest rates. As a result, housing prices have continued to rise strongly, particularly in Vancouver and Toronto. The down side to this consumer borrowing is that debt levels have risen, leaving consumers potentially exposed to economic weakness or rising interest rates.

Economic conditions both globally and locally inevitably impact the supply and demand for capital. The transmission of economic effects through to capital markets activity in Canada occurs through a number of channels, including issuer valuations, capital raising activity, trading volumes and investor behaviour.

Lower energy and other resource prices have weighed on the valuation of resource sector stocks. This, in turn, has pushed down the benchmark Canadian stock indices. Strength in the price of oil in early 2016 has reversed recent trends and the TSX and TSX Venture Composite indices have out-performed many of their global peers in the first six months of 2016.

Lower energy prices have also driven a decline in investment by firms in that sector. In turn, this has reduced the demand for capital raising and the associated capital markets activities (i.e. regulatory filings, underwriting, etc.).

Continued low interest rates have made it a challenge for investors to achieve acceptable returns, potentially pushing them to take on more risk and or leverage. This can leave them exposed to rising rates and, in the case of households, economic weakness and job losses.

Regulators need to evolve and adapt to ever-changing economic and market conditions. The OSC must ensure that its regulatory provisions and disclosure requirements keep pace with shifting trends.

The financial technology or Fintech sector has been the focus of much attention by both media and investors. Regulators must keep pace with innovation in the markets they regulate to ensure that a

competitive environment is fostered while maintaining necessary disclosure and conduct standards to protect investors.

We expect to see continued growth in segments such as peer-to-peer lending, crowdfunding and online advice providers. These platforms facilitate greater choice for investors in terms of the access to products and services but raise issues around trying to ensure that providers of these services are aware of when they have transitioned into regulated activities and that standards developed in a pre-digital world continue to protect investors.

We also anticipate a growing focus on new and emerging technologies such as digital currencies and distributed ledger technologies (i.e. Blockchain). These have the potential to disrupt much of the regulated infrastructure of our markets with a number of regulated entities looking at how these new processes and tools can reduce costs and increase efficiencies in the markets.

Going forward, the OSC will be challenged to ensure that we have the right tools and resources to monitor, understand and regulate (where necessary) these developing areas.

Market structure continues to evolve with the addition of new trading platforms. The OSC must adapt to this changing environment in a way that fosters competition, while preserving market efficiency and integrity.

To ensure the ongoing competitiveness and attractiveness of Ontario's capital markets, the OSC will remain actively engaged internationally, with organizations such as IOSCO. The OSC will be involved in the evolution of international regulatory standards with a view to aligning these standards and tailoring their implementation to the unique features of Ontario's capital markets. Furthermore, the OSC will work with the CSA to harmonize rules and minimize the burden of regulation throughout Canada.

Rising financial complexity, increasing digitization and globalization are creating new regulatory challenges. While continuing to address its core responsibilities including registration, disclosure review, compliance monitoring, enforcement and policy development, the OSC has an important role to play in contributing to the identification of markets and institutions that could have systemic consequences and take the appropriate measures to ward against them. Our oversight of the OTC derivatives markets plays a key part of this work, as does our continued engagement with other regulators in Canada and internationally.

As the OSC's work continues to expand, new tools and resources with specialized skills will be required to meet the evolving demands that it faces. The OSC has the additional challenge of trying to address these issues while adhering to the Ontario government's fiscal constraints. As the OSC moves to meet these challenges, it will continue to pursue process efficiencies aggressively, do more with its existing resources and report on its progress.

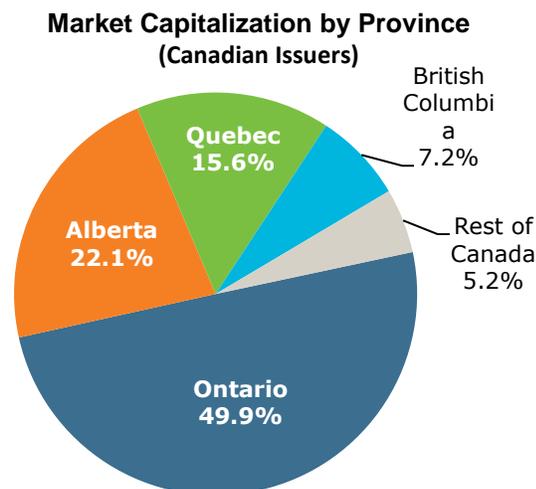
The OSC faces a fast-changing environment and rising stakeholder and public expectations. As the regulator of the largest share of Canada's capital markets, the OSC must take these challenges seriously and demonstrate leadership. The OSC is contributing to developing a harmonized regulatory approach, integrating operations and driving toward a seamless transition to the CMRA for market participants and other stakeholders. While engaging in the considerable work required to transition to the CMRA, the

OSC will maintain an engaged and effective regulatory presence. The OSC will remain committed to working with the jurisdictions in the delivery of effective securities regulation across Canada by maintaining an effective and cooperative interface with the CSA.

Market Context

Ontario's Financial Markets

- As of April 2016, Canada had the ninth largest stock market by domestic market capitalization¹
- Toronto has been ranked tenth among global financial centres²
- The TMX Group ranks #1 globally in terms of listed mining, oil and gas companies³
- 64% of IIROC dealer members have their Canadian head office in Ontario⁴
- 64% of Mutual Fund Dealers have their Canadian head office in Ontario⁵
- 86% of investment fund assets are held by fund companies based in Ontario⁶
- Ontarians hold approximately 45% of all financial wealth in Canada (\$1.6 trillion)⁷
- Of the top 100 employer pension plans, Ontario's pension plan assets totaled \$514 billion, representing 46.8% of the total across Canada⁸
- 403,000 people were employed in the financial services sector in Ontario, accounting for approximately half of financial services employment nationally⁹
- Ontario is home to 42% of Canada's full-service brokerage advisors¹⁰
- As of March 2016, there are 42 separate securities marketplaces in Canada for trading of equities, debt, derivatives and securities lending¹¹
- As of May 2016, 82% of total trading volume (16.3 billion shares) and 99.5% of the total value (\$207.8 billion) traded on Canadian equity markets was traded on Ontario based marketplaces¹²



¹ World Federation of Exchanges (February 2015)

² Z/Yen Group Global Financial Centres Index (March 2016)

³ TMX Group (April 2016) <http://www.tsx.com/resource/en/193> <http://www.tsx.com/resource/en/194>

⁴ IIROC (June 2016) www.IIROC.ca

⁵ MFDA Membership Statistics (April 2016) www.MFDA.ca

⁶ Investor Economics w/ OSC calculations (Assets as of December 2015)

⁷ Investor Economics Household Balance Sheet 2015 (Assets as of December 2014). Note: Financial Wealth does not include nondiscretionary items such as contributions to CPP, QPP & DB Plans

⁸ Canadian Institutional Investment Network An Overview of Pension Plans in Canada 2014 (Assets as of December 31, 2014)

⁹ The Labour Statistics Division, Statistics Canada, CANSIM table 282-0007 (March 2016), Finance and Insurance sector employment

¹⁰ Investor Economics Retail Brokerage and Distribution Advisory Service Winter 2016 (Data as of December 2015)

¹¹ IIROC, OSC. Note: Aequitas Neo Book, Lit Book and Crossing Book are counted as three separate marketplaces

Securities Regulation in Canada – Overview

Securities regulation in Canada is a matter of provincial jurisdiction. Securities regulation may be a provincial responsibility but provincial decisions can affect the national capital markets as well as Ontario's capital markets. The other CSA members also have similar mandates to protect investors and foster fair and efficient capital markets. Canadian securities regulatory authorities currently work together through the CSA.

The Role of the CSA

The CSA's key objective is to coordinate and harmonize regulation of the Canadian capital markets. CSA members work cooperatively to develop and implement harmonized securities laws, and to administer, monitor and enforce laws in a consistent and coordinated manner.

Harmonized Policies and Processes

The CSA has achieved a significant level of harmonization and uniformity in securities laws and the implementation of those laws across Canada. As a result of the cooperative efforts of the CSA, most regulatory requirements are set out in national instruments and multilateral instruments and policies. National instruments and policies are adopted with virtually uniform wording in all jurisdictions. In addition to harmonized instruments, the passport system and accompanying interface with the OSC provides a streamlined filing and review procedure for prospectuses and exemptive relief applications among multiple securities regulators across Canada. The system is designed to enable one CSA jurisdiction to rely on the analysis and review undertaken by the staff of another CSA jurisdiction.

National Filing and Disclosure Systems

The CSA has developed four national electronic databases for issuers and registrants to file documents with all Canadian regulators through a single electronic submission. These CSA databases include:

System for Electronic Document Analysis and Retrieval (SEDAR) – a central national electronic filing system that facilitates electronic filing of, and public access to, all offering and continuous disclosure documents of reporting issuers

System for Electronic Disclosure by Insiders (SEDI) – a central national filing system that facilitates the filing and public dissemination of insider reports in electronic format via the internet

National Registration Database (NRD) – a central national web-based filing system and database for all registered firms and their representatives

Cease Trade Order (CTO) Database – a central repository that collects information on individuals and companies that are subject to cease trade orders issued by the CSA

¹² Investment Industry Regulatory Organisation of Canada (March 2015)

A Request for Proposals (RFP) for the re-development of SEDI, SEDAR and NRD (plus other related systems such as the CTO Database) was issued in October 2015. These national systems will be updated to modernize the technology and to improve functionality and usability. The OSC will work closely with the CSA in order to reflect the needs of its market participants in these initiatives.

