

Chapter 1

Notices

1.1 Notices

1.1.1 OSC Notice 11-789 Notice Statement of Priorities for Financial Year to end March 31, 2021

ONTARIO SECURITIES COMMISSION

OSC Notice 11-789 – Notice Statement of Priorities for Financial Year to end March 31, 2021

The *Securities Act* (Act) requires the Ontario Securities Commission (OSC or Commission) to deliver to the Minister of Finance and publish in its Bulletin each year a statement of the Chair setting out the proposed priorities of the Commission for its current fiscal year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities.

In the Notice published on April 30, 2020, the Commission decided not to consult on a detailed 2020-2021 Statement of Priorities (SoP) given the current and unprecedented environment and significant challenges affecting stakeholders given the outbreak of COVID-19 and the related financial market uncertainty. Instead, the OSC Business Plan for the fiscal year 2020-2021 was informed by the [2019-2020 SoP](#) published on June 27, 2019 and the initiatives as outlined in the [Reducing Regulatory Burden In Ontario's Capital Markets](#) report published on November 19, 2019. The OSC invited comment on existing OSC priorities and initiatives as outlined in the above reports.

The OSC received seven comment letters. The comments were generally supportive of the overall direction of the OSC goals and proposed priorities. Commenters supported the proposed work to address the recommendations of the Ontario Government's Capital Markets Modernization Taskforce and noted that investor protection should remain important in this work. A summary of specific comment areas is set out below:

1. Comments were mixed on the OSC proposal to address embedded commissions including suggestions to stop or pause work on the project or to just proceed to ban their use. On February 20, 2020, proposed OSC Rule 81-502 *Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds*, its related companion policy, and proposed amendments to NI 81-105 *Mutual Funds Sales Practices* was published for comment. The proposed rule would restrict the use of the Deferred Sales Charge option in the sale of mutual funds.
2. There was continued support for work to reduce regulatory burden. This is a key goal for the OSC, and we continue to believe that our markets are better able to compete, innovate and flourish with regulation that is proportionate to the regulatory objectives sought, while maintaining appropriate safeguards.
3. There was strong support for further developing and publishing OSC service standards in a transparent manner including providing expected response times at the start of each transaction to provide certainty to applicants in planning their business transactions. The OSC has committed to evaluating existing service standards and adopting new service standards for interactions with market participants, investors and general public. These will be posted on the OSC website once established.
4. Commenters expressed support and the need for action to address advisor titles and proficiency standards. The Financial Services Regulatory Authority is leading an initiative to regulate the titles of "financial advisor" and "financial planner".
5. There was continued support for the OSC Investor Office and the various initiatives underway to improve investor protection. The Investor Office will continue to address key investor protection issues including execution of the action items set out in our OSC Seniors Strategy.
6. There continues to be support for strengthening the powers of the Ombudsman for Banking Services and Investments (OBSI) as well as ideas to improve investors' access to compensation. The OSC is committed to strengthening OBSI so that both investors and firms have access to a fair, effective dispute resolution process, and that complaints are resolved in a timely fashion.
7. Several responses were received regarding improvements for the use of data and evidence-based decision-making by the OSC. Various analytical tools have been implemented that allow staff to develop the means and expertise to compile and analyze data to meet the needs of business and decision makers.

8. Shareholder democracy issues such as “say on pay” and proxy voting were identified for priority OSC action. We continue to monitor shareholder democracy activities and issues to determine whether there is a need for further action.
9. Comments related to the planned establishment of the Cooperative Capital Markets Regulatory System (CCMR) were mixed with some supporting OSC work on this initiative offset by others suggesting not to divert resources to this effort. The OSC is working collaboratively with Ontario’s Ministry of Finance, other participating provincial and territorial jurisdictions and the federal government, to further the implementation of the CCMR.

While the 2020-2021 SoP includes our highest priority areas, we will consider the other important initiatives and issues identified for inclusion by various respondents in our plan for this year. Many are already addressed within our branch business plans or will be considered for future work. The comments received on this SoP will also be considered as part of the more substantive consultation on the 2021-2022 SoP later in 2020.

The OSC remains committed to its core regulatory work but will also remain flexible given the unprecedented environment and market conditions as we respond to challenges due to COVID-19. As such, the OSC anticipates adjusting and re-aligning priorities throughout the year to accommodate changes due to the impact of the COVID-19 pandemic, as well as the outcomes of the Ontario Government’s Capital Markets Modernization Taskforce.

All comment letters received are available on our website www.osc.gov.on.ca. The SoP will serve as the guide for the Commission’s operations. Following delivery of the SoP to the Minister of Finance, we will also publish on our website a report on our progress against our 2019-2020 priorities.

[Editor’s Note: The Statement of Priorities follows on separately numbered pages. Bulletin pagination resumes at the end of the Statement of Priorities.]

2020-2021

OSC
Statement of Priorities

INTRODUCTION

OSC Statement of Priorities

We are pleased to present the OSC Chair's Statement of Priorities (SoP) for the Ontario Securities Commission for the year commencing April 1, 2020. The *Securities Act* (Ontario) requires the OSC to publish the Statement of Priorities in its Bulletin and to deliver it to the Minister by June 30 of each year. This Statement of Priorities also supports the OSC's commitment to be both effective and accountable in delivering its regulatory services.

