



ONTARIO
SECURITIES
COMMISSION

Report on the
Statement of Priorities



For fiscal 2011-12

The Ontario Securities Commission (OSC) published four goals and five priorities in its fiscal 2011-12 Statement of Priorities. The primary objective of the Statement of Priorities was to communicate a series of specific priorities and projects for the OSC to address in fiscal 2011-12, focused on achieving progress against each of the goals. For each of these goals the OSC identified a series of initiatives, some multiyear, in support of achieving each particular goal. Detailed accomplishments and highlights for each goal and the current status for each of the specific 2011-12 priorities are presented in table format. This document is focused on OSC performance against the priorities set out in the Statement of Priorities. A broader discussion of OSC accomplishments during the past year is contained in the 2011-12 OSC Annual Report available at www.osc.gov.on.ca.

Key Accomplishments and Highlights

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 2011-12, are highlighted below:

The OSC engaged in a comprehensive organizational review and a benchmarking exercise against international regulatory best practices which resulted in a new three-year [Strategic Plan](#). The plan will guide the OSC's efforts to stay ahead of the evolving complex and dynamic environment of today's global capital markets and be the OSC's road map for working in the best interest of the investors and market participants of Ontario and for making the regulatory system more efficient. The plan sets forth six key initiatives, including the establishment of an Office of the Investor as part of a wider strategy to engage investors more effectively, a focus on research and analysis and monitoring systemic risk.

The OSC thoroughly reviewed the regulatory issues raised by the Maple proposal to acquire TMX Group Inc., together with Alpha Trading Systems and the Canadian Depository for Securities Ltd. (CDS). In October 2011, the OSC published a notice and request for comment, together with Maple's application, and identified a number of issues that the Commission was considering. In-person policy hearings were held on December 1 and 2, 2011 to allow the opportunity for additional public comment. In May 2012, the OSC published proposed recognition orders for comment with terms and conditions reflecting an enhanced oversight program. The comment period on the proposed recognition orders closed June 2012.

In response to concerns raised in mid-2011 respecting emerging market issuers that were listed for trading and raising capital in Ontario's markets, the OSC undertook a comprehensive compliance focused review. The purpose of the review was to assess the quality and adequacy of selected issuers' disclosure and corporate governance practices, as well as the adequacy of the gatekeeper roles played by auditors, underwriters and the exchanges, to identify any broad policy issues and entity-specific concerns. The review also examined the legal vehicles through which these issuers have accessed the Ontario market. The OSC published Staff Notice 51-719 *Emerging Markets Issuer Review*, which identified areas of concerns and made recommendations for changes that will contribute to the protection of investors and strengthen the integrity of markets.

The OSC continued to strengthen its compliance and enforcement continuum approach to provide timely and efficient oversight of the marketplace in support of our mandate. The OSC pursued a number of cases related to registrant misconduct and was vigilant when it found evidence of potential registrant misconduct or fraud. OSC staff also selected and conducted a number of on-site compliance reviews firm using our risk based approach. More than 15% of these compliance reviews resulted in the suspension of the firms' registration, terms and conditions placed on the firms' registration or referrals to OSC enforcement for further regulatory action.

The OSC renewed its commitment to strengthen deterrence by bringing more quasi-criminal cases before the courts which resulted in a record number of jail sentences - securing more than 16 years in jail sentences in

2011-12, as compared against 105 days in 2010-11. OSC enforcement increased its speed in responding to critical issues and events, including priority investigations. Concrete steps were taken with the Investment Industry Regulatory Organization of Canada (IIROC) to effect a distribution to eligible investors who purchased third party asset-backed commercial paper (ABCP) by obtaining Ontario Superior Court of Justice confirmation that the proposed plan to distribute settlement funds to eligible investors is not prohibited by an earlier court order.

The collection of monetary sanctions remains a challenge for securities regulators and the OSC continues to look for ways to improve the collection of monies owed to the OSC. One step in this process was the successful launch of a Delinquent Respondents List to identify respondents who are delinquent in paying administrative penalties, disgorgement orders and/or costs imposed in enforcement proceedings before the Commission.

The OSC hosted *OSC Dialogue 2011*, a conference where stakeholders have the opportunity to discuss a host of regulatory subjects with Commission members and senior OSC staff. The OSC informed stakeholders and the public about its work over the past year including its plans for moving forward as a 21st century securities regulator. Investor protection was a major topic of discussion at the conference.

The OSC has also implemented a broad range of human resources initiatives aimed at improving its business and regulatory capability and operational performance including:

- implementation of a Leadership Competency Model;
- improved human resource management processes to improve efficiency, convenience, reliability and accountability; and
- increased use of internal secondments to enrich careers, promote organizational integration and build increased organizational capability.