Commencing in May 2015 the CSA, with support from the OSC, started evaluating the responses to the RFP to select the successful vendor to implement the new national systems. A respondent was selected and subsequently a Master Services Agreement was successfully negotiated with CGI Information Systems and Management Consultants Inc. (CGI) to renew the CSA National Systems.

On June 1st, 2016 CGI assumed responsibility for preparing, configuring, testing, deploying, and then running and maintaining a new system to replace the CSA National Systems with a single integrated solution. The new system, based on commercial software, will deliver secure transactions and ease of use as well as respond to future regulatory changes and requirements.

Enforcement

The OSC and the other members of the CSA have broad investigative and enforcement powers, including the ability to prohibit trading, ban persons from the market, impose financial penalties and freeze assets. By identifying contraventions of securities laws or conduct in the capital markets that is contrary to the public interest, and by imposing appropriate sanctions, the OSC and CSA deter wrongdoing, provide protection to investors and foster fair and efficient capital markets and confidence in their integrity. The OSC/CSA, SROs, governments and police forces work together to achieve complementary goals. Cooperation among these groups takes several forms, including intelligence sharing, assisting other jurisdictions with investigations, joint enforcement actions, and reciprocal enforcement. CSA members work closely together and may conduct joint investigations on matters that involve multiple jurisdictions. In addition, CSA enforcement staff work with IOSCO, the Council of Securities Regulators of the Americas, and the North America Securities Administrators Association to enhance global cooperation in enforcement matters. Securities Commissions in British Columbia, Alberta, Ontario and Quebec are signatories to the IOSCO Multilateral Memorandum of Understanding.

Capital Markets Regulatory Authority (CMRA)

The OSC continues to support the creation of the CMRA. Objectives of the CMRA initiative include enhancing investor protection, facilitating more efficient rulemaking, encouraging the growth of globally competitive markets in Canada, strengthening our regulatory capacity to identify and manage systemic risk and solidifying Canada's international reputation for effective oversight of its financial markets.

On July 22, 2016 the Ministers responsible for capital markets regulation in British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island and Yukon, and the Minister of Finance of Canada, have chosen the Capital Markets Regulatory Authority's initial board of directors and set new timelines for implementing the Authority. As a participating jurisdiction, the OSC will use its respective best efforts to enact the uniform provincial-territorial *Capital Markets Act* and the complementary federal *Capital Markets Stability Act* by June 30, 2018, with the Authority expected to be operational in 2018.

Notwithstanding the considerable amount of work and resources being dedicated to support the CMRA initiative, the OSC recognizes the importance of maintaining high standards of regulation and of keeping stakeholders well informed and engaged throughout the transition period. Stakeholders can be assured that the OSC will remain responsive to the needs of Ontario's investors and market participants and will maintain an effective regulatory presence.

Oversight of Self-Regulatory Organizations, Exchanges and Clearing Agencies

Self-Regulatory Organizations (SROs)

The CSA has developed a coordinated approach to the regulation of SROs. Recognized SROs play a significant role in promoting investor protection and market integrity. They have the authority to impose sanctions on their members – i.e. fines, reprimands, suspensions and permanent membership bans. As front-line regulators, SROs discharge their responsibilities, subject to oversight by the applicable securities regulatory authorities known as “recognizing regulators”.

There are two recognized and industry-funded SROs in Canada: the MFDA and IIROC, which was formed by the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. Most CSA jurisdictions rely on the SROs to conduct the day-to-day regulation of mutual fund dealers and investment dealers with IIROC also responsible for registering individuals and monitoring trading on equity marketplaces in Canada.

The recognizing regulators have formal oversight programs, consisting of regular reporting on activities, periodic oversight reviews, processes to review proposed rule and by-law amendments and regular meetings with the SROs to discuss issues and emerging trends. Since multiple jurisdictions are involved in SRO oversight, the programs are coordinated. A principal regulator model is used for this purpose; each recognizing jurisdiction is actively involved in oversight, but a single regulator (i.e. the principal regulator), coordinates the process. The OSC is the principal regulator for IIROC and the BCSC is the principal regulator for the MFDA.

The CSA SRO Oversight Standing Committee is responsible for dealing with issues and initiatives that affect the SROs. The day-to-day oversight of SROs is performed by sub-committees set up for each SRO. These sub-committees also act as forums for the discussion of issues related to each individual SRO.

Exchanges

Exchanges that have been recognized in various jurisdictions in Canada are the TMX Group Inc. (and TSX Inc. that operates the exchange), TSX Venture Exchange, Canadian Securities Exchange (CSE), TSX Alpha Exchange, Aequitas Neo Exchange, the Bourse de Montreal, Natural Gas Exchange (NGX) and ICE Futures Canada. These exchanges offer services in multiple provinces and territories and are subject to regulation by the securities regulatory authorities in the jurisdictions in which they operate. The CSA relies on a “lead” regulator model for the oversight of each recognized exchange, whereby one jurisdiction recognizes the exchange while the others exempt the exchange from recognition based on principles of reliance.

The OSC is the lead regulator for TSX Inc., TSX Alpha Exchange, Aequitas Neo Exchange Inc. and CSE. The ASC and the BCSC are joint lead regulators for the TSX Venture Exchange. On the derivatives side, the AMF is the lead regulator for the Bourse de Montreal, the ASC for NGX and the Manitoba Securities Commission is the lead regulator for oversight of ICE Futures Canada Inc.

There are also 17 swap execution facilities that have been exempted by the OSC from the requirement to be recognized as an exchange.

As of March 31, 2016, the following marketplaces (both exchanges and alternative trading systems) carried on business in Ontario for the trading of equities, debt and/or derivatives:

Market Places in Ontario		
Recognized Exchanges	Aequitas Neo Exchange Inc.	TSX Inc.
	CSE (formerly CNSX Markets Inc.)	TSX Alpha Exchange Inc.
Exempt Equity Exchanges	TSX Venture Exchange Inc.	
Exempt Derivatives Exchanges	Bourse de Montreal	
ATs for Equity Securities	Bloomberg TradeBook	LiquidNet
	Nasdaq CXC/Nasdaq CX2	Omega ATS/ Lynx ATS
	Instinet Canada Cross	MatchNow
ATs for Debt Securities	CanDeal.ca Inc	MarketAxess Canada Limited
	CBID/Perimeter Markets Inc.	
ATs for Securities Lending	EquiLend	
Exempt Futures Exchanges	CBOT	ICE Futures US
	CME Inc.	Natural Gas Exchange Inc. (NGX)
	COMEX	Nodal Exchange
	ICE Futures Canada	NYMEX
	ICE Futures Europe	
Swap Execution Facilities	360 Trading Networks	LatAm SEF
	BGC Derivatives Markets, L.P.	MarketAxess SEF Corporation
	Bloomberg SEF LLC	SwapEX LLC
	DW SEF LLC	Thomson Reuters (SEF) LLC
	GFI Swaps Exchange LLC	tpSEF Inc.
	ICAP Global Derivatives Limited	Tradition SEF Inc.
	ICAP SEF (US) LLC	trueEX LLC
	ICE Swap Trade LLC	TW SEF LLC
Javelin SEF, LLC		

Clearing Organizations

Since March 1, 2011, clearing agencies carrying on business in Ontario are required to be recognized by the OSC or have obtained an exemption from the requirement to be recognized as clearing agencies in Ontario. The following clearing agencies are recognized by the OSC:

The Canadian Depository for Securities Limited and CDS Clearing and Depository Services Inc. (together, CDS), which operate the settlement system (CDSX) for clearing and settling equity and debt transactions: CDS has been recognized by the OSC since 1987. In addition to the OSC, the regulators of CDS are the AMF (Quebec) and BCSC, at the provincial level, and the Bank of Canada at the federal level. CDS is recognized by the AMF and the BCSC under their respective securities legislation.

The Bank of Canada has designated CDSX as a systemically important clearing and settlement system under the *Payment Clearing and Settlement Act* (PCSA) which allows the Bank of Canada to oversee such designated systems that may pose a risk to the financial system. Staff of the OSC, AMF, BCSC and Bank of Canada coordinate oversight of CDS, and such coordination was formalized in a MOU Governing the Oversight of Certain Clearing and Settlement Systems that came into effect on June 9, 2015 (CSA-BOC MOU).

Canadian Derivatives Clearing Corporation (CDCC) provides central counterparty (CCP) clearing services for derivatives products traded on the Bourse de Montreal, fixed income products and certain OTC derivatives products. CDCC has been recognized by the OSC since April 2014; prior to that it was exempted from the recognition requirement. CDCC is also recognized by the AMF under its derivatives legislation and by the BCSC under its securities legislation.

CDCC's CDCCS system has also been designated by the Bank of Canada as a systemically important clearing and settlement system under the PCSA. As with CDS, OSC, AMF, BCSC and Bank of Canada staff also coordinate oversight through the CSA-BOC MOU.