The current unprecedented environment resulting from the COVID-19 pandemic poses significant challenges for stakeholders and has resulted in considerable economic and financial market uncertainty. Accordingly, the OSC's 2020-2021 SoP is informed by the 2019-2020 SoP with adjustments for updated progress on significant matters and the current market and regulatory environment. The OSC regulates the largest capital market in Canada and our actions have impacts for Ontario and the rest of Canada. The OSC is committed to promoting fair and efficient markets in Ontario and has identified a broad range of initiatives to improve the existing regulatory framework. We strive to anticipate problems in the market and act decisively to promote public confidence in our capital markets, protect investors, and support market integrity. We will continue to proactively identify emerging issues, trends, and risks in our capital markets.

Confidence in fair and efficient markets is a prerequisite for economic growth. Investor protection is always a top priority for the OSC. The OSC engages with investor advocacy groups to gain insights to better understand investor needs and interests.

The OSC continues to move the regulatory agenda forward, improving the way we approach our work and

engage with industry participants and other regulators to understand the issues and their concerns. The OSC interacts extensively with stakeholders through various advisory committees, roundtables and other means of consultation, to inform operational approaches and policy development.

Our significant work in the international regulatory environment will continue, taking into consideration the constraints imposed by the COVID-19 pandemic, as another key means to gain insights into emerging issues and standards that can be integrated into our policy development and oversight activities. These actions are essential to reach solutions that balance the inclusion of innovation and competition in the marketplace while maintaining appropriate investor safeguards.

The OSC works as part of the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country. The OSC is working with the Ontario government and the OSC's counterparts in other participating jurisdictions to develop a harmonized regulatory approach and seamless transition to the proposed Cooperative Capital Markets Regulatory System (CCMR).

The OSC is also a member of the Heads of Regulatory Agencies (HoA), an important federal-provincial forum for cooperation on financial sector issues. Chaired by the Bank of Canada, the HoA brings together the Department of Finance Canada, the Office of the Superintendent of Financial Institutions (OSFI) as well as the Autorité des marchés financiers, the Ontario Securities Commission, the British Columbia Securities Commission and the Alberta Securities Commission.

INTRODUCTION

Vision, Mandate and Goals

Our Vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

Our Mandate

To provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and confidence in capital markets and to contribute to the stability of the financial system and the reduction of systemic risk.

Our Organizational Goals

PROMOTE

Confidence in Ontario's Capital Markets

Promote confidence in Ontario's capital markets among market participants and investors

REDUCE

Regulatory Burden

Enhance access for businesses and financial services providers to Ontario's capital markets

FACILITATE

Financial Innovation

Cultivate an environment that supports development of innovative financial business models

Strengthen Our Organizational Foundation

People

Technology

Information

INTRODUCTION

Key Priorities

Our 2020-2021 SoP sets out the four strategic goals on which the OSC intends to focus its resources and actions in 2020-2021. It also lays out the priority initiatives that the OSC will pursue in support of each of these strategic goals, including delivering the objectives outlined in the Ontario Government's Five-Point Plan to create confidence in the capital markets in the April 2019 Ontario Budget "Protecting What Matters Most" (Five-Point Plan).

The SoP also describes the environmental factors that the OSC has considered in setting these goals and priority initiatives. It is important to note that most OSC resources are focused on delivering the core regulatory work (authorizations, reviews, compliance, enforcement and the systems and infrastructure to support that work) undertaken by the OSC to maintain high standards of regulation in Ontario's capital markets.

COVID-19 Impacts

The COVID-19 outbreak continues to have a significant impact on financial markets and economic conditions. Markets reacted significantly to the spread of the virus, the restrictions intended to contain its spread, and the significant uncertainty about future developments. Unprecedented fiscal and central bank actions are being put in place to help contain the economic and financial consequences and ensure the financial system remains resilient. In addition to posing a significant health risk in several countries, the spread of COVID-19 is expected to restrict economic activity for some time, impacting global supply chains and business confidence, likely resulting in increased bankruptcies and business failures. Firms with good credit quality are expected to be able to continue to take advantage of lower borrowing costs, but other firms, especially those in the most impacted industries, may be challenged in their ability to raise new capital or refinance existing debt.

Many investors are also facing financial hardship due to job losses or other economic impacts. While markets have recovered significantly from low points, ongoing market volatility also presents challenges for retail investors.

Recent conditions highlight the fragility of the market and how quickly sentiment and confidence can change. Effective management of the diverse range of potential issues arising from COVID-19 requires cooperation and coordination across the CSA and with other domestic authorities, to harmonize our approach for market participants on extending filing deadlines and adjusting other compliance requirements. We are also actively monitoring market operations and are working collaboratively with the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Depository for Securities Limited (CDS).

Capital Markets Modernization Task Force

As part of its 2019 Fall Economic Statement, the Ontario government announced the formation of the Capital Markets Modernization Task Force (Task Force), which began work in February 2020. The Task Force will build on the extensive burden reduction work already undertaken by the OSC. The Task Force will solicit input from stakeholders, inform the government's vision of creating a 21st century securities regulatory framework, and provide policy recommendations on areas including driving competitiveness, regulatory structure, efficient regulation and investor protection. The five members of the Task Force are: Rupert Duchesne, Wesley J. Hall, Melissa Kennedy, Cindy Tripp and Walied Soliman (Chair). The Task Force is supported by an Expert Advisory Group of 12 people, including a representative of the OSC. The mandate of the Task Force is not limited to a review of the *Securities Act* and includes broader capital market considerations. The Task Force report could result in significant changes to the *Securities Act* (potentially as early as the 2021 Spring Budget Bill) and other aspects of securities regulation.

