December 6, 2013

Mr. Howard Wetston  
Chair, Ontario Securities Commission  
20 Queen Street West, 20th Floor  
Toronto, Ontario  
M5H 3S8

Dear Howard,

Please find attached the 2012-2013 Annual Report of the Investor Advisory Panel. The report highlights the work we have done this past year responding to many investor related proposals and initiatives as well as our participation in a variety of outreach and stakeholder consultation activities. We will continue our focus on issues of primary importance to investors and we look forward to supporting and enhancing investor protection in Ontario.

We are pleased to submit this Annual Report to the Ontario Securities Commission and we look forward to hearing from you.

Sincerely,

Investor Advisory Panel  
Paul Bates, Connie Craddock, Alan Goldhar, Ken Kivenko and Cary List
# TABLE OF CONTENTS

INTRODUCTION ................................................................................................................................. 2  
Our mandate ........................................................................................................................................... 2  
Our membership ..................................................................................................................................... 2  
How we operate ...................................................................................................................................... 2  
Independence .......................................................................................................................................... 3  
Transparency .......................................................................................................................................... 3  
Consultations ......................................................................................................................................... 3  

PANEL PRIORITIES AND RECOMMENDATIONS .................................................................................. 3  
Delivering Strong Investor Protection: the Client/Advisor Relationship .................................................. 4  
Highlights of Panel Submissions 2012-2013 .......................................................................................... 5  

CONSULTATION ................................................................................................................................. 7  
External Organizations ............................................................................................................................ 7  
Ontario Securities Commission Staff ....................................................................................................... 7  

RESEARCH, OUTREACH AND STAKEHOLDER ACTIVITIES ................................................................. 8  
Strengthening Investor Protection in Ontario – Speaking with Ontarians ................................................... 8  
Other Outreach Activities ...................................................................................................................... 9  
Ongoing Issues ....................................................................................................................................... 9  

LOOKING AHEAD: PRIORITIES AND FOCUS ....................................................................................... 10  

APPENDIX A: BUDGET AND EXPENDITURES..................................................................................... 11  
APPENDIX B: SUBMISSIONS AND LETTERS ...................................................................................... 12  
APPENDIX C: MEDIA COVERAGE ....................................................................................................... 13  
APPENDIX D: MEMBER BIOS ............................................................................................................. 15
**INTRODUCTION**


The Investor Advisory Panel (IAP) is an advisory panel to the Ontario Securities Commission. Its mandate is to solicit and represent the views of investors on the Commission’s policy and rule making initiatives. In order to fulfill its mandate the Panel:

- Advises and comments in writing on proposed rules, policies, concept papers and discussion drafts, including the Commission’s annual Statement of Priorities;
- Considers views representative of a broad range of investors through consultation with and input from investors and organizations representing investors in formulating its advice and written submissions to the Commission;
- Brings forward for the Commission’s consideration policy issues that may emerge as a result of the Panel’s investor consultation activities and comments on the potential implications for investors posed by those issues; and
- Advises and comments in writing on the effectiveness of the investor protection initiatives implemented by the Commission.

*Our membership*

The panel is comprised of 8 members appointed by the Chair of the Commission following a public application process and on the advice of a selection committee of three part-time Commissioners. Members of the panel are appointed for two year terms, with possible reappointment for one additional term. (See Appendix D for Bios of panel members) Two panel members (Steven Garmaise and Stan Buell) resigned during the term of this Annual Report and one member, Nancy Averill, has completed her second term of office. We extend our thanks and appreciation to our past members for their commitment and contribution to our work.

On October 31, 2013 Vice Chair Mary Condon announced an expansion of Panel membership to 9 full time members. The Panel is pleased with the Commission’s decision to increase our membership in light of its increasingly onerous work load.

*How we operate*

The Panel meets monthly, either in person or by conference call. During the 2012-13 year, we met 11 times. We maintain frequent contact between meetings to develop our written submissions and to share and exchange views on developments in securities law and other relevant matters. During our meetings, we discuss upcoming submissions and plans for future outreach, research and consultation.
Our work plan is set to a large extent by the Commission’s priorities and current developments in the investment industry. Our meeting agendas often will focus on specific Commission initiatives, including its annual Statement of Priorities and business plan, policy and rule proposals, and ongoing or under-development investor protection initiatives.