LCH.Clearnet Limited (LCH), which operates CCP clearing services for multiple asset classes, and is currently offering the following services in Ontario: SwapClear, RepoClear, ForexClear and EnClear: the OSC has recognized LCH since 2013, prior to which it was exempted from the recognition requirement. The OSC is also an observer on the Global Regulatory College for LCH. LCH is based in the UK and is regulated by the Bank of England. The OSC places reliance on the Bank of England for day-to-day oversight of LCH, and focuses its direct oversight on matters that impact Ontario participants (e.g. launching of new services in Ontario). LCH's SwapClear system has also been designated by Bank of Canada under the PCSA. The OSC and Bank of Canada staff informally coordinate oversight.

FundSERV Inc. (FundSERV), which provides an electronic system for the mutual fund industry to place and reconcile orders and also offers centralized payment exchange facilities for settlement of mutual fund trades: it has been recognized by the OSC since 2012.

As a result of the mandatory recognition requirement, the OSC has also issued exemption orders for the following clearing agencies that operate in Ontario on the basis that these entities are already subject to regulation in another jurisdiction and do not pose significant risk to Ontario capital markets:

- Chicago Mercantile Exchange Inc.
- CLS Bank International and its affiliate CLS Services Ltd.
- CME Clearing Europe Limited
- ICE Clear Canada Inc., which is the designated clearing house for ICE Futures Canada, Inc. (formerly Winnipeg Commodity Exchange)
- ICE Clear Credit LLC
- LCH.Clearnet LLC
- Nodal Clear LLC
- Omgeo Canada Matching Ltd., which carries on business as a matching service utility (MSU) in Ontario, and is regulated as a MSU under National Instrument 24-101 Institutional Trade Matching and Settlement (NI 24-101)
- SS&C Technologies Canada Corp., which carries on business as a MSU in Ontario and is also regulated under NI 24-101
- Options Clearing Corporation

The CSA has finalized an MOU to coordinate the oversight of financial market infrastructure, specifically clearing agencies and trade repositories (TR) (FMI MOU). This MOU supplements the CSA-BOC MOU, and the objective is to facilitate coordination and information sharing among the securities regulators.

Trade Repositories

As part of Canada's commitment to the G20 initiative to reform the practices in the OTC derivatives markets, the OSC has made OSC Rule 91-506 *Derivatives: Product Determination* and OSC Rule 91-507 *Trade Repositories and Derivatives Data Reporting* (TR Rule). The purpose of the TR Rule is to improve transparency in the OTC derivatives market by requiring participants in the market to report certain trade information to a designated TR and to impose certain minimum standards on designated TRs to ensure that they operate in a manner that promotes the public interest. The TR Rule became effective on October 31, 2015. Three TRs have been designated in Ontario: Chicago Mercantile Exchange Inc. (CME), DTCC Data Repository (U.S.) LLC (DDR) and ICE Trade Vault, LLC (ICE TV). These TRs are based in the US and regulated by the CFTC. The OSC places reliance on the CFTC for day-to-day oversight and focuses direct oversight on matters that impact the Ontario capital markets (e.g., access by Ontario participants). In addition, the three TRs have also been designated by the AMF and MSC. On-going oversight of the designated TRs by AMF, OSC and MSC is coordinated under the FMI MOU discussed above. In addition, the OSC is building a framework to manage and analyze data received under the TR Rule for its policy objectives.

Regulation of Issuers – Offerings and Continuous Disclosure

Subject to certain specified exemptions, issuers are required to prepare and file a preliminary and final prospectus prior to any distribution of securities to the public. The prospectus must contain full, true and plain disclosure of all material facts relating to the securities offered under the prospectus and must be receipted by the Commission.

Public companies (referred to as reporting issuers) must comply with periodic and timely continuous disclosure obligations. Those obligations include periodic financial reporting (annual and interim), material change reports, and business acquisition reports. Requirements that contribute to fair and efficient markets, such as insider trade reporting, corporate governance requirements, and minority shareholder protection requirements also form part of public company regulation.

Issuers that rely on a prospectus exemption must comply with the applicable conditions. Depending on the exemption, conditions relate to the nature of the purchasers, limits on the amounts that may be distributed, prescribed disclosure, and limited ongoing reporting.

Prospectus-exempt distributions do not require prior approval or staff review. Compliance and oversight of issuers in the exempt market is focused on creating awareness of our requirements, monitoring the use of the prospectus exemptions and identifying material non-compliance that may require regulatory intervention.

Investment funds that offer their securities to the public must also prepare and file a preliminary and final prospectus before distributing their securities. In addition, conventional mutual funds must prepare a fund facts document that is required to be delivered to a purchaser prior to the purchase of mutual fund securities. The fund facts provides key information about a fund in plain language and cannot exceed two pages in length. Exchange-traded funds (ETFs), similarly, are required to deliver a fund summary document to investors who purchase securities of the ETF on an exchange. These disclosure documents are reviewed based on a risk-based approach.

Publicly-offered investment funds are subject to continuous disclosure obligations similar to those applicable to public companies. These investment funds must also comply with product regulations that contribute to investor protection, including investment restrictions, asset custody requirements and security holder voting requirements. Investor protection is further promoted by requiring every publicly-offered investment fund to have an independent review committee to oversee matters involving conflicts of interest faced by the fund manager in the operation of the fund.

The OSC also regulates linked notes that are sold to retail investors. The issuers of these structured products prepare and file base shelf prospectuses and prospectus supplements to distribute these notes. Any novel structured product is reviewed by the OSC before the issuer distributes the note to investors.

Registration of Dealers, Advisers and Investment Fund Managers

The underlying principle of regulation for dealers, advisers and investment fund managers is based on registration and ongoing registrant obligations. Registration entails demonstrating that the person or company meets the fit-and-proper requirements of proficiency, integrity and financial solvency. Once

registered, a dealer, adviser or investment fund manager must meet ongoing registrant obligations. For example, registered firms must meet certain business conduct requirements (including know-your-client (KYC), know-your-product (KYP), suitability, conflict management and client relationship requirements), and financial reporting, working capital, insurance and bonding requirements.

Unless an exemption exists or a discretionary exemption is granted, firms must register in each jurisdiction where they are:

- in the business of trading;
- in the business of advising;
- holding themselves out as being in the business of trading or advising;
- acting as an underwriter; or
- acting as an investment fund manager.

Individuals must register if they trade, underwrite or advise on behalf of a registered dealer or adviser, or act as the ultimate designated person or chief compliance officer of a registered firm. To facilitate registration and filing in multiple jurisdictions, the CSA developed the National Registration Database and has harmonized the registration regime.

Oversight reviews of registrants are conducted to assess compliance with applicable securities legislation, rules and adherence to best practices. Registrants are selected for reviews using a risk-based approach or when particular topics of interest or concerns are identified. The review programs are updated periodically to include regulatory changes (i.e. expansion of the exempt market to include offering memorandum and crowdfunding).

International Harmonization

The OSC is actively engaged at the international level, promoting cooperation, information sharing and the development of principles, standards and best practices in securities regulation. The OSC Chair is a member of the governing Board of IOSCO, which is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The OSC Chair is also Chair of IOSCO's Enforcement Monitoring Group. This group is responsible for ensuring that the more than 100 international signatories to the IOSCO multilateral MOU on enforcement provide their fullest assistance in sharing information to facilitate cross border investigations and enforcement matters.

VISION AND STRATEGIC PRIORITIES

The OSC vision is to be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets. Public confidence in these markets can be affected by many factors, including the stability of the financial system, the economic health of the country and the volatility in the marketplace. The OSC is addressing a wide range of issues and risks to achieve its vision and mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in those markets.

Strategic Outlook

The 2015-2017 OSC Strategic Outlook articulates our vision for meeting the challenges and seizing the opportunities confronting us as we seek to effectively regulate Ontario's capital markets in the best interests of investors and market participants. Our Strategic Outlook informs how we achieve the OSC's goals to deliver responsive regulation, effective compliance and enforcement, strong investor protection and to be an innovative, accountable and efficient organization. There are many environmental factors that impact the OSC's strategic outlook. Important themes including globalization, technology, the changing investor population and economic conditions continue to impact how the OSC does its work.

Globalization

Globalization has wide-ranging impacts on Canadian capital markets. Capital markets are not constrained by borders and globalization of the markets continues to be a dominant theme that must be taken into account. Mobility of capital creates a strong need for coordination with other regulators to achieve valuable regulatory alignment both domestically and around the world.

The regulatory environment we operate in creates complex jurisdictional and operational challenges for regulators and market participants. The OSC maintains an effective and cooperative interface with the CSA. Regulatory cooperation is also essential to achieving success in investigations and actions involving activity beyond Ontario's borders. Continuing to play an active role in international organizations such as IOSCO is key to help influence and promote changes to international securities regulation that are most beneficial to Ontario markets and participants.

The Compliance and Enforcement Toolkit

Compliance and enforcement activities continue to play a central role in maintaining and enhancing trust in Ontario's capital markets. In addition to using a multitude of compliance tools with effective registration and compliance oversight regimes to help deter misconduct and non-compliance by registrants and market participants, we have also developed new tools and will continue to experiment to find ones that are effective, such as whistleblower and mystery shops. As a part of efforts to protect consumers and investors and bolster the stability and efficiency of financial markets, we continue to consider measures to strengthen enforcement of Ontario securities law. For example, following recent amendments to the Securities Act, there is now a prohibition on a person or company in a special relationship with a reporting issuer from recommending or encouraging another person or company to trade in securities of the issuer with insider information.