The OSC will support the efforts of the Ministry of Finance in relation to the Task Force and the Commission anticipates adjusting priorities as needed based on the recommendations from the Task Force.

GOAL 1 – Promote Confidence in Ontario’s Capital Markets

Promote confidence in Ontario’s capital markets among market participants and investors

- Implementation of Client Focused Reforms
- Continue CSA and OSC Policy-Setting on Mutual Fund Deferred Sales Charges (DSC) and Order Execution Only (OEO) Embedded Commissions
- Improve the Retail Investor Experience and Protection
- Continue to Expand Systemic Risk Oversight
- Bring Timely and Impactful Enforcement Actions
- Enhance Economically Focused Rule-Making
- Initiate Consultation to Consider the Current Self-Regulatory Organization (SRO) Framework
- Support Transition to the Cooperative Capital Markets Regulatory System (CCMR)

GOAL 2 – Reduce Regulatory Burden

Enhance access for businesses and financial services providers to Ontario’s capital markets

- Complete Actions Identified in the OSC Burden Reduction Plan

GOAL 3 – Facilitate Financial Innovation

Cultivate an environment that supports development of innovative financial business models

- Develop and Begin Implementation of Multi-Year Plan for the Office of Economic Growth and Innovation
- Engage with Fintech and Support Innovation in Capital Markets

GOAL 4 – Strengthen Our Organizational Foundation

- Continue Re-development of CSA National Systems
- Modernize OSC Technology Platform
- Ensure Competitiveness and Clear Service Standards
- Improve Efficiency and Regulatory Responsiveness through Internal Innovation

THE ENVIRONMENT

Scan and Impact

Environmental factors influence securities regulators in their operations and regulatory oversight. There are key challenges and issues that may influence the OSC's policy agenda, its operations, and the way it uses its resources. In addition, the OSC anticipates adjusting and re-aligning priorities throughout the year to accommodate changes due to the impact of the COVID-19 pandemic, as well as the recommendations from the Task Force.

Globalization

Continuing geopolitical events could have profound impacts on financial regulation globally. The global interconnectedness of markets and mobility of capital create a strong need for harmonization and coordination of regulation.

The markets, products, and participants that the OSC regulates and oversees continue to grow, both in size and complexity. Globalization of financial markets, products and services adds another layer to these challenges. The sustained growth of cross-border activities raises challenges to regulatory supervision, highlights the value of cooperation between regulators and increases the benefit of achieving consistent standards and requirements both domestically and internationally.

The OSC works as part of the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country to facilitate business needs. Through these efforts, the OSC strives to achieve effective cross-jurisdiction regulation and gain timely insight, understanding and input into emerging regulatory issues to achieve better regulatory outcomes.

Our international involvement informs how we regulate Ontario's capital markets. The OSC continues to play an active role in international organizations such as the International Organization of Securities Commissions (IOSCO) to influence and promote changes to international standards for securities regulation and share new ideas and learnings that will benefit Ontario markets and participants.

Technology and Innovation

The pace of technological evolution and innovation creates challenges to the development and maintenance of a responsive and aligned regulatory framework. Market participants continue to expand their product and service offerings. Innovation in Fintech (technology facilitated financial services) and Regtech (technology facilitated regulatory compliance services) is a key disruptive force in the financial services industry. Complexity driven by financial innovation offers many potential benefits and risks to the market. Fintech is leveraging new technology and creating new business models such as providing new product offerings (e.g. blockchain-based crypto assets) and disrupting service channels (e.g. online advisors). Financial services firms are using technological innovation, digitalization and distributed ledger technology to reduce operational costs and improve efficiency.

The breadth and pace of innovation in the financial sector could result in gaps in regulation or become a source of non-compliance. For example, the potential applications and impacts of Artificial Intelligence (AI) are significant but are not well understood.

Growing Importance of Investor Education

As the responsibility for investing shifts to individuals, they are challenged to achieve the returns needed to finance future needs. There are wide gaps in the levels of investment experience and financial literacy among investors. Investor education has the potential to contribute to improved financial outcomes for investors and is an important component of investor protection.

The OSC is actively involved in providing investor education tools and resources to help investors achieve improved financial outcomes. The ability to achieve meaningful progress in improving financial literacy levels will be a key to strengthening investor protection. Investors with a greater level of understanding of financial concepts are better able to make informed investment decisions and avoid fraud. The OSC will seek new and innovative ways to deliver investor education and support retail investors in today's complex investing environment.

Changing Demographics and Investor Needs

Demographics are critical to understanding investor needs and are a key driver of most investor-focused issues. Different investor segments (e.g. seniors, millennials) have unique characteristics and present different challenges in terms of investment objectives and horizons. Their preferences can vary in terms of products (e.g. ETFs versus mutual funds) and service channels. Growing interest in environmental, social and governance (ESG) factors means that regulators need to consider how best to support investors in getting the information they reasonably need to make informed investment and voting decisions and encourage public companies to consider the direct and indirect effect of climate change on their businesses and disclose any related material risks. Automated financial advice is redefining the delivery of client wealth management services and the fees charged for advice.