Priority 1: Better Demonstrate our Commitment to Investor Protection	
<i>In undertaking policy and rule development as well as compliance and enforcement programs, a foremost priority of the OSC will be the protection of investors.</i>	
Specific initiatives in support of this priority:	Status
<p>1. Build confidence in the investment process by ensuring that investors be provided with information that is timely, clear and useful. Better information, not just more information, will help investors make better choices.</p> <p>i. Research the pros and cons of imposing a fiduciary duty on financial advisors and identify what problems we think that introducing statutory fiduciary duty would resolve. At the same time, we will continue to identify specific standards against which advisors' conduct can be measured.</p> <p>ii. Work with the CSA, IIROC and the MFDA to develop harmonized standards for cost disclosure and performance reporting to investors. The proposed rules will apply to all dealers and advisors in relation to all securities and investment products they sell and will, if adopted, improve the account reporting clients currently receive. We expect that the proposed rules will address many of the securities-industry related recommendations of the recent Financial Literacy Task</p>	<p>The interests of investors are at the core of everything that the OSC does. The OSC alerted investors to potential harmful activity by issuing Investor Alerts / Warnings on the OSC website to warn the public about possible harmful activity in the market.</p> <p>The OSC:</p> <ul style="list-style-type: none"> - published a list of respondents on the OSC website who are delinquent in payment of Commission orders. - contributed to the Disciplined Persons List on the CSA website which includes information about individuals sanctioned by the OSC, other Canadian securities commissions and self-regulatory organizations. - contributed to the Cease Trade Order Database on the CSA website which includes information about individuals and companies against whom cease trade orders have been issued by the OSC and other Canadian securities commissions. <p>In fiscal 2011-12, the OSC conducted research on the pros and cons of imposing a statutory fiduciary duty on advisers and dealers in Ontario and identified the issues that would be addressed by the introduction of a fiduciary duty. This research included an analysis of fiduciary related policy initiatives undertaken by certain international regulators. Following consultations with other members of the CSA, the OSC plans to finalize and publish for stakeholder consultation a briefing paper discussing the benefits and concerns of introducing a fiduciary standard for advisers and dealers.</p> <p>In June 2011, the OSC along with the CSA, published a proposal to require cost disclosure and performance reporting to investors by dealers and advisers that would dramatically change the account reporting many investors currently receive. Extensive public comments were received and considered and OSC staff consulted with industry associations, the Investor Advisory Panel (IAP) and with other experts.</p> <p>The OSC conducted direct-to-investor research through use of on-line surveys to guide rule-making around account reporting practices for exempt market securities and certain securities held in client name.</p> <p>The OSC along with the CSA will publish revised amendments to reflect cost disclosure and performance reporting proposals in the National Instrument (NI) 31-103 <i>Registration requirements and exemptions</i> for a second comment period in June 2012.</p>

<p>Force Report (December 2010).</p> <p>iii. Continue to implement the point of sale (POS) initiative and consider expanding POS delivery to other types of publicly offered investment fund products. (As work on the POS initiative continues, the OSC will monitor its impact on price competition in mutual funds.)</p>	<p>The CSA Point of Sale (POS) project is a continuation of the project begun by securities and insurance regulators to provide investors with more meaningful and effective disclosure. OSC staff along with the CSA is implementing the POS initiative in stages.</p> <p>Stage 1 was completed in January 2011 when amendments to NI 81-101 <i>Mutual Fund Prospectus Disclosure</i> came into force to require mutual funds to produce and file a summary disclosure document, called Fund Facts, make it available on the mutual fund's or mutual fund manager's website, and deliver or send it to investors free of charge upon request.</p> <p>The Stage 2 proposals were published in August 2011, and would require delivery of the fund facts to satisfy the current prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund. The CSA anticipate re-publishing the Stage 2 proposals for a second comment period in Summer 2012. The changes primarily focus on the presentation of risk in the fund facts in response to stakeholder feedback, particularly investor advocates. Concurrently with the publication, the CSA will test the proposed changes to the fund facts with investors.</p> <p>In November 2011, the OSC along with the CSA, published for second comment proposed amendments to NI 41-101 <i>General Prospectus Requirements</i> which introduce a new prospectus form specifically tailored for scholarship plans. This is an important investor-focused initiative intended to help investors understand the unique features and complexities of scholarship plans. Central to the new prospectus form is the Plan Summary document. It is written in plain language, will generally be no more than four pages, and highlights the potential benefits, risks and costs of investing in a scholarship plan. To make the Plan Summary easily accessible for investors, it is required to be bound separately from, and placed in front of, the rest of the prospectus.</p>
<p>2. Work with the Ontario Government to explore a mechanism by which the OSC could award compensation to Ontario investors who suffer losses because of violations of the <i>Securities Act</i> (Ontario).</p>	<p>In March 2012, the OSC and the IIROC received confirmation from the Superior Court of Justice of Ontario – Commercial List that their proposed plan to distribute settlement funds to eligible investors who purchased third-party ABCP is not prohibited by an earlier court order. These funds will be distributed to eligible investors who purchased third-party ABCP from CIBC, HSBC, Scotia Capital Inc., Canaccord Financial Ltd. and Credential Securities Inc. E&Y has been appointed to administer the distribution of these funds. Distribution is scheduled to take place in September 2012, after the allocation has been determined.</p> <p>Staff continue to work on methods to allocate funds collected to victims of securities violations in appropriate circumstances.</p>
<p>3. Increase efforts to gather views of investors by conducting town hall meetings and investor round tables.</p>	<p>The OSC hosted OSC Dialogue 2011, a conference featuring sessions with securities regulators and industry participants. The agenda for the conference included two panel discussions dealing with regulation in the retail investor context. Members of the OSC's IAP participated on both</p>