Technological Innovation

Rapidly evolving technology-enabled innovations continue to disrupt and transform our capital markets. The effects are being felt everywhere in the markets, especially on the trading side and throughout the infrastructure that supports the markets, but also in the way that market participants are offering fundamental services to investors, for example, through automated advice platforms. A range of disruptive innovations have emerged. FinTech has the potential to revolutionize access to capital by small businesses.

The degree to which technology permeates the operation of the capital markets will fundamentally impact how we are able to regulate them. For example, the use of social media to do financial transactions and communicate to the market and investors may require changes to how we look at disclosure and compliance. Marketplace changes such as the speed of trading, the quality of trade executions and volatility requires us to continue to monitor the effectiveness of our market structure regulation.

Increased dependence on digital connectivity and data collection and analysis, creates challenges for businesses and raises potential exposure to disruptions, including cybersecurity vulnerabilities.

Changing Demographics

Demographics will continue to generate a range of investor-focused issues. Demographics indicate that the proportion of individuals aged 65 or over is expected to grow from 14.6% in 2012 to 24% by 2031. The changing needs of investors as they enter retirement will drive changes in the investment products offered, the types of advice sought and the methods through which investors interact with the financial markets. Evolving market channels, such as automated financial advice, are redefining the delivery of client wealth management services and the fees charged for advice. More than ever, investors are facing complex investment choices and assuming greater responsibility for their investments and retirement savings.

A well-functioning investor/advisor relationship remains critical to the economic well-being of Ontarians and ultimately to achieving healthy capital markets. Globally, better alignment of the interests of firms with the expectations of investors is evolving. The newly introduced changes to the exempt market regulatory regime are expected to provide opportunities for new investors to the capital markets and this will necessitate additional oversight activities to monitor market conduct, firms' compliance cultures and how advisors meet the interests of their clients.

Regulatory Balance

Securities regulators face growing pressures to respond appropriately to market issues while avoiding over-regulation. The need for an appropriate and cost-effective regulatory framework is critical. Market participants are focused on regulatory burden as the complexity of regulatory requirements often requires more resources to comply. These challenges are made even more difficult by the growth of differently regulated investment options available to investors.

The direction we have defined ourselves is grounded in the OSC's five strategic goals:

1. Deliver strong investor protection

2. Deliver responsive regulation
3. Deliver effective compliance, supervision and enforcement
4. Promote financial stability through effective oversight
5. Be an innovative, accountable and efficient organization

1. Deliver Strong Investor Protection

Re-Launch of the Investor Office

The OSC integrated the Investor Education Fund with the OSC Office of the Investor to create a new Investor Office, effective April 1, 2015. On October 30, 2015, the OSC re-launched its Investor Office. The Office is expanding and modernizing the OSC's efforts in investor engagement, research, education and outreach, to help investors build their knowledge, understanding and confidence in planning for their investment goals and retirement finances. The Investor Office continues to bring new perspectives to inform OSC policy-making and operations to better align with investors' interests.

The Investor Office seeks input from investor advocacy groups, including the Investor Advisory Panel, to inform its understanding of issues affecting investors and, use the information in developing tailored solutions to reach the broad range of at-risk investor groups, including seniors, millennials and new Canadians.

An effective and fair dispute resolution system is an important component of the investor protection framework. The Ombudsman for Banking Services and Investments (OBSI) recently underwent an independent review of its operations and structure, as required by its Memorandum of Understanding (MOU) with the CSA. The OSC will analyze the review's findings and recommendations along with other stakeholder input in determining what steps the OSC or CSA could pursue to try to secure more positive outcomes for investors.

Policy agenda focused on investors

A significant portion of the OSC's policy agenda will be focused on initiatives that put the interests of investors first. The OSC is developing and will evaluate regulatory provisions to create a best interest duty for advisors, along with regulatory reforms under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) aimed at improving the adviser/client relationship. The OSC will make recommendations about embedded commissions and other types of compensation arrangements.

The OSC will continue to interact with and seek input from advisory bodies and other organizations focused on investor protection, advocacy and education in order to share information to achieve mutual objectives.

2. Deliver Responsive Regulation

Capital raising in Ontario

The OSC has examined its exempt market regulatory regime with the objective of addressing the capital raising needs of small and medium-sized enterprises at different stages of their growth and business cycle, while maintaining an appropriate level of investor protection. These changes have the potential to transform capital raising in Ontario by increasing access to the exempt market and expanding investment

opportunities for all investors. The OSC will need to be vigilant in its oversight of these markets as they evolve under the new regulatory framework. Retail investors seeking to participate in the exempt market will need to be supported with guidance and tools to help them to understand and assess the opportunities and risks associated with these investments. The OSC will oversee market participants relying on the expanded capital raising exemptions in Ontario through a risk based supervision program for issuers, registrants and portals.

3. Deliver Effective Compliance, Supervision and Enforcement

Compliance and enforcement activities in support of investor protection

Effective registration and compliance oversight programs, combined with timely enforcement, help to deter misconduct and non-compliance by registrants and market participants. The OSC's fundamental work of monitoring compliance and pursuing enforcement with securities laws will reflect its commitment to identify and address areas that are most crucial to upholding strong investor protection. The OSC will monitor industry trends and innovations that may impact on retail investors. We will also continue to identify potential scams and frauds and alert investors about them.

In our core work we are relying more on trend and risk analysis and monitoring of changes in compliance. We will continue to undertake targeted compliance reviews of high risk and new registrants, including online advice and portal business models. We will also conduct targeted prospectus and continuous disclosure reviews of issuers, investment funds and structured products as they respond to market developments and product innovations, and we will publish OSC staff guidance as warranted. As new obligations are implemented we will monitor for compliance. In doing this work, we will also focus on expected standards of conduct of market participants.

Strong and visible enforcement presence

We continue to evolve our enforcement tools and approaches. Our enforcement activities will increasingly centre on delivering timely, credible deterrence through the use of various detection tools, information and actions. The use of electronic data gathering and e-hearings will add to this efficiency. We will actively pursue timely and impactful enforcement cases involving fraud and other serious securities laws violations through our quasi-criminally focused Joint Serious Offences Team (JSOT) program, which is a joint enforcement effort with the RCMP and OPP, as well as through the launch of the Office of the Whistleblower, the first paid whistleblower program by a securities regulator in Canada. The whistleblower program offers robust protections and provides significant incentives of up to \$5 million to individuals who come forward with tips that lead to enforcement action. Collectively, these activities should result in the OSC bringing forward to the courts more cases involving fraudulent activity that harms investors and affects the integrity of the capital markets, and seeking penalties commensurate with those activities, including jail terms.

4. Promote Financial Stability through Effective Oversight

OSC systemic risk oversight and derivatives reform

The OSC works with domestic and international regulators to monitor and better understand the key components of systemic risk and how they interact. Internationally, the OSC works with the Financial Stability Board, IOSCO and others to remain abreast of emerging risks. Domestically, the OSC is connected to various regulators through the Heads of Agencies, which includes the Bank of Canada, Federal Finance and The Office of the Superintendent of Financial Institutions. These interactions

improve the resilience of our markets through shared communication and understanding of areas where our regulatory responsibilities intersect.

The OSC has implemented elements of the regulatory framework to regulate OTC derivatives through the creation of a trade reporting system and the designation of trade repositories. The OSC will work to complete the regulatory framework and build the infrastructure and commit the necessary resources to effectively oversee and supervise activities in the OTC derivatives markets.

Debt market reform

Fixed income secondary market trading is a substantial segment of our capital markets and the transparency, fairness and liquidity of these markets can affect the cost of capital. The OSC is implementing public transparency of fixed income trading data, specifically for corporate debt, with IIROC acting as the information processor for corporate debt.

Enhance oversight of industry cybersecurity preparedness

Cyber-attacks are a major and growing risk for market participants and regulators. Increased dependence on digital connectivity (e.g., online banking and mobile payment systems), combined with exponential growth and reliance on data, increases exposure to disruptions, resilience and other cybersecurity issues. The OSC has a central role to play in assessing and promoting readiness and supporting cybersecurity resilience within the industry. While industry is already taking action to understand and mitigate cybersecurity risks, it is clear continued vigilance in this area will be required. The OSC will be undertaking initiatives to promote proper due diligence by market participants in relation to internal breaches and intrusions from external parties.

5. Be an Innovative, Accountable and Efficient Organization

Support successful organization change and continuity

Improving our efficiency is a top priority, and we remain committed to improving our business capabilities and the way we work. We are introducing process improvements and increasing the use of technology to improve our operational performance. We are continuing to mature our research and data analysis capabilities to support improved and timely identification of risks, and a more disciplined approach to identifying issues and policy development. An enhanced risk-based approach will be utilized to identify registrants and issuers whose operations or structures may pose risks to retail investors. A focus on risk will contribute to the OSC's understanding and response to emerging market, product and systemic risks in a timely manner.

We are also continuing to incorporate technology and more sophisticated analytical tools to improve the efficiency, quality and timeliness of enforcement, and to gather and analyze data and other information, including information required for compliance and adjudicative matters.