Investor Redress

Investors can be at risk for potential losses from improper or fraudulent interactions. Regulators are seeking ways to improve investor access to redress in these types of situations. Avenues to obtain investor redress, including an effective and fair dispute resolution system, are increasingly being included as part of investor protection frameworks. To achieve better results for investors, the OSC will continue its support for the Ombudsman for Banking Services and Investments (OBSI) in its role as the independent dispute resolution service made available to investors.

Reduction of Regulatory Burden

Delivering responsive regulatory oversight includes being mindful of the impact of regulatory burden on market participants. The OSC, along with its CSA partners, has identified and is pursuing opportunities to reduce undue burden and make it easier and less costly for market participants to interface with us. In doing so, the OSC will continue to fulfill its responsibility to protect investors. The OSC is looking at ways to modernize the information provided to investors and other interactions that investors have with issuers and registrants.

Enforcement and Compliance Tools

Effective compliance and enforcement are essential to maintaining the integrity and attractiveness of our capital markets. Disruption of illegal activity and deterrence are key strategies to prevent or limit harm to investors. Our actions against firms and individuals who do not comply with the rules need to be timely and visible to achieve the desired deterrent effect and enhance public confidence in our markets.

As securities fraud and misconduct become increasingly complex, regulators must evolve their compliance and enforcement approaches and expand their tools. Technology is enabling growth in cross-border activities that can generate investor benefits through reduced friction and cost but can also be detrimental to investors by enabling cross-border fraud and misconduct that can be very difficult to address.

This creates challenges in supervision, surveillance and enforcement. Misalignment of regulatory approaches in different jurisdictions impedes cross-border supervision and enforcement efforts. Regulators will need greater access to data and more sophisticated surveillance and analysis tools to more effectively evaluate compliance with regulatory requirements and to identify misconduct.

Low Rate Environment

Even before the spread of COVID-19, global economic conditions were fragile, growth forecasts were muted, and expectations were for a “low for longer” interest rate environment. The virus has been a further knock to economic conditions resulting in previously unanticipated benchmark interest rate cuts. Interest rates are expected to remain at low levels for the foreseeable future. This will continue to encourage yield-seeking behaviour among institutional and retail investors. Regulators will need to remain vigilant about riskier products that promise greater returns and try to ensure that investors have the necessary tools to make informed decisions. Other risks to investors could include issues around disclosure of financial information and debt servicing costs as well as concerns about further growth in the level of corporate debt.

Modernize Financial Regulation

The Government of Ontario has identified initiatives to modernize the financial services regulatory framework. These policy priorities and changes in regulatory authority may impact the OSC and its operations including:

- Changes to the regulatory oversight of syndicated mortgage investments by the Financial Services Regulatory Authority (FSRA) and the OSC
- Title reform for financial planners and financial advisors
- Working with CCMR partners on the transition of the OSC to the proposed CCMR.

In addition, the Task Force will undertake measures to provide recommendations to help modernize and streamline securities regulation.

Systemic Risk and Financial Stability

The OSC works with many domestic and international regulators to monitor financial stability risks, improve market resilience, and reduce the potential risk of global systemic events. The OSC is continuing to build out a domestic derivatives framework and to operationalize the necessary compliance and oversight tools required to achieve a practical and effective regime. The OSC responds to potential risks arising from investment management activities through its work on investment funds liquidity risk and risk monitoring.

Cybersecurity Resilience

Cyber-attacks that have the potential to disrupt our markets and market participants are likely to occur. Growing dependence on digital connectivity is raising the potential for digital disruption in our financial services and capital markets and creating a strong imperative to raise awareness about cyber-attacks and to strengthen cybersecurity resilience. This is a growing challenge as more businesses, services and transactions span national and international borders. The OSC, working with other regulatory partners, has an important role to play in assessing and promoting readiness and supporting cybersecurity coordination and resilience within the financial services industry and raising awareness of cybersecurity risks.

Importance of Data

Ever-increasing market complexity is generating greater availability of, and reliance on data. The OSC is adding new tools and processes to support staff in delivering their responsibilities. Key challenges include managing growing volumes of data, obtaining access to relevant data sets, and managing information security.

The OSC is investing in information technology and infrastructure to support an integrated data management program that will improve access to information to identify trends and risks to support analysis and decision-making. This will also allow easier filings and access for market participants.

Workforce Strategy

The ability to meet the identified goals and strategic objectives is dependent upon the OSC having sufficient and appropriate resources. To meet the evolving needs, the OSC will continue to strengthen its capabilities through its people. While attracting, motivating and retaining top talent in a competitive market environment continues to be challenging, the OSC is building its capabilities and skills by recruiting staff across a range of disciplines, and by developing the skills and experience of our internal talent.

OUR GOALS

GOAL 1 – Promote Confidence in Ontario’s Capital Markets

The OSC shares the Ontario government’s commitment to making Ontario’s capital markets globally competitive and making Ontario an attractive place in North America in which to invest, grow businesses and create jobs. We will promote confidence in Ontario’s capital markets among market participants and investors by engaging and educating investors; exercising effective compliance oversight; and pursuing timely and vigorous enforcement. To achieve globally competitive, efficient and strong capital markets and a regulatory system that attracts investment from around the world will require the OSC to effectively balance the need to streamline capital-raising for businesses, with the need to protect investors from financial system risk and misconduct. Every year we design and carry out routine and targeted reviews of market participants with the objective of upholding the highest standards of disclosure and compliance through our various compliance oversight programs.