	<p>panels and representatives of investor organizations attended the event and participated in the audience discussion.</p> <p>In connection with the CSA publication of CSA Staff Consultation Note 45-401 <i>Review of Minimum Amount and Accredited Investor Exemptions</i>, OSC staff sought the input of investors, issuers, dealers and legal and other advisors, through four public consultation sessions. These sessions were attended by approximately 200 individuals.</p> <p>In connection with the proposed NI 51-103 <i>Ongoing Governance and Disclosure Requirements for Venture Issuers</i>, OSC staff held two consultation sessions, attended by over 100 individuals.</p>
4. Simplify its communication with retail investors by using a variety of tools, including social media and focus groups.	<p>Social media continues to be a key platform for the dissemination of OSC investor-focused information. The OSC maintains a robust presence through its Twitter account, using it to communicate investor warning list postings and investor-related regulatory developments. The OSC Twitter account is also used to promote OSC seminars and events and to communicate on other regulatory highlights. In fiscal 2011-12, the OSC expanded its social media presence by creating a Facebook page, as an additional distribution channel for investor-related services, such as the online tip form, check registration tool, investor alerts and other resources.</p>
5. Continue to focus on issues relevant to investors who own securities (shareholder rights)	<p>OSC staff reviewed responses received in connection with the publication of OSC Staff Notice 54-701 <i>Regulatory Developments Regarding Shareholder Democracy Issues</i> and are currently drafting a CSA mandate to review the proxy voting system, including undertaking a technical audit of the system to identify potential problems and possible solutions. As well, staff continue to have discussions with the TSX about their proposed changes to the TSX Company Manual to address the adoption of majority voting standards through a disclosure requirement.</p> <p>The OSC along with certain CSA jurisdictions, published CSA Multilateral Staff Notice 51-336 <i>Issuers Using Mass Advertising</i> to address concerns with using promotional television, radio, internet, social media or print advertising in an apparent effort to promote interest in their securities.</p>
6. Continue to support investor education through the use of monies received through enforcement proceedings to support the Investor Education Fund.	<p>The OSC allocated \$4.42 million from designated settlements to the Investor Education Fund during fiscal 2011-12.</p>
Priority 2: Intensify Operational, Compliance and Enforcement Efforts to Promote Confidence in the Markets	
Specific initiatives in support of this priority:	Status
1. Focus compliance efforts on higher risk areas and potential abusive practices affecting investors.	<p>OSC staff continued to pursue integrated compliance-enforcement proceedings to deliver efficient regulatory action, reduce investor harm and modify market behaviour. The OSC goal is to proactively identify,</p>

investigate and prosecute potentially high risk areas of Ontario's capital markets. Accomplishments related to this objective are summarized below:

OSC staff completed a review of Ontario reporting issuers that have significant business operations in emerging markets. In March 2012, the OSC published OSC Staff Notice 51-719 *Emerging Markets Issuer Review*, which reported staff's main observations and recommendations from this review. Further work on this initiative has been identified as a fiscal 2012-13 priority.

To address concerns regarding an issuer's financial condition and the sufficiency of proceeds in the context of a prospectus offering proactively, the OSC along with the CSA, published CSA Staff Notice 41-307 *Concerns regarding an issuer's financial condition and sufficiency of proceeds from a prospectus offering* in March 2012. The guidance applies to issuers that have short-term liquidity concerns and/or offerings that do not appear to be raising sufficient proceeds.

OSC staff conducted compliance reviews of registrants in Ontario identified as high risk through a risk assessment questionnaire. Staff, in co-ordination with other provincial regulators, also conducted reviews of high risk registrants with head offices outside Ontario.

The OSC along with the CSA, published CSA Staff Notice 31-325 *Marketing Practices of Portfolio Managers* which provides guidance to portfolio managers and other registrants on the preparation, review and use of marketing materials.

OSC staff completed a review of all Foreign Bank Representative Offices operating in Ontario to determine if they were conducting registerable activities. Staff are following up on issues identified.

The OSC along with the CSA, published CSA Staff Notice 31-326 *Outside Business Activities*. The notice reminded registrants of their obligation to ensure outside business activities do not impair or impede the performance of their regulatory obligations, including compliance with the conflicts of interest provisions under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

In January 2012, to help educate investors about the costs associated with their investments and the risks of leverage investing, the OSC published an article on the risks of leveraged investing and the costs of investing.