Monitor and assess the impact of recent regulatory reforms in Ontario

The OSC is committed to delivering responsive regulatory oversight to meet its mandate. The OSC believes that an "evidence-based approach" is critical to effective policy development and regulatory oversight and it is crucial to track and understand the impacts of its regulatory actions. The OSC will undertake a number of reviews of recently implemented regulatory reforms to assess whether expected results are being achieved and to identify opportunities for further regulatory changes to better achieve its regulatory objectives. The OSC will also continue to seek opportunities to improve the efficiency of its

interface with market participants including the implementation of electronic solutions to make submission of data easier for market participants.

Accountability

All policy initiatives will be aligned with OSC goals and risk assessments. Greater rigour will continue to be imposed on the completion of regulatory impact and data analyses to support informed decision making and prioritization of initiatives.

The OSC is committed to being accountable and will report on how it is progressing against its strategic plan and goals. It will use performance indicators to measure the success and effectiveness of its work and demonstrate its accountability to deliver against its mandate and goals.

Investment in people

The OSC will continue to focus on attracting and retaining top talent. It will also invest in training and tools for staff to help them to do their work and make the OSC a more proactive and agile securities regulator.

OSC 2016 – 2017 Priorities

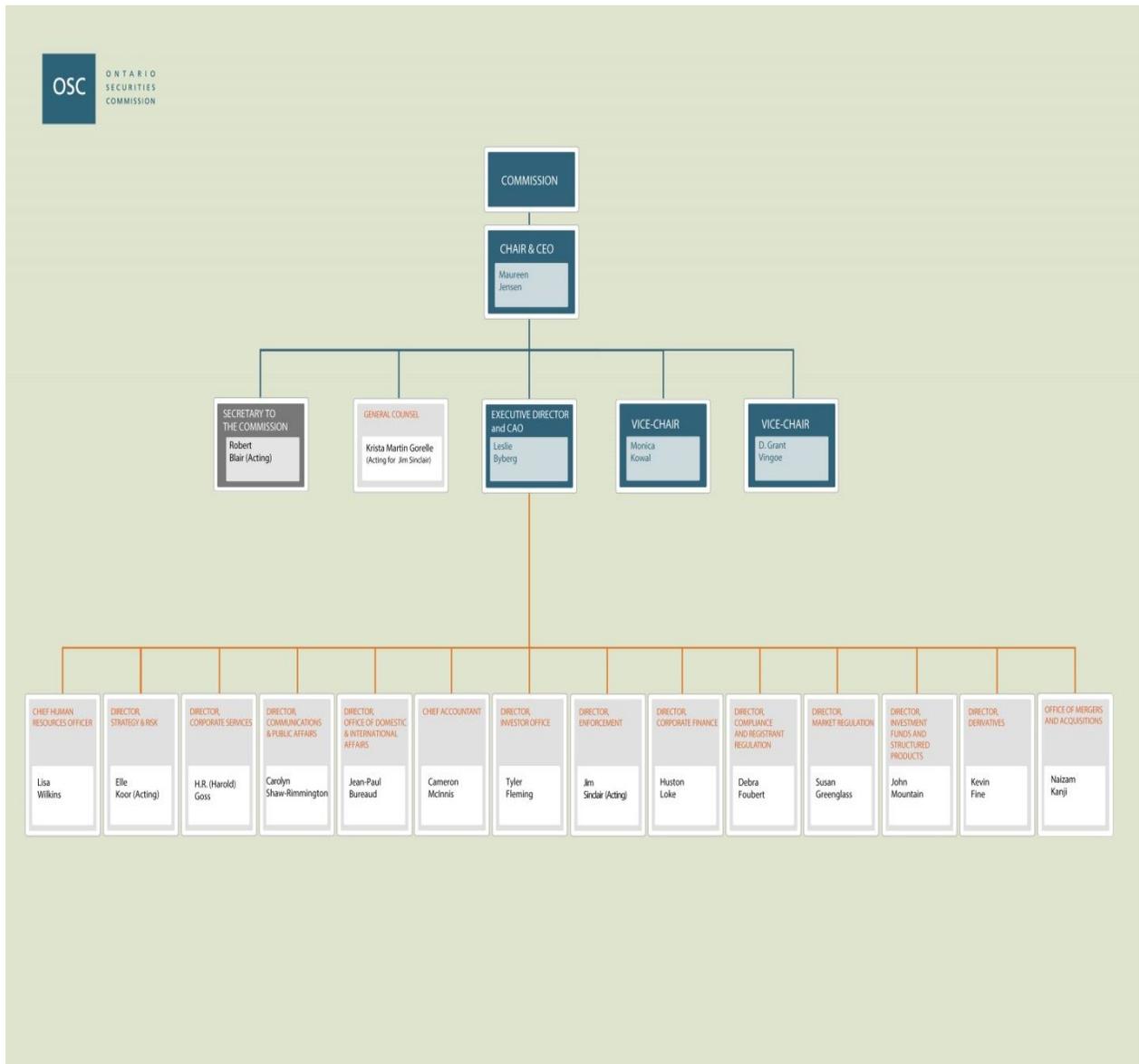
The OSC Statement of Priorities is an annual document required under the *Securities Act*. The Commission's key 2016 – 2017 priorities, along with specific initiatives, are set out in Appendix A.

ORGANIZATION, STRUCTURE AND CORE ACTIVITIES

The OSC is organized into seventeen branches and offices, eight of which focus their main activities on regulating defined segments of the Ontario securities markets. For the most part, the remaining branches/offices provide regulatory advice or provide corporate support to the OSC’s regulatory branches, Commissioners and the Executive.

Organizational Chart

An organizational chart is set out below followed by a discussion of the core activities of each branch.



Regulatory Operations Branches/Offices

Compliance and Registrant Regulation – responsible for regulating firms and individuals who are in the business of advising or trading in securities or commodity futures, and firms that manage investment funds in Ontario.

Corporate Finance – responsible for regulating reporting issuers (other than investment funds) and leading issuer-related policy initiatives. The branch establishes the regulatory framework for securities offerings in the public and exempt markets, and compliance through ongoing reviews. The branch is also responsible for supervising insider reporting and regulating credit rating agencies.

Derivatives – responsible for developing a regulatory framework for over-the-counter derivatives trading in Ontario.

Enforcement – responsible for investigating and litigating breaches of the Acts and seeking orders in the public interest before the Commission and the courts.

Investment Funds and Structured Products – responsible for regulating investment products that offer securities for sale to the public in Ontario, including mutual funds, exchange-traded funds, structured products and scholarship plans.

Market Regulation – responsible for regulating market infrastructure entities (including exchanges, alternative trading systems, self-regulatory organizations and clearing agencies) in Ontario and for developing policy relating to market structure and clearing and settlement.

Office of Mergers and Acquisitions – responsible for matters relating to take-over bids, issuer bids, business combinations, related party transactions and significant acquisitions of securities of reporting issuers.

Investor Office – sets the strategic direction and leads the OSC's efforts in investor engagement, education, outreach and research. It also brings the investor perspective to the OSC's policy-making and operations, including working with the OSC's Investor Advisory Panel.

Regulatory Advisory Branches/Offices

Office of the Chief Accountant – supports the OSC in creating and promoting a high-quality framework for financial reporting by market participants.

Office of Domestic and International Affairs – provides advice and support to the OSC in its dealings with other regulators and governments, both in Canada and internationally.

General Counsel's Office – an in-house legal, policy, strategy and risk-management resource to the OSC. It also supports the OSC Ethics Executive in the oversight of organizational integrity and ethical conduct.

Strategy and Operations – assists the OSC in the delivery of its strategic goals and priorities through policy advice, research and project planning, and by leading the OSC’s business planning, policy prioritization and risk management processes.

Corporate Branches/Offices

Communications & Public Affairs – provides strategic advice and services to ensure the timely and effective communication of OSC priorities, policies and actions to external and internal stakeholders.

Corporate Services – supports effective operations through a diverse set of systems and services, including financial management (including planning, reporting and treasury), administration and office services, facilities management, information technology, library and knowledge management, procurement, and records and information management.

Human Resources – provides strategic and operational advice and services relating to the planning, acquisition, development and engagement of OSC talent, the planning and administration of the OSC’s total compensation plan, performance management and overall organization development.

Office of the Secretary to the Commission – supports the Members of the Commission in their statutory mandate as regulators and as a board of directors by providing counsel on adjudicative matters and administrative law, corporate law and corporate governance.

Chief Internal Auditor – conducts risk-based internal audits to evaluate the quality and effectiveness of OSC processes and systems, including compliance with policies and procedures.