OUR KEY PRIORITIES

1.1 Implementation of Client Focused Reforms

Regulatory reforms to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to improve the client/registrator relationship were published in final form in 2019. There will be a phased transition period. Amendments relating to conflicts of interest will take effect on June 30, 2021, and the remaining changes will take effect on December 31, 2021.

Under the amendments, registrants will be required to:

- Address material conflicts of interest in the best interest of the client
- Put the client’s interest first when making a suitability determination
- Do more to clarify for clients what they should expect from registrants.

Actions will include:

- The OSC, with other CSA jurisdictions and the SROs, will work with the implementation committee to provide guidance, respond to questions and otherwise assist registrants to operationalize the amendments.

Planned Outcomes:

- Investors will benefit from registrants addressing material conflicts of interest in their best interest
- Registrants must consider specific factors when deciding whether an investment product is suitable and their recommendations “put the client’s interest first”
- Investors will receive greater clarity around the products and services they can expect from their registrants. Registrants will need to:
 - explain the potential impact on a client’s investment returns from management expense fees or other ongoing fees connected with the investment product (and the effect of compounding fees over time)
 - provide investors with more information about any restrictions on their ability to liquidate or resell an investment product
- Increased investor confidence in the industry by better aligning industry conduct with investors’ expectations, as reflected by fewer compliance review recommendations relating to information collection, inadequate know-your-product due diligence and unsuitable investments.

1.2 Continue CSA and OSC Policy Setting on Mutual Fund DSC and OEO Embedded Commissions

The OSC will work to finalize OSC policy proposals to restrict the use of mutual fund deferred sales charges (DSC). The OSC, with our CSA colleagues, will work to finalize the CSA proposal to prohibit the payment of trailing commissions when no suitability assessment determination is made on order execution only (OEO) dealer platforms.

Actions will include:

- Reviewing public comments on the OSC proposal
- Working with the CSA with a focus on transitional issues when finalizing the CSA proposal.

Planned Outcomes:

- Limiting DSC sales practices that are harmful to investors in Ontario
- Instead of embedded fees, investors are charged applicable direct fees for mutual fund trades on OEO platforms.

1.3 Improve the Retail Investor Experience and Protection

As described in the Five-Point Plan, the OSC will identify ways to improve the investor experience and investor protection. Efforts will focus on engaging stakeholders, identifying appropriate areas for improvement, and acting to make changes that will ensure that investors have a positive experience and are better informed when making investment decisions. Collectively, these efforts are intended to lead to greater investor protection and help reduce fraud. A range of initiatives will be completed in support of this priority:

Actions will include:

- Stakeholder consultations on ways to improve the investor experience
- A focus on investor education and financial literacy activities
- Continued implementation of the OSC Seniors Strategy, including consultation on the proposed regulatory framework to address issues of financial exploitation and cognitive decline among older and vulnerable investors
- Continued expansion of the use of behavioural insights in OSC policy work
- Collaboration on financial literacy initiatives with the Government of Ontario, including the Ministry of Finance, Ministry of Education, and Ministry of Seniors and Accessibility.

Planned Outcomes:

- Financial education resources and channels such as GetSmarterAboutMoney.ca continue to be used by large numbers of investors and seen as a leading in Canada and internationally
- Regulatory framework to address issues of financial exploitation and cognitive decline among older and vulnerable investors published for comment
- Timely and responsive investor research conducted and published
- Effectiveness of OSC policies and programs improved through integration of behavioural insights.

1.4 Continue to Expand Systemic Risk Oversight

The OSC will continue to build its regulatory framework for systemic risk oversight through various policy and operational initiatives.

Actions will include:

- Subject to Ministry pre-approval, publish amendments to the Business Conduct Rule, limiting the scope of the rule and outlining jurisdictions that will be granted equivalency

- Work with CSA on the next version of the proposed Derivatives Dealer Registration Rule
- Establish a monitoring regime for data relevant to the applicability of a proposed Margin Rule for uncleared derivatives to Ontario entities
- Propose amendments to the Trade Reporting Rule with respect to internationally adopted data standards
- In coordination with other IOSCO members, design and implement enhanced data collection to monitor vulnerabilities associated with the use of leverage in the asset management industry
- Subject to Ministry pre-approval, publish a revised version of the Clearing Rule and Companion Policy, for comment
- Working with other provincial and federal agencies, including through the HoA, to enhance the identification of financial system vulnerabilities and promote financial system resilience.

1.4.1 Conduct Compliance Reviews of Over-the-Counter (OTC) Derivatives Rules (Trade Reporting, Clearing, Segregation & Portability)

Improve quality of trade reports to enhance ability to meet systemic risk monitoring and enforcement assistance objectives.

Actions will include:

- Develop compliance review program for the Clearing Rule
- Create data quality reports to inform decisions as to which reporting counterparties should be reviewed
- Conduct ad hoc compliance reviews on issues as they become present in the data.

1.4.2 Enhanced data analytics to support Systemic Risk Oversight

Design and implement a framework for analyzing OTC derivatives data for systemic risk oversight and market conduct purposes including development of analytical tools and the creation of snapshot descriptions of the Canadian OTC derivatives market.

Actions will include:

- Design and build an enhanced derivatives data mart that ingests and relates data from multiple reporting entities
- Provide inter-provincial data support and analytics.