<p>2. Strengthen the risk and results-based focus of its compliance work through better use of data and the refinement of risk assessment techniques.</p>	<p>OSC staff sent an on-line risk assessment questionnaire to approximately 1,000 registrants in all categories of registration. This allowed staff to gather detailed information about registrants which will be used to focus resources on the higher risk registrants and the riskiest areas of their businesses.</p> <p>OSC staff conducted compliance reviews of all scholarship plan dealers registered solely in this category of registration.</p> <p>OSC staff undertook a review of a sample of investment funds which make regular distributions to investors, focusing on the distribution policy and the fund manager's decision-making process on the amount and the form of the distributions to determine whether the distributions being made are consistent with the funds' stated focus to provide investors with a regular income stream. Staff conducted a targeted review of the risk ratings in the fund facts of mutual funds to determine if the risk levels were consistent with the risk classification methodology disclosed in the mutual fund's simplified prospectus. The results of these focused reviews were communicated in the Investment Funds Practitioner, an on-line newsletter published by the Investment Funds Branch.</p> <p>OSC staff completed a targeted review of investment funds evaluating compliance with the portfolio disclosure requirements relating to a fund's statement of investment portfolio, management reports of fund performance and fund facts. Staff plan to publish observations and guidance arising out of this review by Summer 2012.</p>
<p>3. Identify through compliance efforts registrants and issuers whose operations or structures may pose risks to retail investors.</p>	<p>OSC staff completed a comprehensive review of a number of foreign-based issuers. As a result, a number of emerging market referrals were made to Enforcement for further investigation.</p> <p>As a direct result of the oversight activities of the Compliance and Registrant Regulation branch, 78 firms were suspended, surrendered their firm registration, referred to enforcement or had terms and conditions imposed on their registration. Types of terms and conditions included, among other things, (i) the replacement of the Ultimate Designated Person or Chief Compliance Officer; (ii) the hiring of compliance advisory firms to help strengthen compliance structures; (iii) the suspension of redemptions and ultimate wind-up of an investment fund; (iv) the repayment of related party loans; and (v) monthly filing of financial information.</p>
<p>4. Strive to modify market behaviour by using the full set of regulatory tools available to act against those who engage in activities adverse to investors' interests or to market integrity.</p>	<p>The Compliance and Registrant Regulation branch recommended that terms and conditions be imposed on 228 individuals due to detrimental financial circumstances, competency or integrity issues, or outside business activities that posed a conflict of interest or undue influence over clients. Of those, terms and conditions were imposed on 182 individuals. The remaining applications were either abandoned (precluding the individual from carrying on business) or the issues were resolved without terms and conditions.</p> <p>The Director was involved in 18 opportunities to be heard (OTBH)</p>

	<p>proceedings. These resulted in the suspension of six firms and eight individuals, and refusal of registration to one firm and three individuals because of integrity, solvency or competency concerns.</p> <p>During 2011-12, Enforcement assessed a total of 210 matters for evidence of potential breaches of which 21 were transferred for further investigation. A total of 39 investigations were completed of which 29 were transferred for litigation. During the course of these investigations, the Commission issued 10 temporary cease trade orders against 45 respondents. A total of 24 proceedings were commenced before the Commission, involving 103 respondents.</p> <p>Enforcement staff continue to be committed to making more use of the OSC's authority to pursue cases before the Courts. During the fiscal year, five proceedings were commenced before the Courts involving a total of six defendants. As at March 31, 2012, 117 open cases were under assessment, 28 cases were under active investigation and 63 files were in litigation.</p> <p>A total of 39 adjudicative proceedings were concluded involving a total of 125 respondents. These proceedings resulted in administrative penalties, disgorgement orders and settlement amounts totalling almost \$39 million and included 110 cease trade orders, 81 director and officer bans and 50 registration restrictions. Staff refer all outstanding settlement and penalty amounts to a collection process (private or government) based on the individual circumstances of each case and each respondent. In addition, 9 quasi-criminal proceedings involving 14 defendants were concluded. Further information on Enforcement results is contained in the OSC 2011 Enforcement Activity Report.</p>
<p>5. Strive to reduce timelines for completing investigations and bringing regulatory proceedings forward.</p>	<p>Enforcement staff continue to review internal and external processes to streamline referrals to Enforcement. Strategic analysis prior to opening files has ensured that only substantive matters likely to result in proceedings are transferred from the Case Assessment team to the investigative teams. The Case Assessment team is actively pursuing its objective of taking appropriate cases to a proceeding directly.</p> <p>The timeline from file opening to the issuance of the Notice of Hearing dropped to an average of 20.6 months in 2011-12 from an average of 21.8 months in 2010-11.</p> <p>Staff engaged the public on new enforcement initiatives aimed at resolving enforcement matters more quickly and effectively. Staff are reviewing the public comments received on these proposals.</p>
<p>6. Improve the timeliness of adjudicative processes.</p>	<p>The pilot Litigation Assistance Program ("LAP") was successfully launched on October 17, 2011. Since its inauguration, the LAP has received 24 respondent applications of which 11 were provided with volunteer legal counsel appearing in enforcement proceedings before the Commission. This has contributed to more timely and efficient resolution of matters involving self-represented respondents. The Office of the Secretary is currently engaged in discussions with LAP counsel and Enforcement staff regarding proposals to expand the programme.</p>