**Independence**

The Panel conducts its activities without direction or influence from the Commission.

The newly created Office of the Investor serves as the general liaison between the Panel and the Commission and serves as Secretary to the Panel. The Office provides administrative support to Panel activities and facilitates Panel requests for staff briefings or research information conducted by, or available to, the Commission on specific policy and rule making initiatives. During its first year of operations, the Office of the Investor has operated as a facilitative intermediary, providing administrative support and effective and proactive liaison to OSC staff. These are early days for the Office as it continues to operationalize its mandate. We look forward to future opportunities to work together more closely, perhaps on additional joint research projects.

**Transparency**

Transparency of our work is important. We provide regular reporting through our Investor Advisory Panel website (www.osc.gov.on.ca), through our published reports, submissions, letters to the Commission and our Annual Report. We publish all meeting agendas and minutes on our website.

**Consultations**

To assist us in fulfilling our mandate, we regularly consult with organizations and financial and legal experts, industry associations, and investor advocacy bodies.

**PANEL PRIORITIES AND RECOMMENDATIONS**

During the past year, we have provided our input to the Commission on proposals whose approval and implementation would dramatically improve the current investor protection regime for Canadian investors. These include discussion papers exploring the appropriateness of introducing a statutory best interest standard and a review of current mutual fund fee structures, as well as a proposal requiring the provision of an ombudservice to clients of CSA registrants.
We have supported the Commission’s efforts to expand its outreach and community engagement, providing input to the Office of the Investor and other staff who are involved in the *OSC in the Community* initiative. We have also had productive dialogue and partnership with the Commission’s Investor Education Fund (IEF).

We have recommended new priorities, including reforms to title and proficiency requirements as well as a focus on issues which are specific to seniors. We were pleased to see these recommendations reflected in the Commission’s 2012-2013 Statement of Priorities.

We have supported and provided input into new evidence-based initiatives, including the innovative suitability-related mystery shopping project, and look forward to reviewing the Commission’s impact studies on introduction of a best interest standard.

We have worked effectively and cooperatively with OSC staff to provide an investor perspective on disclosure-based initiatives including the ongoing Point of Sale and Fund Facts project and we look forward to working with staff as they complete work on a standardized definition of risk for Fund Facts. With regard to this matter, last year’s IAP Annual Report had recorded Panel concerns that: “risk measurement in the Fund Facts was vague and needs improvement; it should also be standardized so as to not confuse or mislead investors”. We were pleased to see evidence of progress in this important area.

We have registered our serious reservations about the effectiveness of disclosure as a primary investor protection tool and will continue to urge the Commission to require avoidance of the many conflicts which are causing significant financial damage to too many Canadians’ retirement prospects.

While we are fully committed to thoughtful, careful analysis and a measured regulatory response, we believe that Canadian regulators need to move beyond issue identification and discussion into the realm of decision making and reform. The slow pace of reform in Canada is unacceptable. It is time to emulate regulators in the UK and Australia and ensure that Canadian investors enjoy the same level of investor protection.

**Delivering Strong Investor Protection: the Client/Advisor Relationship**

In our submissions to the Commission and in Panel members’ participation in Commission Roundtables and other public events, we have consistently focused on the provision of fair, unbiased and informed advice. We have evaluated Commission policy proposals and initiatives from an investor protection perspective which seeks to ensure that:

- Advisors are the true agent of the client and put their client’s interests first;
- Regulators do not permit conflicted remuneration practices which can bias advisors’ advice and product recommendations and thereby harm investors’ financial outcomes;
• Advisors are required to have appropriate skills and qualifications and to use only informative and accurate business and professional titles; and
• Investors have access to fair, timely and independent complaint handling, enforcement and compensation.