Planned Outcomes:

- Amendments to the Business Conduct Rule for derivatives dealers published
- Expanded database development completed
- Operational procedures for new compliance and oversight processes documented

- New templates for systemic risk analysis operationalised
- Increased use of analytical support for internal reporting, presentations, research, inter-agency projects and policy development
- Improved resilience and preparedness through effective coordination and cooperation with regulatory partners.

1.5 Bring Timely and Impactful Enforcement Actions

The OSC will promote confidence in Ontario's capital markets by increasing the deterrent impact of OSC enforcement actions and sanctions by actively pursuing timely and impactful enforcement cases to address serious securities laws violations. This work requires greater access to data and more sophisticated surveillance and analysis tools to more effectively evaluate compliance with regulatory requirements and identify misconduct. The OSC is proactively seeking out and engaging entities involved in harmful misconduct (e.g. unregistered trading, illegal distributions) and taking action to disrupt or stop these activities at the earliest stage to reduce investor harm.

Actions will include:

- Focus investigative and litigation resources on cases expected to have a strong regulatory impact and that are aligned with our strategic priorities
- Continue to identify and develop surveillance and analytical tools including working with the CSA to implement the Market Analysis Platform
- The quasi-criminal team will work in cooperation with policing partners and continue to focus on fraudulent behaviour and recidivism
- Take proactive and timely disruption steps to mitigate or stop investor harms
- The Whistleblower group will triage tips to focus action on impactful enforcement proceedings with effective regulatory messages.

Planned Outcomes:

- Implementation of new tools that increase use of data to support case selection and investigation decisions
- Enhanced profile for the OSC Whistleblower Program increases the number of credible tips
- Increased number of visible, effective disruption actions completed
- Increased visibility of priority case outcomes with strong regulatory messages aligned with OSC strategic priorities
- Improved use of data analytics in market conduct cases to strengthen the detection of harmful conduct

- In conjunction with our CSA partners, successful roll-out of the first phase of the Market Analysis Platform implementing a data repository with analytic tools to enhance enforcement effectiveness, including insider trading and market manipulation investigations.

1.6 Enhance Economically Focused Rule-Making

As indicated in the Five-Point Plan, the OSC will promote economically-focused rule-making through rigorous quantitative and qualitative analysis which weighs the anticipated economic costs against benefits for stakeholders.

Actions will include:

- Develop a more comprehensive and structured approach to analyzing costs and benefits that includes qualitative and quantitative analysis of anticipated costs and benefits for all OSC rule-making initiatives
- Provide analytical support and advice on impact analyses for regulatory initiatives
- Conduct retrospective reviews of past regulatory changes to assess if intended impacts were achieved.

Planned Outcomes:

- High quality analyses are delivered within agreed timelines
- Rule-making is supported by impact analysis that confirms that the costs of the proposed changes are proportionate to the benefits sought and aligned with the OSC's mandate
- Post-implementation reviews confirm that no major potential impacts were missed in the initial analysis
- Reviews confirm whether the intended benefits have been achieved and if further policy change should be considered
- Published analysis generates positive feedback from internal and external stakeholders.

1.7 Initiate Consultation to Consider the Current Self-Regulatory Organization (SRO) Framework

Consider ongoing SRO developments and develop responses as required including a consultation process regarding the evolution of the SRO framework.

Actions will include:

- Consultation paper published for comment
- Clarify and streamline SRO Memoranda of Understanding and recognition orders.

Planned Outcomes:

- Updated SRO recognition orders that are consistent with our oversight activities and that maintain appropriate levels of investor protection
- Consideration and public feedback on whether the current SRO framework is appropriate in light of the evolution of the market.

1.8 Support Transition to the Cooperative Capital Markets Regulatory System (CCMR)

The OSC will continue to commit resources to support implementation of the CCMR as a streamlined capital markets regulatory system that will: (a) make our capital markets more efficient and competitive relative to other countries; (b) facilitate more effective monitoring and

responses to systemic risk on a national basis; and (c) provide investors timely and uniform protections across jurisdictions.

Actions will include:

- Re-prioritize, mobilize resources and adopt change management activities once workstreams are activated to prepare for the CCMR launch
- Participate with other CCMR partners to complete the work to develop effective legislation, regulations and efficient regulatory oversight processes.

Planned Outcomes:

- OSC is ready to seamlessly transition to the proposed CCMR.

OUR GOALS

GOAL 2 – Reduce Regulatory Burden

The OSC formed a Burden Reduction Task Force in November 2018, in coordination with the Ontario government. The Burden Reduction Task Force's mandate was to identify ways to enhance competitiveness for Ontario businesses by saving time and money for issuers, registrants, investors and other capital market participants. Its work is a major component of the Five-Point Plan for creating confidence in Ontario's capital markets.

OUR KEY PRIORITIES

2.1 Complete Actions Identified in the OSC Burden Reduction Plan

In November 2019, the OSC published the report: *"Reducing Regulatory Burden in Ontario's Capital Market"*. In that report, the OSC set out concerns raised by stakeholders and identified actions to address those concerns, as well as items for further study.

Actions will include:

- Complete the burden reduction items identified in the report by the planned dates

- Engage in further study on the items identified for follow-up
- Issue regular status updates on the progress against the actions identified in the report.

