



ONTARIO
SECURITIES
COMMISSION

For Fiscal Years ending

2020 – 2022

Ontario Securities Commission Business Plan



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Executive Summary

The OSC Business Plan (the “Plan”) sets out the Ontario Securities Commission’s (“OSC” or “Commission”) key strategies for the three fiscal years 2019-2020, 2020-2021 and 2021-2022 and how it plans to accomplish those strategies.

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

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

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

An outline of the strategic goals along with the Commission’s key 2019 – 2020 priorities is detailed in the Vision & Strategic Goals and Priorities section of the Plan. An organizational chart and details of the core activities for the operational and supporting branches is presented in the section Organization, Structure and Core Activities. Strategic goals and initiatives of the OSC, together with the organizational core activities, drive OSC resource requirements and allocations.

The Financial Summary outlines the revenues, expenses, surplus/deficit and forecasts for the fiscal years 2019-2020, 2020-2021 and 2021-2022. Selected performance measures, and our proposed approach to measure burden reduction, are detailed in the Performance Measurement section of the Plan.

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

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

The appendices include additional information about our 2019-2020 OSC Statement of Priorities and OSC Service Commitment.

Illustrative Recent OSC Accomplishments

The OSC remains focused on providing responsive regulation that fosters confidence in the capital markets and provides protection to investors while minimizing unnecessary regulatory burden on market participants. The following is a summary of the key OSC accomplishments achieved during 2018-2019. These are specific initiatives that the OSC completed in support of each of the OSC goals.

Deliver strong investor protection

- Published for comment proposed Client Focused Reforms that aim to improve the advisor/client relationship through amendments to National Instrument (NI) 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*
- Published a CSA regulatory impact analysis (RIA) of the Client Focused Reforms which included the anticipated benefits and costs related to the implementation of the proposed Client Focused Reforms
- Published recommendations and guidance for registrants to address conflict of interests in connection with embedded mutual fund fees
- Published for comment proposed amendments to prohibit all forms of the deferred sales charge option and associated upfront commissions, and the payment of trailing commissions to dealers who do not provide suitability advice
- Published an impact analysis of the proposed policy changes related to embedded mutual fund fees
- Implemented an education and outreach strategy for new Canadians, with a focus on older investors
- Published *Taking Caution: Financial Consumers and the Crypto Asset Sector*, a research study on Ontarians' knowledge, attitudes and behaviour relating to crypto assets
- Published *Getting Started: Human-Centered Solutions to Engage Ontario Millennials in Investing*, a study into the barriers faced by millennials regarding investing
- Published OSC Notice 11-783 *Encouraging Retirement Planning through Behavioural Insights*, new evidence and potential tactics for designing products, programs and services to make retirement planning simpler and less stressful
- Published *National Investor Research Study*, insights into different demographical groups and their attitudes and behaviours related to investing.

Deliver effective compliance, supervision and enforcement

- Awarded \$7.5 million to three whistleblowers, demonstrating the effectiveness of the tips received under the Whistleblower program
- Brought forward 25 administrative matters and seven quasi-criminal of cases involving serious misconduct, resulting in meaningful sanctions imposed to address misleading disclosures, internal control and governance failures, unregistered trading and the distribution of securities without a prospectus or exemptions, as well as the failure to address conflicts of interest and insider tipping
- Eight repeat offenders were referred directly from case assessment to Joint Serious Offences Team (JSOT). This included a repeat offender who was sentenced to two years in jail and ordered to pay \$158,000 in restitution
- Issued the 2018 Risk Assessment Questionnaire (RAQ) to 1,058 registrants. The RAQ is used to identify trends and select firms for compliance reviews
- Improved efficiency and reduced the timelines of enforcement efforts by developing and implementing a framework for proactive case assessment, use of advance analytical and detection tools
- Improved the process to collect unpaid monetary sanctions and secured more than \$800,000 in unpaid monetary sanctions during a successful continuing pilot program.

Deliver responsive regulation

- Formed the Global Financial Innovation Network (GFIN), along with 11 other financial regulators, aimed to drive more collaboration among regulators and easier cross-border navigation for innovative firms. GFIN currently includes 38 regulators and other organizations globally.
- Published for comment the Joint CSA/IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms*
- OSC LaunchPad hosted or participated in more than 42 events, 130 meetings, liaised with international regulators and engaged with individuals operating in the fintech space
- Consulted on novel policy issues with the OSC Fintech Advisory Committee (FAC) and welcomed new members in February 2019
- Published CSA Staff Notice 46-308 *Securities Law Implications for Offerings of Tokens* to help token issuers determine when an offering of tokens is considered a distribution of securities
- Assisted the Ministry of Finance and FSCO in developing investor protection-focused amendments to the current mortgage broker regulations for syndicated mortgages
- Published CSA Staff Notice 81-329 *Reducing Regulatory Burden for Investment Fund Issuers*, which announced the CSA's intention to publish

proposed rule amendments for comment to remove redundant information requirements in select disclosure documents and use web-based technology to provide information

- Published CSA Multilateral Staff Notice 58-310 *Report on Fourth Staff Review of Disclosure regarding Women on Boards and in Executive Officer Positions*.
- Published *Staff Notice 51-357 Staff Review of Reporting Issuers in the Cannabis Industry*, which summarizes CSA staff's review of 70 reporting issuers' continuous disclosure, and highlights common deficiencies and best practices.