**Highlights of Panel Submissions 2012-2013**

**Notice 81-407 Discussion Paper and Request for Comments on Mutual Fund Fees**

The Panel is persuaded that Canadian regulators must follow the lead of their counterparts in the UK and Australia and move to eliminate conflicted compensation models. We note the many compelling submissions to the Commission urging this course of action. Like many commentators, we are not convinced that eliminating embedded commissions will reduce the availability of advice. We note that investors are already indirectly paying roughly 1% of the MER for advisor advice. With embedded commissions prohibited and this portion of the MER no longer paid directly by the fund manufacturer to the dealer/firm, this money would now be available to the investor to negotiate and freely purchase advice services that the investor wants and needs.

Early reports of the new regime in the UK are encouraging in this regard and we intend to closely monitor developments in those jurisdictions where embedded commissions have already been prohibited.

We noted with interest the comments on the CSA discussion paper on mutual fund fees in the Ontario Government Fall Economic Statement by the Minister of Finance. We share the Minister’s interest in seeing the recommendations of the Commission regarding current mutual fund fee structures. In the upcoming year, this issue will continue to be a priority for the Panel as we look to conduct relevant research and stakeholder outreach. We intend to be engaged and constructive participants as the Commission advances the discussion of this important issue whose resolution will impact Canadians’ ability to ensure their retirement security.

**Notice 33-403 The Standard of Conduct for Advisers and Dealers-Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients**

While the Panel was fully supportive of moving to a higher standard of investor protection, we cautioned that introduction of a statutory best interest duty must be accompanied by title reform and improvements to current proficiency standards. We noted that in the UK the move to a higher Best Interest Duty standard had simultaneously entailed higher proficiency standards as well as meaningful title reform. We believe that there is merit in exploring options such as introduction of new regulatory titles.
Regulatory action of this nature is essential in light of the profound and damaging information asymmetry between investor and advisor. Canada’s regulatory system and industry business models are at best opaque to the average investor, however well-educated or informed he or she might be. It is confusing, to say the least, when registrants, using the same title, can differ so profoundly in the advice, products and services that they are permitted to offer. Regulation of titles so that they clearly indicate what advice and products a registrant is qualified and permitted to recommend would be a major improvement in investor protection.

The Panel also called for a review of current proficiency requirements to ensure that they are adequate for today’s complex investment world and meet the higher standard which would be required for providing advice under a Best Interest Duty standard. We were, therefore, pleased to see the Commission’s commitment “to work with standard setters to advance registrant proficiency through changes to professional standards and industry examinations”.

The Panel believes that title and related proficiency reform is a high priority for investor protection and intends to continue to work on this issue in the next year.

Notice and Request for Comments on Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP – Requirement for the Ombudsman for Banking Services and Investments to Provide Dispute Resolution or Mediation Services

The Panel’s submission and two letters to the Office of the Investor and the Chair of the Commission communicated our serious concerns regarding recent regulatory proposals and marketplace developments with regard to Canadian investors’ only real recourse for timely, fair and effective complaint investigation and compensation.

The Panel reiterated its conviction that Canadian investors should have access to fair, timely and independent complaint handling and compensation services. To be truly effective and fair, this service cannot be voluntary in nature. It must have the ability to enforce its findings.

We fully supported the CSA proposal to require its registrants to provide their clients with ombudservices provided by the Ombudsman for Banking and Investment Services. We recommended that the CSA also require its registrants to comply with complaint handling standards similar to requirements established by the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada for their regulated firms some three years ago. We acknowledged the need for effective and appropriate oversight of OBSI and encouraged the CSA to ensure that such oversight effectively included all parties, including the SROs.
During the past year, an increasing number of firms have refused to comply with OBSI’s non-enforceable compensation recommendations. This leaves Canadian investors with no secure access to fair restitution. We have urged the Commission and CSA colleagues to act promptly and effectively to address this major blow to investor protection in Canada.

The Panel has also conveyed its concerns to the Commission regarding OBSI’s proposed changes to its Terms of Reference which would see the Ombudsman no longer handling Segregated Funds and systemic issues. If implemented, these changes would represent a further weakening of the Ombudsman’s effectiveness and yet another blow to investor protection and rights in Canada.