	<p>The tribunal sat for a total of 280 sitting days in fiscal 2011-12, an increase of 3% over fiscal 2010-11. In Q4, as part of the Secretary's transparency initiatives, the Adjudicative Committee approved <i>Practice Guideline: Use and Disclosure of Personal Information in Ontario Securities Commission's Adjudicative Proceedings</i> and the Office of the Secretary completed the <i>Notice on Publication of the Ontario Securities Commission's Adjudicative Orders, Rulings and decisions</i>, both of which will be published in Q1 of fiscal 2013.</p>
<p>7. Publicize the successful implementation of IFRS in our capital markets, specifically focusing compliance efforts on affected capital market participants.</p>	<p>OSC staff took a proactive approach to the transition of reporting issuers to IFRS. Staff monitored the IFRS transition of issuers by reviewing their first IFRS interim financial reports and conducted several outreach efforts in preparing issuers for IFRS transition. This outreach was intended to help issuers and their advisors become familiar with the OSC rule changes and revisions to their filing requirements, so that they can provide better overall financial disclosure to investors. Staff hosted several in-house seminars for issuers and their advisors, presented at various speaking engagements and published five IFRS releases on the OSC website to communicate its IFRS filing expectations and to provide useful tips to issuers.</p> <p>The OSC along with the CSA, published CSA Staff Notice 81-320 (Revised) – <i>Update on International Financial Reporting Standards for Investment Funds</i> to update the industry on the deferral of the IFRS mandatory changeover date for investment funds in Canada to January 1, 2014. The OSC continues to monitor the International Accounting Standards Board's proposed exemption from consolidation for investment entities, and expects the adoption of IFRS by investment funds in Canada once that exemption is in place.</p> <p>The OSC published OSC Staff Notice 52-720 <i>Office of the Chief Accountant – Financial Reporting Bulletin</i> to communicate the results of specific IFRS areas of focus and the success of those activities during 2011.</p> <p>The OSC along with the CSA, published CSA Staff Notice 52-306 (Revised) – <i>Non-GAAP Financial Measures and Additional GAAP Measures</i> to provide additional information on Staff's expectations for disclosures of additional GAAP measures presented under IFRS. The notice describes practices that help issuers and certifying officers address their obligation to ensure that the information they provide to the public is not misleading.</p>
<p>8. Improve communication and collaboration among domestic and international enforcement agencies.</p>	<p>The OSC recognizes the importance of co-operating with its regulatory counterparts nationally and internationally. In fulfilling its mandate, the OSC works to ensure that Ontario's capital markets and financial services regulatory system are nationally harmonized, internationally coordinated and globally competitive. The OSC has entered into a number of memoranda of understanding (MOUs) with regulators in other jurisdictions. During the year, the OSC entered into the following MOUs:</p> <ul style="list-style-type: none"> - between the OSC and the European Securities and Markets

	<p>Authority (ESMA) on the Cooperation of Competent Authorities for the Supervision of the Credit Rating Agencies.</p> <ul style="list-style-type: none"> - between the OSC, the AMF, the ASC and the BCSC with the Australian Securities and Investments Commission to facilitate the supervision of regulated entities operating both in Australia and Canada - between the OSC and Financial Industry Regulatory Authority, Inc. to facilitate the exchange of information with respect to regulated entities that operate across the US-Canadian border. <p>In addition to above, the OSC along with the CSA released the 2011 Enforcement Report that outlines how Canadian securities regulators are actively working to protect investors and prevent abusive conduct in the marketplace. Key highlights of the report include proactive measures taken by CSA members, such as using protective orders and communicating with investors, to prevent harm.</p> <p>The Enforcement branch continues to work proactively with other regulators and law enforcement agencies and share information. During this fiscal year, staff completed 17,700 information requests for Canadian regulators, foreign regulators and law enforcement agencies as well as 54,075 requests for other OSC branches. In addition staff received 55 requests for assistance from domestic and international regulators and agencies.</p>
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Priority 3: Modernize our Regulatory Systems and Approaches
- Respond to emerging issues and trends in product development, distribution models, trading programs and market structures; and
- Monitor developments among international regulators while adapting their principles and programs as needed for Ontario and Canadian markets.

Specific initiatives in support of this priority:	Status
<p>1. Re-assessing current regulatory approaches to determine any changes necessary to improve fairness and protection for investors.</p>	<p>The OSC continued to re-assess current regulatory approaches in order to protect the interests of investors and foster their confidence in the fairness and integrity of the capital markets. The accomplishments relating to this objective are summarized below.</p> <p>In July 2011, the OSC along with the CSA, published proposed NI 51-103 <i>Ongoing Governance and Disclosure Requirements for Venture Issuers</i> for comment. The comment period closed in October 2011. OSC staff along with the CSA are currently working on the responses received. During the year, staff have been actively soliciting the views of venture market participants so that the impact of the changes can be properly assessed. Staff held two consultations sessions on the Proposed Instrument which were attended by over 100 participants including executive officers of venture issuers and their advisors, directors (including audit committee members of venture issuers) as well as investors and investor advocacy groups.</p>

In January 2012, the OSC along with the CSA published, NI 25-101 *Designated Rating Organizations* (NI 25-101). NI 25-101 came into force in April 2012 and establishes a regulatory framework for the oversight of credit rating organizations by requiring them to apply to become a "designated rating organization" and adhere to rules concerning conflicts of interest, governance, conduct, a compliance function and required filings. The ESMA publicly announced that it considered the credit rating agency rule, NI 25-101, to be "as stringent as" the EU Regulation. Initial designation orders were granted in April 2012 in keeping with ESMA timelines.

The OSC along with the CSA, published CSA Staff Consultation Note 45-401 *Review of Minimum Amount and Accredited Investor Exemptions* in November 2011 (the Consultation Note). The Consultation Note seeks feedback from stakeholders on the accredited investor exemption and the \$150,000 minimum amount exemption. The comment period was open until February 2012. Staff actively sought the input of stakeholders, including investors, issuers, dealers and legal and other advisors, through four public consultation sessions attended by approximately 200 individuals.

Proposed new securitized products rules were issued for comment in April 2011 with a comment period that ended in August 2011. These proposals included changes to prospectus, continuous disclosure and exempt market rules relating to the offering of securitized products. OSC staff along with the CSA continue to review the comments received and expect to re-publish the securitized products rules for a second comment period by the end of calendar 2012. Staff continue to monitor international regulatory developments for securitized products and continue to consult with other regulators.

The OSC completed a review of current rules and worked to advance consideration of recommended changes to the *Securities Act* (Ontario) designed to enhance the OSC's ability to monitor and oversee the conduct of registrants and market participants.