Staff Summary

Total approved permanent positions as at April 1, 2016	
Regulatory Operations Branches / Offices	
Compliance and Registrant Regulation	87
Corporate Finance	57
Derivatives	14
Enforcement	148
Investment Funds and Structured Products	34
Market Regulation	27
Office of Mergers and Acquisitions	6
Investor Office	12
Regulatory Advisory Branches / Offices	
Office of the Chief Accountant	7
Office of Domestic and International Affairs	8
General Counsel's Office	16
Strategy and Operations	34
Corporate Branches / Offices	
Communications & Public Affairs	13
Corporate Services	59
Human Resources	15
Offices of the Chair, Executive Director and Corporate Secretary, Internal Auditor	27
Total	564

2016 – 2017 FINANCIAL SUMMARY

OSC Revenues and Surplus

The OSC is forecasting 2016–2017 revenues to remain consistent with 2015–2016 actual revenues. The forecast reflects fee rates set out in the OSC’s fee rules (13-502 and 13-503), which became effective April 6, 2015. In 2015–2016, the first year that the most recent changes to the fee rules took effect, total fees increased by 12.5% over 2014–2015 revenues as we began to use the most recent financial year information, as opposed to a reference fiscal year in calculating participation fees. We expect fee revenues to remain consistent because 2016–2017 participation fees will be calculated using the same methodology used in 2015–2016.

The OSC expects to generate a surplus of \$4.4 million in 2016–2017 to add to its expected 2015-2016 ending surplus of \$29.2 million, for a total surplus of \$33.6 million as at March 2017. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2015–2016, a smaller surplus in 2016–2017 and a deficit in 2017–2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The budget approved by the OSC Board for 2016–2017 is in line with this expectation. However, actual expenses for each of 2014–2015 and 2015–2016 were lower than projected. As a result, the above-noted ending general surplus is expected to be \$30 million by the end of 2017–2018, assuming that there is no significant growth or deterioration in the markets. The ending surplus will be taken into account when fee rates are reviewed and a new fee rule is implemented beginning in the 2019 fiscal year.

2016 – 2017 Budget Approach

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2016–2017 SoP sets out the OSC’s key priorities to meet these challenges. Achievement of these priorities is a key driver of the increases to the 2016–2017 OSC budget as this will require focused investments in the following areas:

- improving investor engagement, education, outreach and research through the continued work of the Investor Office;
- operationalizing the Whistleblower program;
- implementation of a new regulatory framework (including supervision and oversight) for the derivatives market and the exempt market;
- improving the OSC’s information technology, in particular to support a greater reliance on data and research; and
- improving information security awareness for the OSC.

The budget reflects an increase in expenses of 4.1% from the 2015–2016 budget and 10.1% from actual 2015–2016 spending. Salaries and benefits, which comprise \$83.5 million or 74.5% of the budget, represent an increase of \$4.3 million or 5.5% over 2015–2016 spending. The key reasons for this increase are:

- approval of new positions to support the investments noted above; and
- the impact of the full year costs of the positions filled in the prior year, many of which were filled later in the year.

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the underspending noted in the prior year and the fact that budget amounts will decrease, or remain flat in approximately 50% of its operating branches. The budget also includes the cost of the resources relating to the implementation of the CMRA.

The capital budget, although relatively flat as compared to 2015–2016 spending, primarily reflects the cost to support the OSC’s information technology needs, in particular a significant data management project. The budget also includes a refresh of the OSC’s computers and laptops.

Excess/Deficiency of Revenues over Expenses (in thousands)	2015-16 Actual	2016-17 Budget	Year Over Year Change +/-	
Revenues	\$116,849	\$116,522	-\$327	-0.28%
Expenses	\$101,860	\$112,141	\$10,281	10.09%
Excess of Revenues over Expenses	\$14,989	\$4,381	-\$10,608	-71%
Capital Expenditure	\$3,058	\$2,989	-\$69	-2.26%
Staff	555	564	9	1.62%

OSC Budget and Staff Allocation 2016 – 2017 Budget Expenses - \$112.1 Million 2016 – 2017 Budget Capital - \$3.0 Million Total 564 Staff			
Executive Offices Budget - \$7.2 Million 27 Staff	Policy & Operations – Regulatory Operations Budget - \$52.1 Million 385 Staff	Policy & Operations – Regulatory Advisory Budget - \$9.7 Million 65 Staff	Corporate Branches & Corporate Expenses* Budget - \$43.2 Million 87 Staff

* Includes occupancy costs, supplies, amortization, etc.

Five Year Financial Forecast

(\$\$ thousands)	2016-17 Budget	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
Total Revenues	\$116,522	\$116,522	\$122,400	\$122,400	\$122,400
Total Expenses**	\$112,141	\$120,000	\$126,000	\$132,300	\$139,050
Surplus/(Deficit)	\$4,381	(\$3,478)	(\$3,600)	(\$9,900)	(\$16,650)
Opening Surplus	\$29,247	\$33,628	\$30,150	\$26,550	\$16,650
Closing Surplus	\$33,628	\$30,150	\$26,550	\$16,650	\$0

** Net of Recoveries of Enforcement costs and Recoveries of Investor Education costs

The table above reflects the forecast as at the date the business plan was written. The forecast uses OSC cost increases of approximately 7% in fiscal year 2018 and 5% annually thereafter, which allows for some increase in general inflation and some room to address expected increased oversight of the markets, including the derivatives and exempt markets, as well as expected ongoing investments in information technology. Revenue forecasts for fiscal years 2016 to 2018 are based on those expected as a result of the recently implemented fee rule. For fiscal years 2019 to 2021, revenues are forecast at amounts required to eliminate our accumulated surpluses. The OSC will monitor fees collected and consider on an on-going basis any adjustments to its fees that are needed to balance the Commission's costs and revenues.

PERFORMANCE MEASUREMENT

Overview

Effective performance measurement provides insights into operations, supports planning and promotes a culture of accountability through a combination of quantitative measures and qualitative discussion. It is an ongoing process to monitor and report on the progress towards achieving established goals. A sound framework for performance measurement and management helps determine when adjustments are needed to the goals, strategies and programs established at the OSC. The OSC is committed to performance measurement as a vital process to help us to better understand, manage and improve what we do.

Development of Regulatory Performance Measures

Activity Measures

The OSC continues to track its performance against a series of performance measures. Developing meaningful performance measures in a regulatory context is a challenging but necessary undertaking. Current performance measures are predominantly activity-based. These measures reflect measurable results that demonstrate progress towards goals, objectives and output targets. These measures include volume measures, transaction turnaround times and project initiative completion and are used in monitoring quarterly performance of most core activities of the OSC operating branches. These measures, while providing limited insight into regulatory impact, are relevant at the branch-level and play an important role in providing context for or overviews of regulated activities and the work done by staff as part of the OSC's oversight role. Tracked over time, these measures allow for trend detection, workload management and resource realignment.

Market Quality Indicators and Capital Market Dashboards

The OSC has developed a set of equity market efficiency measures that are beyond the scope of a particular regulatory initiative but linked to our mandate *"to foster fair and efficient capital markets and confidence in capital markets."* The liquidity and efficiency measures demonstrate the OSC's connection to the broader financial picture and enable the Commission to further its understanding of how markets under its jurisdiction compare to others.

The capital market dashboards provide a quarterly overview of the major components of the markets including size and net flows of the bond, public equity, mutual fund, Derivative and Exempt markets. They provide the Commission with a broad overview of the markets and serve as a research reference to the branches.

Outcome Measures

The OSC uses a range of approaches to demonstrate its accountability to its stakeholders. The OSC relies extensively on consultation with stakeholders in developing its proposed regulatory approaches. The frequency, quality and interactive nature of these processes, and the feedback obtained, is a good proxy for measuring the effectiveness of OSC policy making.

While businesses focus on measures tied to the impact of their initiatives on sales and profit, the impact of regulation is often less immediately tangible, making it difficult for regulators to implement a meaningful and feasible performance measurement framework. Currently, the OSC has a limited number of measures that focus on regulatory impact. The clearest examples are improvements in issuer disclosure and registrant compliance following regulatory intervention.

The OSC is increasing its use of post implementation impact analysis to assess the degree to which targeted regulatory outcomes are being achieved. For example, a reduction in the number of certain applications for relief can confirm progress against an outcome of improved regulatory alignment and be a good indicator of the impact achieved by a specific rule.

The OSC is becoming more data-driven and this will be a fundamental component in achieving more effective performance measurement. For example, closer tracking of various exempt market statistics will provide insights into the effectiveness and impacts arising from the recently introduced capital raising policy initiatives.

Selected Performance Measures

The OSC has developed management dashboards and scorecards, with a focus on visual representations to provide context and highlight key measures. These measures are being refined over time. In addition to activity measures, the OSC utilizes financial measures such as the variance of current expenditure and revenue forecasts vs. full year plan, which assists in forecasting and budgeting activities.

Performance Reporting and Accountability

In 2014-2015 the OSC revised its service charter. The *OSC Service Commitment* is a detailed performance report against a broad range of service targets. This document is published in a central and easily accessible location on the OSC website and the metrics for 2015-2016 are presented in Appendix B. The report also provides a summary of survey results from the various outreach events such as *OSC in the Community* and policy consultation sessions held over the year.

The OSC has an annual process where it publishes its proposed priorities for the coming year and seeks comments from stakeholders. After considering this feedback, the OSC finalizes and publishes its *OSC Statement of Priorities* setting out its top priorities. The OSC annually publishes its *Report on OSC Statement of Priorities* to report on its progress and accomplishments related to the identified priorities.

Next Steps

The OSC's goal is to continue to develop, implement and report on meaningful performance measures. The OSC will continue to evaluate activity measures that are currently internal or published for a limited audience and determine which ones should be published more broadly. As part of this process the OSC will consider which current activity measures could be improved. The OSC remains committed to developing outcome measures that better reflect the regulatory impact of its work. The goal is to develop a set of outcome-based performance measures that, while limited in number, provide a reasonably comprehensive assessment of the Commission's regulatory impact.