CONSULTATION

External Organizations

During the past year, Panel members have met with the following organizations:

- Investor Education Fund, President Tom Hamza

- Investment Funds Institute of Canada (IFIC): President and CEO Joanne De Laurentiis; Director of Policy and Research Jon Cockerline; Director of Communications, Jan Dymond

- Federation of Mutual Fund Dealers: Executive Director Sandra Kegie

- Canadian Foundation for the Advancement of Investor Rights: Executive Director Ermanno Pascutto

Ontario Securities Commission Staff

We have had frequent meetings with staff of the Ontario Securities Commission for general discussions and issue-specific briefings.

Staff support and input is important to ensure that Panel members are apprised of relevant regulatory developments and current and projected staff initiatives and projects. Panel members need the opportunity to provide their views and input to staff at an early stage in the Commission’s analysis of issues, so that we can effectively contribute to staff’s informed understanding of the investor perspective and concerns. This will lead to better identification and resolution of issues that matter to investors. As the brief summary below indicates, the Panel has benefited from timely and helpful interactions with relevant Commission staff on the
major issues which have attracted our attention this year. We appreciate their support and look forward to continuing work together.

Staff Briefings and discussion during 2012-13 include: Best Interest Duty; fixed income regulatory review project; mutual fund fee structures, Fund Facts, definition of risk rating for Fund Facts project; OBSI; OSC Enforcement; Protection of the retail investor; OSC in the Community initiatives and activities; Mystery shopping project; OSC Compliance review reports on EMDs and PMs.

Panel members engaged in constructive and informative discussions on a broad range of relevant issues with many OSC staff members, including Chair Howard Wetston; Vice Chair Mary Condon; Executive Director Maureen Jensen; Director of Strategy Mark Adams; Director of Strategy and Risk Leslie Byberg and staff from the Strategy and Operations Branch; Director of Enforcement Tom Atkinson; Director of Investment Funds Rhonda Goldberg; Senior Legal Counsel Chantal Mainville and staff from the Investment Funds Branch; Deputy Director of Compliance and Registrant Regulation Marianne Bridge; Legal Counsel Jeff Scanlon and staff from the Compliance and Registrant Regulation Branch and the Director of the Office of the Investor Eleanor Farrell.

**RESEARCH, OUTREACH AND STAKEHOLDER ACTIVITIES**

*Strengthening Investor Protection in Ontario – Speaking with Ontarians*

Investor outreach is a significant part of our mandate and an explicit requirement under the IAP’s Terms of Reference. Last year the Panel organized a deliberative engagement process as its main outreach project. Because the scale of this initiative exceeded our research budget, it required partnering with the Investor Education Fund and the Commission, as well as a lengthy approval and Request for Proposals process. The purpose of the initiative was to involve the public in the identification of investor issues through an on-line and in-person deliberative process.

Through this on-line and in-person approach, we were able to engage more than 2,000 Ontarians to learn more about their relationships with their financial advisors and how they perceive and use investment products. The project was directed by the IAP and the IEF, with administrative as well as financial support from the Commission. Its final report, “Strengthening Investor Protection in Ontario – Speaking with Ontarians” [http://www.osc.gov.on.ca/documents/en/Investors/iap_20130318_strengthening-investor-protection.pdf], was issued in March, 2013.
Its key findings include:

- While most investors generally trust the advice of their financial advisor, two things highlight the skepticism that many investors feel. Only 20% of investors strongly agree that they generally trust their financial advisor’s advice and 25% strongly agree that how their financial advisor is paid impacts the advice they receive. Advisors need to give their clients greater assurance that their best interest is being served.
- 93% agreed that a best interest duty is needed.
- Investors want strengthened regulation of financial advisors, including clearer professional standards for use of the title, rigorous educational requirements and ethics training and stricter regulatory enforcement of the rules.

This research informs and supports our positions regarding introduction of a Best Interest duty, title and proficiency reforms, to replace the current inadequate and outdated suitability regime, and reforms to conflicted mutual fund compensation structures.