Amendments were made to NI 31-103 to ensure that certain breaches of SRO rules would constitute breaches of the Act.

The OSC continues to consider the registration of foreign broker-dealers in the exempt market dealer category and consult with various external stakeholders. The OSC is working with IIROC on this joint initiative to develop appropriate regulatory outcomes and oversight for these firms (CSA Notice 31-227 *Broker-Dealer Registration in the Exempt Market Category*).

The OSC published OSC Staff Notice 33-735 *Sale of Exempt Securities to Non-accredited Investors* to alert industry to concerns that some issuers and registrants are selling exempt securities to individual investors who do not meet the definition of an accredited investor.

	<p>The framework for dark liquidity in Canada was finalized in April 2012 and will be implemented in October 2012.</p> <p>A framework for electronic trading in Canada was published for comment in April 2011. Staff have considered changes that are necessary as a result of the comments received and intend to publish the amendments in final form by Summer 2012.</p> <p>In March 2012, the OSC made amendments to NI 21-101 and NI 23-101 that modernize and streamline the regulatory framework applicable to exchanges and alternative trading systems. The amendments will be in place on July 1, 2012.</p> <p>In February 2012, the OSC along with the CSA published final amendments to NI 81-102 <i>Mutual Funds</i> and NI 81-106 <i>Investment Fund Continuous Disclosure</i>, completing Phase 1 of the CSA’s initiative to modernize investment fund product regulation. Phase 1 updates the operational rules for mutual funds to keep pace with market and product developments, particularly exchange-traded funds (ETFs), and introduces new liquidity requirements and term restrictions to strengthen money market funds.</p> <p>Phase 2, now underway, will assess whether there are any investor protection, market efficiency and fairness issues that arise out of the differing regulatory regimes that apply to different types of investment funds. Specifically, the OSC with members of the CSA expect to introduce certain key restrictions and operational requirements for non-redeemable investment funds (also referred to as “closed-end funds”), similar to existing requirements for mutual funds.</p> <p>The OSC continues to work with OBSI, SROs and industry participants to improve OBSI’s complaint handling and to find solutions that will ensure an effective and sustainable ombudservice for investors.</p>
<p>2. Continuing to develop regulatory approaches focussed on risk-based tools and measurable results.</p>	<p>The OSC continues to use risk based approaches in compliance review programs for issuers, registrant and investment funds. In particular, the OSC adjusted the risk based reporting issuer selection criteria to reflect recent concerns regarding emerging markets and first time IFRS filings. The front line registration function has been streamlined using the risk-based approach.</p> <p>To improve the efficiency of the investigative processes the OSC has upgraded its specialized software and analysis tools. As well, planned enhancements to the tools used to conduct trading reviews are underway.</p>
<p>3. Focusing on systemic risk with greater participation in the international arena and more interaction with other Canadian financial services regulators in Canada, such as OSFI and the Bank of Canada.</p>	<p>The CSA Systemic Risk committee held quarterly inter-agency calls to discuss financial stability issues with representatives from the Bank of Canada, OSFI and Federal Department of Finance. The aim of the calls is to promote staff-level dialogue among the various agencies. The focus of the discussions included domestic and international developments relating to money market funds, risk retention for asset-backed securities, and other aspects of market-based financing or shadow</p>

	<p>banking.</p> <p>The OSC participated with the Bank of Canada, OSFI and Federal Department of Finance in a Financial Stability Board (FSB) peer review of the Canadian financial system. In February, 2012, the FSB tabled a positive report on Canada's handling of the financial crisis and its compliance with international standards.</p>
<p>4. Continuing to work with international regulators to develop an international regulatory agenda that works for Canada.</p>	<p>The OSC consults and collaborates with international regulators through its membership and participation in international organizations that work to improve the regulation of financial markets throughout the world. These organizations include the International Organization of Securities Commissions (IOSCO), the International Joint Forum, the North American Securities Administrators Association (NASAA) and the Council of Securities Regulators of the Americas (COSRA). During the year, the OSC worked on the following:</p> <p>Small and Medium-Sized Entities (SME) mandate – The OSC is leading a new project for the COSRA to facilitate capital formation for small, medium enterprises in the Americas. This initiative complements OSC/CSA initiatives relating to proportionate regulation and review of exemptions.</p> <p>Credit Rating Agencies - In co-operation with the CSA, the OSC is developing a regulatory oversight framework for credit rating agencies in Canada that is based on the IOSCO Code.</p> <p>Investment management - IOSCO Standing Committee 5(SC5) published several papers, including a consultation paper on ETF regulatory principles and a consultation paper on money market fund systemic risk and reform options. Through its participation on IOSCO SC5, the OSC actively monitors ongoing global regulatory developments that impact investment funds and considers whether there is a need for similar requirements in Canada.</p> <p>Market Structure – The OSC participated in the drafting of a paper by the IOSCO Technical Committee relating to the implications of technological developments on market quality and market integrity.</p> <p>Derivatives – The OSC co-chaired the IOSCO Task Force on Derivatives. OSC staff drafted a policy paper on the regulation of Derivatives Market Intermediaries that is being finalised amongst Task Force Members. The OSC represented IOSCO on the FSB Legal Entity Identifier (LEI) Expert subgroups who are examining the issues relating to implementing a LEI project for all OTC derivatives internationally. The OSC participated in drafting review of IOSCO Task Force on OTC Derivatives – Report on Mandatory Clearing.</p>
<p>5. Implement a regulatory framework for OTC derivatives including new rules specifically designed to implement the G20 commitments. The framework should bring OTC</p>	<p>The OSC continues to work on the creation of a regime to regulate OTC derivatives participants in Ontario. The OSC is a major contributor to the CSA Derivatives Committee that is releasing a series of policy papers on issues relating to derivatives regulation in Canada.</p>