RISK IDENTIFICATION AND MANAGEMENT

Background

The OSC must manage a growing range of risks arising from the pace of change and the continuing globalization of financial entities and their operations. Understanding those we regulate is necessary to manage known risks and respond to emerging risks in a more timely and appropriate way. The OSC applies International Risk Management Standard ISO 31000 to its enterprise risk management. We do this through a Risk Management Framework which was adopted November 2012.

Key Components of the OSC Risk Management Framework

The goal of the framework is to embed risk management at key strategic decision points and within all elements of our operations and through all levels of staff. The framework sets out a process for identifying and assessing risks, and highlighting and reviewing controls. The key advantages of the framework are:

- Promote a risk awareness culture within the OSC;
- Align the OSC risk appetite with its strategic direction;
- Identify and manage enterprise-wide risks (reputational, strategic, financial, operational and people);
- Provide the necessary context for setting the OSC's strategic direction and business planning;
- Facilitate proactive management of risk, improvements to performance measures and prioritization of initiatives and allocation of resources.

The OSC Risk Management Framework adapts to our ever-changing environment. It enhances our decision-making processes and supports the development of a risk-based culture within the organization. Decision making within the organization is informed by quarterly risk reporting and involves consideration of risks and the application of risk management.

Strategic Risks

Risk can relate to threats to the OSC's strategy or operations, or failure to take advantage of opportunities. The OSC seeks to fully address or mitigate the strategic and business risks that are most likely to impair achievement of our mandate. The OSC's Strategic Risk Inventory is a key input to our risk management and business planning processes.

Strategic Risk Inventory

Information gathered through the risk management process is captured in the OSC's Strategic Risk Inventory. It includes a "top-down" and "bottom-up" view of the risks and controls within the OSC. The top-down portion describes the environment in which the OSC works and the bottom-up portion deals with day-to-day operational risks that affect our ability to do our work. The OSC's Risk Committee reviews the Strategic Risk Inventory each quarter to identify significant changes in the OSC's risk profile, including any new or emerging risks. This information is reported to Senior Management, the Audit and Finance Committee, and the Board of Directors.

Business Risks

The OSC has established policies and processes to identify, manage and control operational and business risks that may impact our financial position and our ability to carry out regular operations. Management is responsible for ongoing control and reduction of operational risk by ensuring appropriate procedures, internal controls and processes, other necessary actions and compliance measures are undertaken.

Operational risk can include risk to the OSC's reputation. Reputational risk, as it relates to financial management, is primarily addressed through the OSC's Code of Conduct and governance practices established by its Board of Directors (details available at www.osc.gov.on.ca), as well as other specific risk management programs, policies, procedures and training.

Internal Audit

OSC Internal Audit is an assurance and advisory service to the Board of Directors and to management. Internal Audit helps the OSC develop, evaluate and improve risk management practices, risk-based internal controls, good governance and sound business practices.

The internal audit function is governed by a Charter approved by the OSC's Board of Directors and by an annual internal audit plan that is approved by the Board. The Chief Internal Auditor reports, and provides quarterly updates to, the Audit and Finance Committee. In addition, the Chief Internal Auditor provides an annual report on the results of internal audit engagements to the Board of Directors.

Systems Risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs extensive security and vulnerability assessments bi-annually to highlight potential areas of risk. All findings and key recommendations from these assessments are tracked along with a management response and target remediation date. The results of these assessments and the progress made to address these findings and recommendations are reported to the Audit and Finance Committee and are used to improve security of the OSC systems.

The OSC relies on national systems which are operated by CGI, to collect most of its fee revenue. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 – Type II) that reviews and evaluates the internal controls design and effectiveness of the national systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually. The most recent test was performed in January 2016.

The OSC could be contingently liable for claims against, or costs related to, operating the national systems. No material change is expected in the volume of fees collected through these systems. Following a competitive tender for redeveloping these systems, in May 2016 the Principal Administrators (OSC, BCSC, ASC and AMF) signed an agreement with CGI to replace the core CSA national systems with one system to support existing and future requirements for the benefit of regulators and market participants. Services in scope of the agreement include software acquisition, application development, systems integration and application support. Redevelopment using a multi-year, phased approach began in June 2016.

Business Continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. The BCP is continually reviewed and refined, and includes strategies to effectively address various market disruption scenarios.

Financial Risk

The OSC maintains strong internal controls, including management oversight to provide reasonable assurance of financial reporting reliability and preparation of financial statements for external purposes consistent with IFRS. These controls are tested annually through our internal control over financial reporting (ICFR) program.

The fee rules for fiscal years ending March 31, 2014 and 2015 introduced the concept of a reference fiscal year to calculate participation fees. This was expected to significantly reduce the impact of market fluctuations on participation fee revenue. However, market fluctuations continued to affect our ability to precisely forecast revenue. For fiscal years ending March 31, 2016, 2017 and 2018, we returned to requiring participants to use their most recent fiscal year as the basis for calculating their participation fees. As a result, actual revenues received may be different than planned, but are not expected to impair our operations.

Legal Risk

Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. This year, no new legal actions were commenced against the OSC and all existing actions against the OSC were dismissed by the court. There are currently no outstanding civil actions against the OSC.

HUMAN RESOURCES PLAN

OSC’s people strategy is to build an attractive, modern, high performing workplace where every manager is a great talent manager and every employee is fully engaged. The OSC Human Resources Plan has four main goals.

Area of Focus	Strategies/Plans
Build an attractive, modern and high performing workplace	<p>Sustain and build on strong employee engagement through focused employee survey response initiatives</p> <p>Administer compensation processes to ensure the ongoing effectiveness and credible outcomes</p> <p>Continue to build a healthy and inclusive OSC community</p>
Develop great talent managers	<p>Continue to develop current and emerging leaders through the OSC's leadership development program, which includes coaching, classroom training and self-directed learning, peer learning sessions, and management tools</p>
Support successful organizational change and continuity	<p>Continue to build bench strength in all functions and at all levels in the organization, and manage succession related to OSC leadership and specialist positions</p> <p>Provide employees with access to information, tools and resources that support them in adapting to change and contribute to effective organizational transition</p> <p>Continue to develop a culture of learning and development that provides professional and career growth and enables delivery of effective regulation</p>
Provide first class fundamental HR services	<p>Increase capacity to respond to emerging issues and organizational complexity by increasing knowledge and ability to provide executive and manager clients with reliable, accurate, timely and trusted advisory services</p> <p>Continue to monitor and report on an “OSC People” dashboard with metrics to guide decision-making</p> <p>Continue to apply modern recruitment practices to source best candidates for OSC positions, to enhance the application and decision-making process for applicants and maximize efficiencies for all stakeholders in the recruitment and on-boarding process</p>

COMMUNICATIONS & PUBLIC AFFAIRS PLAN

Strategic Focus

- Build on current communications strategy to clearly and consistently articulate OSC priorities and outcomes to both internal and external audiences
- Focus on key priority areas (e.g. investor protection, enforcement tools, market structure, access to capital, international) and ensure relevant, proactive messaging that positively informs and shapes stakeholder opinion and engagement
- Use multiple channels to deliver accessible, transparent and measurable communications such that stakeholders understand what we do and how we do it; ensure consistent delivery of key messages across all channels and stakeholder groups
- Ensure maximum reach by delivering proactive, integrated communications strategies leveraging all tools, resources and possible channels, including digital communications and enterprise social media

2016-2017 Focus

Media Outreach Strategy

Build on OSC media strategy and continue with proactive story development; develop and rollout strong, positive organizational key messages; arm OSC spokespeople with the tools they need to successfully deliver at the industry expert level. Enhance OSC social media program to support OSC reputation as proactive, accessible and modern regulator.

Executive Visibility Program

Identify, secure and arrange for key executive profile opportunities and speeches; Organize and execute corporate events that demonstrate thought leadership and drive the discussion around OSC priorities and strategic initiatives.

Stakeholder Communications

Deliver a comprehensive stakeholder communications strategy with emphasis on integrated communications and relationship development with most active and vocal stakeholder groups. Desired outcome: stakeholders respect the OSC's willingness to engage and know what we're doing and why.

OSC Dialogue 2016

As a theme, "Exploring disruptive forces in the capital markets", this year's event will focus on disruption in the capital markets and what it means for market participants, investors and regulators. Position the OSC within this emerging space through plenary discussions with internationally recognized thought leaders (including regulatory counterparts); positively influence thinking of senior industry, investor and government audience.

Consultations and Outreach

Advise regulatory branches on corporate events (e.g. industry webinars, policy roundtables) to ensure success through clear executive remarks, relevant, timely content development and event management expertise.

Social Media Visibility Program

Implement a social media employee advocacy program, initially using a core group of EMT members, to positively influence public perception of the OSC as a leading, effective and accountable regulator. Make OSC executives visible and engaged on social media in a way that is appropriate, authentic and amplifies the OSC's message.

Internal Communications

Build on successful internal communications strategy with desired outcome being continued improvements in staff engagement. Focus this year will be on enhancements to Intranet, building in measurement and social features where possible.