Planned Outcomes:

Visible and tangible results of burden reduction efforts will include:

- New tools and use of technology to assist with navigating the regulatory process
- More transparency around our processes
- More manageable timelines for certain filings
- Greater clarity and flexibility on what is required to fulfill regulatory requirements
- Less duplication of requirements and form filings
- Improved coordination of reviews
- A more tailored regulatory approach that considers the size and type of businesses
- Clearer communication from staff
- Improved coordination between the OSC and our regulatory partners
- Rules and guidance that are easier to read and understand
- Information that is easier to find and better organized on our website.

OUR GOALS

Goal 3 – Facilitate Financial Innovation

The OSC will continue to develop flexible regulatory approaches and improved access to services and support for investors looking to establish or expand their businesses in Ontario. These efforts will build on the progress to date supporting Fintech innovation in Ontario. This includes creating an environment that supports emerging financial technology, ensuring investor protection, while creating flexible and proportionate regulatory approaches.

OUR KEY PRIORITIES

3.1 Develop and Begin Implementation of Multi-Year Plan for the Office of Economic Growth and Innovation

The OSC has created an Office of Economic Growth and Innovation, which will collaborate with businesses and other regulators to support innovation, through OSC LaunchPad, facilitate capital formation and regulatory burden reduction, promote the implementation of technology to reduce costs and accelerate innovation in financial services, and engage in outreach with stakeholders, innovation hubs and others to support economic growth and innovation initiatives.

Actions will include:

- Identify and recommend improvements to processes, programs and decision-making at the OSC that will contribute to economic growth and innovation and develop performance measures that can be used to show evidence of successful delivery
- Oversee the process for identifying opportunities to reduce regulatory burden including conducting outreach programs with market participants to solicit their insight and input
- Develop and implement innovation programs for the OSC to test innovative ideas
- Monitor innovation and economic growth initiatives and engage actively with innovation hubs and similar groups within domestic and global regulatory organizations.

Planned Outcomes:

- The Office of Economic Growth and Innovation is fully operational and delivering on its mandate

- Accelerated innovation in financial services through proliferation of technology, reduced costs and increased competition
- Impacts of regulatory actions are assessed in the context of small or medium-sized market participants
- Increased innovation supports capital formation and economic growth within Ontario.

3.2 Engage with Fintech and Support Innovation in Capital Markets

The OSC will continue to engage with the Fintech community to better understand their needs and help them understand the regulatory requirements that apply to their businesses. In addition, through LaunchPad, the OSC will provide direct support to innovative Fintech businesses in navigating the regulatory requirements and will be flexible as to how the businesses meet their obligations (e.g. give exemptive relief, provide guidance about how to comply within new business models).

Actions will include:

- Evaluate additional tools to assist Fintech firms that want to test novel products and services
- Identify issues and potential regulatory gaps relating to Fintech developments and integrate learnings from working with innovative businesses
- Issue guidance and notices on key issues affecting these businesses
- Work with the OSC Fintech Advisory Committee to ensure we are responsive to unique issues faced by innovative businesses
- Engage with other international regulators that have similar innovation initiatives to better understand international trends and developments
- Enhance online information on OSC LaunchPad (osclaunchpad.on.ca) to give the Fintech community with important insights and information into securities law requirements including information for start-ups on whether and how securities regulations may apply to their business
- Work with the CSA Sandbox to issue timely approvals for Ontario Fintech businesses to operate in Canada as registered firms (offering novel products and services) or marketplaces.

Planned Outcomes:

- Costs and time to market for innovations are reduced
- Potential tools are identified, assessed and implemented
- Learnings from working with innovative businesses are used to modernize regulation for the benefit of Ontario businesses

- Positive feedback from stakeholders regarding guidance issued and support provided to Fintech businesses
- OSC LaunchPad website updated to reflect new Fintech-related notices, news releases or guidance.

OUR GOALS

GOAL 4 – Strengthen Our Organizational Foundation

The OSC regulates and supports an ever-changing and highly competitive financial sector. To meet these challenges the OSC requires a strong organizational foundation of people, systems and data management and analytics.

The OSC continues to enhance its workforce by seeking staff with strong data-gathering and analytical capabilities who can proactively identify emerging issues, especially when those issues do not fit established patterns. The OSC, like many other businesses, faces significant challenges to attract and retain staff with these skills as it operates in a competitive market where demand for talent is high. The OSC also needs robust systems to manage high volumes of data and support advanced data analysis techniques to uncover patterns and detect non-compliance. Successfully addressing these challenges will position the OSC to provide efficient and effective regulation that delivers better outcomes.

OUR KEY PRIORITIES

4.1 Continue Redevelopment of CSA National Systems

Redevelopment of the CSA national systems (now called SEDAR+) is a critical foundation for the OSC to become a more data analytic-focused and evidence-based regulator.

Actions will include:

- Support the CSA initiative to implement SEDAR+, a modern, accessible, integrated, searchable, secure, and robust database and system to deliver capabilities that support existing regulatory requirements and can be easily modified to support the future needs of market participants and regulators
- Amend the CSA Systems Rule and CSA Systems Fee Rule
- Complete work on OSC local systems and related processes, workflows and policies to ensure they are aligned with SEDAR+ when it is launched.

Planned Outcomes:

- Launch of SEDAR+ meets user needs and is aligned with OSC local systems

- Improved operational functions and more efficient service delivery to market participants
- CSA Systems Fee Rule is completed within applicable timelines.

4.2 Modernize OSC Technology Platform

The OSC has planned several strategic initiatives to modernize its technology platforms and safeguard information to support new approaches to its regulatory work and improve efficiency in delivering regulatory outcomes.