**Other Outreach Activities**

The Panel also participated in a variety of outreach and stakeholder consultation activities including:

OSC Investor Roundtable on Best Interest Duty: Alan Goldhar and Connie Craddock

OSC Mutual Fees Round Table: Paul Bates and Ken Kivenko panelists; Connie Craddock, Cary List and Alan Goldhar attended

OSC Roundtable on Best Interest Duty: Connie Craddock and past Chair Anita Anand, panelists; participants Cary List and Alan Goldhar

OSC Hearing on Enforcement Proposals: Connie Craddock attended

OSC Dialogue: Paul Bates, panelist

**Ongoing Issues**

In last year’s Annual Report [http://www.osc.gov.on.ca/en/investor_iap_20121120_annual-rpt.htm], the Panel expressed concern and some frustration with the limited resources to support its work, particularly with regard to research. The Panel continues to struggle with its limited budget and staff resources. While staff support from the Office of the Investor dramatically improved throughout the year, we continue to find access to drafting and writing support a challenge. While we are optimistic that we will be able to improve our access to
information and data to support our work in the upcoming year, we remain concerned about our ability to effectively and efficiently fulfill our requirements under our mandate.

**LOOKING AHEAD: PRIORITIES AND FOCUS**

The Panel has worked hard this year responding to a very ambitious agenda of investor related proposals and initiatives. We anticipate that next year we will have an equally full agenda reflecting the Panel’s current and new priorities.

We will continue our focus on issues of primary importance to investors including the introduction of a best interest duty standard; title and proficiency reforms; restitution for investors and independent, robust ombudservices; a focus on seniors; and prohibition of conflicted compensation structures which undermine Canadian investors’ ability to ensure their retirement security. We are increasingly concerned about regulatory arbitrage.

The Panel is pleased to submit this Annual Report to the Ontario Securities Commission and looks forward to continuing its efforts to support and enhance investor protection in Ontario.
## APPENDIX A: BUDGET AND EXPENDITURES

<table>
<thead>
<tr>
<th>INVESTOR ADVISORY PANEL EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F2012-2013</strong></td>
</tr>
<tr>
<td>Meeting Costs Total</td>
</tr>
<tr>
<td>Remuneration Total</td>
</tr>
<tr>
<td>Research and Consultation Total</td>
</tr>
<tr>
<td>Travel Total</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
</tr>
</tbody>
</table>
APPENDIX B: SUBMISSIONS AND LETTERS

1. October 31, 2013 – OBSI Consultation – Terms of Reference


4. March 1, 2013 – 33-403 The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients

5. January 31, 2013 – 31-103 Requirement for the Ombudsman for Banking Services and Investments to Provide Dispute Resolution or Mediation Services


8. September 14, 2012 – 31-103 Cost Disclosure and Performance Reporting

9. September 6, 2012 – 81-101 Point of Sale Disclosure for Mutual Funds
APPENDIX C: MEDIA COVERAGE


7. IE Staff, “OSC seeks members for Investor Advisory Panel” Investment Executive (June 25, 2013).


10. Jacqueline Nelson, “Mutual fund trailer fee ban should come soon, expert says; After debating the structure of mutual fund fees, the industry remains divided” Globeandmail.com (June 10, 2013).


15. Jade Hemeon, “Restoring confidence is key” Investment Executive (April 2013).

17. Rudy Luukko, “Be sure to get money’s worth from adviser-sold mutual funds” Toronto Star (March 25, 2013).


20. IE Staff, “IAP’s advice deserves special weight” Investment Executive (Mid-February 2013).


APPENDIX D: MEMBER BIOS

NANCY AVERILL

Nancy Averill brings extensive research and public policy expertise in advancing the financial well-being of Canadians. She is currently a member of the board of directors of the First Nations Statistical Institute, a federal Crown corporation created to support First Nations’ economic development. Prior to this position, she was Director of Research and Methodology for the Public Policy Forum, where she focused on shareholder activism and public policy. She has also acted as policy advisor and researcher with federal organizations such as The National Round Table on the Environment and Economy, and The National Advisory Board on Science and Technology. She is the author of numerous publications relating to public policy.

Ms. Averill holds the ICD.D designation. She is a member of the Métis Nation of Ontario and is a full-time community volunteer. She resides in Ottawa, Ontario.