APPENDIX A – OSC 2016-2017 STATEMENT OF PRIORITIES

The OSC Statement of Priorities is an annual document required under the *Securities Act*. The Commission's key 2016–2017 priorities, along with specific initiatives, are set out below:

Deliver strong investor protection	
Issue/Priority	Proposed Actions
Putting the interests of investors first	<ul style="list-style-type: none"> • Publish and conduct consultations on proposed regulatory provisions to create a best interest standard • Publish and conduct consultation on targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship • Following stakeholder consultations, develop recommendations to the Commission on regulatory reforms to improve the advisor/client relationship including an implementation plan • Finalize analysis of advisor compensation practices and identify those practices that appear inconsistent with current regulatory expectations
Addressing compensation arrangements in mutual funds and empowering investors through better disclosure	<ul style="list-style-type: none"> • Communicate a policy direction on embedded commissions and other types of compensation arrangements • Develop regulatory proposals that address conflicts of interest created by compensation arrangements related to investment funds • Finalize a mandated CSA risk classification methodology to improve the comparability of risk ratings of mutual funds • Finalize a summary disclosure document for ETFs that can be delivered to investors
Increased oversight of the exempt market	<ul style="list-style-type: none"> • Oversee market participants relying on the expanded capital raising exemptions in Ontario through a risk based supervision program for issuers, registrants and portals • Collect and analyze data on the use of capital raising exemptions in Ontario to assess how the exemptions are being used to further capital formation
Improving education, engagement and alignment with investors' interests	<ul style="list-style-type: none"> • Improve outreach and education focused on senior and vulnerable investors and work with the Investor Advisory Panel to identify further opportunities to advance investors' interests • Improve our understanding of investor issues and needs through targeted research, seminars and roundtables • Enhance, expand and develop innovative tools and resources to improve OSC investor engagement and develop a framework to measure the impacts and outcomes achieved

Deliver responsive regulation	
Issue/Priority	Proposed Actions
Monitor and assess the impact of recent regulatory reforms in Ontario	<ul style="list-style-type: none"> Commence post-implementation analysis of the impact of the Client Relationship Model – Phase 2 (CRM2) and Point of Sale (POS) amendments Conduct targeted disclosure reviews to monitor the progress on corporate governance changes related to disclosure requirements for Women on Boards and in executive officer positions and determine the impact of those changes in our markets
Monitor and support market structure evolution	<ul style="list-style-type: none"> Finalize the Order Protection Rule regulatory framework with the CSA including establishing a market share threshold, trading fee caps, market data methodology and speed bumps
Improve alignment with international standard setting	<ul style="list-style-type: none"> Actively participate in IOSCO and other regulatory authorities globally to promote the development of new international standards and regulatory responses to areas including cyber resilience, resolution and recovery of CCPs, vulnerabilities in the asset management sector, the protection of client assets, and the ability of regulators to exchange information in compliance and enforcement situations

Deliver effective compliance, supervision and enforcement	
Issue/Priority	Proposed Actions
Enhance compliance through effective inspections, supervision and oversight	<ul style="list-style-type: none"> Continue effective oversight of registrants focusing on high risk and new registrants Assess compliance with OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting Work closely with self-regulatory organizations (SROs) to coordinate compliance efforts on issues in common, such as sales incentives and related conflicts of interest
Actively pursue enforcement action against fraud and other serious securities law violations	<ul style="list-style-type: none"> Based on feedback and consultations, implement OSC Whistleblower Program, assess information received and establish effective protocols and processes to begin to use this input to pursue potential cases Conduct collaborative investigations of fraud and recidivist cases through JSOT using the provisions of the Securities Act or the Criminal Code Complete the enhanced Multilateral Memorandum of Understanding to facilitate information sharing and cross-border enforcement activities

Promote financial stability through effective oversight

Issue/Priority	Proposed Actions
Enhance oversight of the fixed income market	<ul style="list-style-type: none"> • Implement public transparency of fixed income trading data, specifically for corporate debt, with IIROC acting as the information processor for corporate debt • Monitor fixed income trading data to assess the impact of transparency • Conduct a comprehensive review of dealers' allocation practices for new debt issues
Advance OSC systemic risk oversight and OTC derivatives regulatory regime	<ul style="list-style-type: none"> • Work with other regulatory agencies to monitor trends and risks across various market segments and participants including: equities, fixed income, OTC derivatives, clearing agencies, derivatives dealers • Introduce mandatory, centralized clearing for certain OTC derivatives • Propose a registrant regulation framework for derivatives market participants • Assess trade reporting data to identify markets trends/risks
Enhance oversight of industry cybersecurity preparedness	<ul style="list-style-type: none"> • Improve collaboration and communication with market participants on cybersecurity issues • Assess the level of market participant cybersecurity resilience, including measures for protection of personal investor data • Improve market participants' understanding of OSC cybersecurity oversight activities, including providing guidance on expectations for market participants' cybersecurity preparedness

Be an innovative, accountable and efficient organization

Issue/Priority	Proposed Actions
Support successful organization change and continuity	<ul style="list-style-type: none"> • Continue to develop data collection, management and assessment practices • Continue to integrate economic analysis, research and data analysis within the OSC, and specifically in the policy development process • Improve regulatory capacity through the development of people and expertise; employees are provided with access to information ,tools and resources to enable them to carry out their accountabilities effectively during organizational change and transition

APPENDIX B – OSC SERVICE COMMITMENT METRICS

In 2014-2015 fiscal year, the OSC introduced its “OSC Service Commitment - Our Service Standards and Timelines” as part of its focus on accountability and transparency. The document outlined what stakeholders can expect when dealing with the OSC by summarizing target timelines for answering questions, responding to requests for information and submitting for review offering documents, applications and other filings.

The following tables explain how the OSC has performed against the target timelines. The status section displays a green box where the targets have been met for the entire year, and a yellow box where the target has not been met through the entire year. The notes section provides an explanation where a target has not been met.

Records and Information Management Branch

Activity	Target	2015-2016				Status	Notes
		Q1	Q2	Q3	Q4		
OSC record request acknowledgement	By end of next business day	100%	100%	100%	100%		
OSC record request fulfillment	Within 5 business days	100%	100%	93%	98%		Q3: One request required six days due to volume of requests Q4: One request required review by business owners and lifting of confidentiality prior to release
Registration record request acknowledgement	By end of next business day	100%	100%	100%	100%		
Registration record request fulfillment	Within 5 business days	100%	100%	100%	100%		

Inquiries and Contact Centre

Activity	Target	2015-2016				Status	Notes
		Q1	Q2	Q3	Q4		
Telephone inquiries	On contact	95%	94%	91%	92%		A spike in volumes during Q4 impacted service standards due to a spill over from registration inquiries from Q3 and the annual filings from reporting issuers in March 2016
Mail and e-mail inquiries	100% within 3 business days	72%	77%	79%	70%		
Mail and e-mail complaints	100% within 10 business days	91%	90%	95%	88%		

Compliance and Registrant Regulation Branch

Activity	Target	2015-2016				Status	Notes
		Q1	Q2	Q3	Q4		
New business applications - acknowledge receipt	95% within 5 business days	92%	100%	100%	90%		Q1: Acknowledgement of one file delayed 2 days due to staffing transition Q4: One application delayed due to unusual circumstances. Business processes have since be adjusted to accommodate similar applications
New business applications - evaluate application	80% within 90 business days	67%	89%	100%	100%		Q1: Changes to resource allocation caused a small delay in the review of one firm application.
New individuals - dealing reps - evaluate application	80% within 5 business days	94%	99%	93%	80%		
New individuals - advising reps & CCO - evaluate application	80% within 20 business days	80%	85%	82%	88%		
Notice of employment termination	95% within 5 business days	98%	100%	100%	100%		
Applications for exemptive relief	80% within 40 business days	83%	100%	100%	80%		

Corporate Finance Branch

Activity	Target	2015-16				Status	Notes
		Q1	Q2	Q3	Q4		
Prospectus comment letters (Long Form)	80% within 10 business days	100%	100%	100%	100%		
Prospectus comment letters (Short Form)	80% within 3 business days	100%	100%	100%	100%		
Prospectus receipts	80% within 40 business days	100%	96%	100%	100%		
Exemption applications	80% within 40 business days	100%	100%	100%	100%		
Final prospectus receipts	100% of materials filed by noon	100%	100%	100%	100%		
Amendments - Comment letters	80% within 3 business days	89%	100%	100%	100%		
Amendments - Receipts	80% within 40 business days	100%	100%	100%	100%		
Rights-offering circulars - Comment letters	80% within 10 business days	100%	100%	100%	100%		
Rights-offering circulars - Receipts	80% within 40 business days	100%	100%	100%	100%		

Investment Funds and Structured Products Branch

Activity	Target	2015-16				Status	Notes
		Q1	Q2	Q3	Q4		
Prospectus comment letters	80% within 10 business days	94%	94%	93%	93%		
Prospectus receipts	80% within 40 business days	87%	90%	88%	90%		
Exemption applications	80% within 40 business days	71%	90%	79%	74%		NPR files were included as were files containing novel/substantive issues or delayed due to filer
Amendments - Comment letters	80% within 3 business days	97%	96%	91%	87%		
Amendments - Receipts	80% within 40 business days	92%	82%	87%	100%		