<p>derivatives within the scope of existing insider-trading offences.</p>	<ul style="list-style-type: none"> - a consultation paper on Trade Repositories was released by the CSA Committee In June 2011 - a consultation paper on Surveillance and Enforcement was released in November 2011 - a consultation paper on Segregation and Portability in OTC Derivatives Clearing was released in February 2012 - work is underway on drafting of rules re: trade reporting and trade repositories for OTC derivatives
<p>6. Develop rules to provide non-exempt investors with a risk disclosure document.</p>	<p>Under the CSA POS project, mutual funds are now required to produce and file a fund facts, make it available on the mutual fund's or mutual fund manager's website, and send it to investors free of charge upon request (please refer to Priority 1.1.iii for a description of the CSA POS project). The CSA is currently considering mandating a CSA risk classification methodology to identify a mutual fund's risk level on the scale prescribed in the fund facts.</p>
<p>7. Review and develop an appropriate regulatory approach, through recognition or exemption, for OTC derivative clearing houses operating in Ontario.</p>	<p>The OSC granted a number of interim exemption orders for clearing houses operating in Ontario (for example, LCH Clearent, Options Clearing Corp. and CME Clearing Europe).</p>
<p>Priority 4: Pursue a Coordinated Approach to Securities Regulation</p>	
<p>Specific initiatives in support of this priority:</p>	<p>Status</p>
<p>1. By supporting the development of a Canadian Securities Regulator.</p>	<p>The OSC provided assistance and seconded personnel to the Canadian Securities Transition Office to assist with implementation of the next steps in the office's transition plan. The OSC will continue to provide support to the Ontario Government, as required, in its consideration of any proposed cooperative approach to the regulation of the capital markets nationally. The OSC's primary focus will continue to be regulating the capital markets in Ontario in an efficient and effective basis.</p>
<p>2. By collaborating in the harmonization and modernization of regulation in Canada through the CSA while representing the interests of Ontario investors.</p>	<p>The OSC continued to work with its CSA colleagues on various rules, notices and other matters having national implications. The CSA continues to explore options for working together on regulatory matters. Some of the highlights are as follows:</p> <p>The OSC along with the CSA published for comment proposed amendments to the prospectus rules in July 2011. Staff have prepared the summary of comments and responses to comments received and are currently revising the proposed amendments and the draft CSA Notice.</p> <p>The OSC along with the CSA, published for comment the proposed pre-marketing and marketing amendments to the prospectus rules in November 2011. Staff have prepared a summary of the comments and along with the CSA project committee are considering and preparing the responses to the comments received.</p> <p>The OSC worked with a CSA staff committee to ensure the harmonized operational regime for registrants (NI 31-103) and ensure that requirements are consistently applied across Canada.</p>

	<p>In February 2012, the OSC published for comment Multilateral Instrument 32-102 <i>Registration Exemptions for Non-Resident Investment Managers</i> respecting proposed registration exemptions for non-resident investment fund managers.</p> <p>The OSC hosted the annual 2-day CSA compliance conference that brought together counterparts from CSA jurisdictions to advance the effectiveness and consistency of our collective registrant oversight.</p>
<p>Priority 5: Demonstrate Accountability for its Performance as a Leading Securities Regulator in Canada by:</p> <ul style="list-style-type: none"> - <i>Identifying specific outcomes and related rationale;</i> - <i>Developing clear reporting on its progress in achieving the results the OSC will pursue; and</i> - <i>Prudently managing its limited resources.</i> 	
<p>Specific initiatives in support of this priority:</p>	<p>Status</p>
<p>1. Communicate its agenda and the results it expects to achieve more clearly.</p>	<p>In February 2012, the OSC released a new three-year Strategic Plan, outlining the actions the organization expects to take in developing the agility, expertise and capacity necessary to keep pace with today’s complex and dynamic capital markets. The Plan highlights six key strategies and includes a commitment to more clearly articulate OSC goals and implement key performance indicators to measure related organizational performance. The Plan will position the OSC as a leading and modern, efficient and effective regulatory agency.</p> <p>Implementation plans were drafted for these initiatives and work started to execute the plans to establish the Office of the Investor, improve policy coordination and expand the use of the research and analysis within the OSC. Formal plans for improving internal processes and enhancing IT support for all of the OSC’s operations were also developed.</p> <p>The 2011 OSC Annual Report Chair’s Message articulated organizational priorities, particularly in the area of Enforcement, including a commitment to bring more proceedings before the Ontario Court of Justice. A progress update on this initiative, as well as other Enforcement priorities, was provided in the February 24 news release, “OSC Reports on Enforcement Activity in 2011.”</p> <p>The OSC’s Investment Funds Branch continued to publish the Investment Funds Practitioner, an on-line newsletter intended to make investment fund issuers and their advisers more broadly aware of some of the issues raised in connection with staff reviews of prospectuses, exemptive relief applications and continuous disclosure documents filed with the OSC and how the issues were resolved. Staff notices and branch reports were used to provide guidance and communicate OSC staff expectations to stakeholders.</p>
<p>2. Improve its visibility by being more externally focused in its actions and communications.</p>	<p>The OSC is committed to a program of more proactive external communications on key organizational initiatives and developments. In Fall 2011, the OSC brought back its annual stakeholder conference, OSC Dialogue, hosting a day of panel discussions. The event was</p>

attended by over 300 industry and investor representatives.