PAUL BATES

Chair

As an academic and former senior executive in the financial services industry, Paul Bates has extensive knowledge of the capital markets and securities regulation. He is Assistant Professor of Leadership, McMaster Divinity College. Previously he was Special Advisor to the President and former Dean of Business at the DeGroote School of Business, McMaster University. Prior to this position, he had an extensive career as CEO and other senior positions at several investment dealers.

A former Commissioner to the Ontario Securities Commission, Mr. Bates brings a strong understanding of rule and policy development. He also brings in-depth knowledge of investor issues from his role as Chair of the Investor Education Fund, a non-profit organization established by the Ontario Securities Commission. Mr. Bates has also served as Governor of the Toronto Stock Exchange and as a director of Regulation Services Inc.

STAN BUELL

An individual investor and leading investor advocate, Stan Buell has acted on behalf of small investors for more than a decade. He is the founder and President of the Small Investor Protection Association (SIPA), a national non-profit organization with over 600 members. Mr. Buell regularly participates in seminars and conferences, and has led SIPA in making numerous submissions and presentations to regulators and government agencies. He
represented SIPA as a panel member at the OSC Investor Town Hall Meeting in 2005 and more recently, in its submission to the Expert Panel on Securities Regulation.

**CONNIE CRADDOCK**

As the former Vice-President of Public Affairs at the Investment Industry Regulatory Organization of Canada (IIROC), Ms. Craddock has considerable experience with issues related to Canadian investors. Ms. Craddock also has experience in consulting and communications in both corporate and government settings. Since retiring from IIROC, Ms. Craddock joined the Board of Gilda’s Club, a non-profit organization dedicated to helping individuals touched by cancer. She also does volunteer work in adult literacy.

Ms. Craddock has a Master’s Degree from Concordia University and Degrees from McGill University and Universite de Montreal.

**STEVEN GARMAISE**

*Steven Garmaise* is an independent investor advocate and analyst. As Associate Director of the Canadian Foundation for Advancement of Investment Rights, he contributed to submissions to government and regulators and conducted research on financial literacy, fixed income markets, money market funds, specialty investment products and other topics. He brings almost 30 years of experience in capital markets as an analyst and director of research at several investment dealers in Canada and the U.S.

Mr. Garmaise holds the Chartered Financial Analyst designation and has extensive experience on the board of directors of the Toronto Public Library Foundation, Tarragon Theatre and Jewish Immigrant Aid Services Toronto.

**ALAN GOLDHAR**

*Alan Goldhar* brings many years of investment and financial experience working as the Chief Investment Officer, Office of the Public Guardian and Trustee, Ministry of the Attorney General. Prior to his positions with the provincial government, he held positions in both the banking and the investment services industry in the areas of audits and risk management.

Mr. Goldhar is currently Course Director for financial planning courses at Ryerson University and York University’s Business Program. Previously he was a course instructor in the business program at Centennial College.
Mr. Goldhar holds the Certified Financial Planner and Certified General Accountant designations and has earned two undergraduate degrees and a Masters in Business Administration.

KEN KIVENKO

As a renowned investor advocate, Mr. Kivenko brings extensive experience of research and advocacy in retail investor issues. He is the president and owner of Kenmar which assists investors with dispute resolution. He has also established a well-used web-site www.canadianfundwatch.com.

Mr. Kivenko holds a Bachelor of Science in Engineering Electronics from McGill University and is a Fellow in the American Society for Quality Control and Member of the Association of Engineers of Ontario.

CARY LIST

As the President and CEO of the Financial Planning Standards Council (FPSC), Mr. List strives to develop, promote and enforce professional standards in financial planning and to raise awareness for the importance of financial planning. Mr. List has been active with the FPSC since 1998 where he has participated in many facets of setting standards and certification for financial planners.

Prior to his career in financial planning, Mr. List was an academic director at George Brown College where he established the Centre for Financial Services and introduced the Bachelor of Applied Business degree program. Mr. List is also a Chartered Accountant and holds an Honours Bachelor of Mathematics degree from the University of Waterloo.