4.2.1 Data Management and Digital Transformation Program

The OSC will continue to pursue its multi-year Data Management Program (DMP) to support new business systems and new approaches to regulatory work, and to improve efficiency in delivering regulatory outcomes.

Actions will include:

- Continued development of OSC business workflow applications that are integrated with SEDAR+
- Improved data reporting and analytics
- Continuation of OSC data governance activities with additional data elements added
- Enhanced derivatives database developed with improved reporting and analytics.

4.2.2 Systems Modernization and IT Resilience

Significant IT modernization investments for infrastructure services and enterprise software are planned.

Actions will include:

- OSC website redevelopment
- Introduction of additional data management and analytical tools
- Ongoing platform currency upgrades and improvements to various internal operational systems
- Implementation of additional tools and technology to allow staff to work more effectively and efficiently from home
- Replacement of legacy systems with new modern technology.

4.2.3 Information Security Program

The OSC will continue to implement an Information Security Program that is aligned with the National Institute of Standards and Technology cybersecurity framework.

Actions will include:

- Improve ongoing information security operations and remediation of information security risks
- Continue to improve information security governance
- Implement additional information security tools and technology
- Continue ongoing information security awareness training for all staff.

Planned Outcomes:

- Improved information security oversight and reporting
- Successful implementation of the Information Security Program results in secure operations of OSC systems
- Improved cybersecurity defense agility
- Increased awareness of information security risks among staff.

4.3 Ensure Competitiveness and Clear Service Standards

The OSC will continue to strive to achieve a global standard of excellence in securities regulation.

Actions will include:

- Report on metrics that track the competitiveness of Ontario's capital markets relative to other jurisdictions
- Introduce enhanced and expanded service standards that cover a broader range of regulatory processes and services
- Track results against those standards relative to securities regulators in leading jurisdictions.

Planned Outcomes:

- Improved understanding of relative competitiveness of Ontario capital markets
- Better service and trend analysis
- Improved transparency for stakeholders.

4.4 Improve Efficiency and Regulatory Responsiveness through Internal Innovation

The OSC recognizes and believes in the value to be gained by reforming internal processes and delivering better services. The OSC will undertake internal reviews of its regulatory processes to identify opportunities to improve accessibility, save time or money and make interactions with businesses easier and more efficient.

Actions will include:

- Provide a framework, shared standards and tools to effectively adapt to complex change and realize business benefits
- Support staff's ability to proactively identify and remove barriers to change
- Assess OSC internal regulatory processes and address key process inefficiencies
- Increase the use of online applications that save time and reduce the occurrence of missing information.

Planned Outcomes:

- Interactions with businesses are easier and more efficient
- Enhanced service/innovation culture in the OSC
- The OSC demonstrates the ability and capacity to deliver transformational change on complex projects and initiatives.

BUDGET

Financial Outlook

The OSC's 2020-2021 budgeted deficiency of revenues over expenses of \$4.8 million is primarily due to an increase in costs for dedicated resources to deliver on the Ontario Government's Five Point Plan and continued multi-year capital spending towards facilities rehabilitation and the Data Management Program.

Budgeted revenue of \$130.3 million is \$4.1 million below the 2019-2020 actuals but is an increase of \$3.5 million over the prior year budget. The budgetary decrease against the 2019-2020 actuals is attributed to lower chargeable filing volumes as a result of the regulatory burden initiatives and lower anticipated participation fees.

Operating expenses are budgeted to increase by \$9.7 million against the 2019-2020 actuals as a result of:

- Supporting the delivery of the Ontario Government's Five-Point Plan

- Investing in applications and infrastructure technology to move to the cloud in a software as a service model instead of the typical capital purchase model
- Cost of additional floor space.

Capital spending on projects is expected to increase by \$6.1 million from the 2019-2020 actuals as a result of investments in the Data Management Program and the facilities rehabilitation project.

The OSC is committed to maintaining fiscal responsibility, remaining flexible during the upcoming fiscal year by taking appropriate action on spending as new information emerges on the impacts from COVID-19. As a result, while the OSC makes progress on certain key priorities, other investments, including various capital programmes, are expected to be deferred to preserve financial liquidity during these uncertain times.

\$000's	2019-2020 Budget	2019-2020 Actual	2020-2021 Proposed Budget	Proposed Budget to 2019-2020 Budget		Proposed Budget to 2019-2020 Actual	
				\$	%	\$	%
				<i>Favourable/(Unfavourable)</i>			
Revenue	\$126,839	\$134,396	\$130,312	\$3,473	3%	(\$4,084)	(3%)
Operating Expenses	\$129,443	\$126,271	\$136,004	(\$6,561)	(5%)	(\$9,733)	(8%)
Finance Costs (IFRS 16)	1,729	1,793	1,820	(91)	(5%)	(27)	(2%)
Recoveries (insurance proceeds, enforcement costs, investor education costs)	(2,587)	(4,977)	(2,681)	94	4%	(2,296)	(46%)
Expenses (net of recoveries and finance costs)	\$128,585	\$123,087	\$135,143	(\$6,558)	(5%)	(\$12,056)	(10%)
Operating Surplus/(Deficit)	(\$1,746)	\$11,309	(\$4,831)	(\$3,085)	(177%)	(\$16,140)	
Capital Additions	\$7,244	\$3,839	\$9,915	(\$2,671)	(37%)	(\$6,076)	(158%)