OSC executives and senior managers, including the Chair, Executive Director and Vice-Chairs, speak regularly at external events and conferences hosted by a broad range of organizations and associations. To increase its visibility, staff from across the OSC participated in various external committees and advisory panel meetings. The OSC has expanded its program of communication through news releases and other direct channels, increasing its focus on communicating around Enforcement and policy activity.

During the year, the OSC reinstated the Enforcement Consultation Committee comprising members of the respondents' bar, the accounting profession and representatives of large shareholders, including a pension fund and the Canadian Coalition for Good Governance to discuss what is working effectively and what can be improved. This face to face dialogue increases accountability and improves our approach.

OSC staff presented at several TSX and TSX Venture Exchange workshops, including the environmental and social workshop, the corporate governance workshop and a workshop titled "Managing a Public Company." Staff hosted several in-house seminars on IFRS transition for reporting issuers and technical and environmental disclosures for mining issuers. Throughout the year, staff participated in several external speaking engagements on IFRS transition, mining technical disclosures, environmental disclosures, and corporate governance.

In the Fall 2011, the OSC created the Market Structure Advisory Committee (MSAC) to serve as a forum to discuss issues associated with market structure and marketplace operations. The committee also acts as a source of feedback on the development of policy and rule-making initiatives.

The OSC established the Investment Funds Product Advisory Committee (IFPAC) to advise the Investment Funds Branch on emerging product developments and innovations in the investment fund industry. IFPAC members assist staff in identifying and anticipating market and product trends and also provide industry perspective on the impact of these developments and emerging issues.

The OSC published OSC Staff Notice 34-701 *Publication of Decisions of the Director on Registration Matters* which communicated the approach to publish the decisions of the Director in registration matters. Previously, only decisions for contested OTBHs were published, but under this new approach, decisions approving joint recommendations to settle an OTBH and decisions where an OTBH has not been requested will also be published. The increased transparency of these types of decisions enhances investor protection by communicating important information regarding registrant conduct to the public in a timely manner.

	<p>The OSC presented a proposal to the Institute of Chartered Accountants (ICAO) seeking approval to be a CA Training Office (CATO). The OSC was approved, and staff have since hired two university graduates who will undergo a 3-year training program to become chartered accountants. OSC accountants from several branches have participated in ICAO, University of Toronto, and Schulich School of Business CATO events to create awareness of the new OSC program. OSC staff launched a new summer student program for accountants, hiring four students. These summer students will be eligible in future years to apply for the OSC's CATO program.</p>
<p>3. Increase its reliance on data and facts when developing policy and operational solutions to achieve measurable results that clearly support its actions.</p>	<p>A number of initiatives were undertaken that increased the availability of data and facts to support OSC operational and policy initiatives. These included:</p> <ul style="list-style-type: none"> - identifying, evaluating and gaining access to commercial data sources that facilitate greater efficiency in OSC operations and increase our knowledge of the markets we regulate - enhanced analysis of information collected by the Corporate Finance and Investment Funds to develop summary statistics on Exempt Market activity in Ontario <p>The OSC sent a questionnaire to 50 Ontario-based portfolio managers to assess compliance with client account statement requirements. The review found that many portfolio managers are not complying with their obligations as one-third do not send statements because they rely on the custodian to do so and 30% of portfolio managers that send statements do not report security transactions on them. The OSC is concerned that a high percentage of non-compliance is arising because of an unclear requirement regarding the permissibility of relying on a custodian to issue client statements instead of the portfolio manager itself issuing client statements. Staff are working with the CSA Compliance Committee to develop a harmonized interpretation of the requirement with the goal of providing guidance for future compliance examinations and for industry.</p> <p>The OSC is participating in a CSA Compliance Committee initiative to better understand and assess the practices used by firms to deliver important relationship disclosure directly to investors. The information includes details about the type of account the investor has with a registrant, the products and services offered by the registrant, the costs to operate the account and to buy, sell and hold investments, the types of risks an investor should consider, and the conflicts of interest that the registered firm may have. Forty Ontario-based registrants were required to supply materials that were used to help determine if there are problems associated with the recently implemented rules. The CSA Compliance Committee will take a co-ordinated approach in responding to the registrants that participated in the review.</p>
<p>4. Monitor and improve the efficiency and effectiveness of its operations to provide cost-effective regulation.</p>	<p>During the year, the OSC reallocated resources to conduct the emerging market issuer review in response to concerns that investors in emerging market issuer may be exposed to inappropriate risks. The OSC also working towards collecting some regulatory data automatically (e.g.</p>

	<p>exempt distribution filings) to improve the efficiency and effectiveness of its operations.</p> <p>The OSC increased the use of warning letters in lieu of imposing terms and conditions on registered firms in instances where financial filing problems were identified but solvency concerns were not present. The OSC also used settlement agreements in lieu of conducting OTBH proceedings and published these on the OSC website and Bulletin. The OSC has begun to realize savings and efficiencies by presenting evidence in Commission proceedings in a partially electronic format.</p>
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