Promote financial stability through effective oversight

- Implemented rules for the segregation and portability of cleared OTC derivatives
- Hosted a public roundtable for 200 attendees to discuss business conduct and registration national instruments and received feedback on how to implement the rule and minimize regulatory burden
- Published for comment NI 93-101 *Derivatives: Business Conduct*
- Published for comment NI 93-102 *Derivatives: Registration*
- Completed two trade reporting compliance reviews of large OTC derivatives dealers
- Published for comment NI 25-102 *Designated Benchmarks and Benchmark Administrators* to implement a regime for the designation and regulation of benchmarks and those that administer them
- Completed targeted reviews on 15 fixed income mutual funds to assess how derivatives are used for hedging and non-hedging purposes
- Published CSA Notice 11-338 *CSA Market Disruption Coordination Plan*, regarding CSA's plans and obligations of market participants to deal with a disruption in the Canadian capital markets.

Be an innovative, accountable and efficient organization

- Completed a Career Week initiative focused on building employee knowledge and professional skills
- Expanded the range of staffing approaches and employment relationships to increase ability to attract, retain and leverage staff with specialized skills and experience by launching multiple educational co-op program partnerships and a multi-year resource strategy
- Improved access to data through enhancements to OSC local systems and improved interfaces to various data sources
- Completed a data governance and strategy review to assess the current and planned status of the OSC's Data Management Program.

Introduction

The Commission is a regulatory agency of the Ontario government which operates on a cost recovery basis. The OSC is required under the Agencies & Appointments Directive (which is the key government directive setting out governance and accountability) to annually provide a multi-year Business Plan to the Minister of Finance. This Business Plan sets out the OSC's core strategy for the fiscal years 2019-2020 through 2021-2022 including the initiatives for the upcoming year that will be undertaken toward this strategy.

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

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

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

Mandate and Operating Principles

The mandate of the OSC as set out in the Securities Act (Ontario) is 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. The principal means for achieving this mandate consist of:

- Setting/defining requirements for accurate and timely disclosure of information necessary for investors to make informed decisions
- Dedicated focus on reducing unnecessary regulatory burden on market participants while upholding investor protection
- Establishing restrictions on fraudulent and unfair market practices and procedures
- Fair, efficient and transparent market structures
- Establishing requirements for the maintenance of high standards of fitness and business conduct for market participants

- Timely, open and efficient administration of enforcement, compliance and adjudication activities
- Controlled delegation of specific oversight to SROs (subject to appropriate OSC supervision)
- Responsible harmonization and coordination of regulatory practices with other jurisdictions (e.g. through the CSA, Heads of Agencies and the International Organization of Securities Commissions (IOSCO)).

The OSC is committed to fostering confidence in Ontario's capital markets, supporting an environment where capital is available on competitive terms, streamlining regulation with a strengthened focus on reducing regulatory burden and maintaining Ontario's financial services sector as a world leader and significant contributor to the province's economy. The main themes of our 2019-2020 OSC Statement of Priorities support the Ontario government's priorities to make Ontario "Open for Business" and to "Build more Efficient Regulators" and specifically focus on delivering the objectives outlined in the April 2019 Ontario Budget "Protecting What Matters Most" (Five-Point Plan). The OSC will continue to seek opportunities to make its interface with market participants easier and less costly. Efforts to streamline regulation, improve operational efficiencies and lower regulatory burden are expected to have a significant impact on reducing compliance costs, including for development-stage and innovative businesses. The OSC will publish a report in Fall 2019, setting out short, medium and longer term initiatives and action plans to implement them.

The priorities identified in the Minister's October 2017 Mandate Letter are addressed in the OSC Statement of Priorities (SoP). Appendix A provides details on the priorities that have been identified by the OSC to address each of the priorities set out below.

Mandate Letter Priority

Strengthening the Financial Services Sector

1. Delivering responsive regulation by addressing in a timely way, important capital market issues, including identifying opportunities to reduce regulatory burden while maintaining appropriate investor protections
2. Continuing to engage with market participants with the objective of supporting innovation and promoting capital formation and regulatory compliance
3. Continuing to be innovative and accountable and efficient organization through excellent execution of its operations
4. Continuing to work with the government to support the transition to the Co-operative Capital Markets Regulatory System while maintaining high standards of regulation and keeping stakeholders informed and engaged.

Protecting Investors

1. Delivering strong investor protection, especially for retail investors, by providing effective regulation, oversight and enforcement

Positioning and Stakeholder Accountability

Primary Enabling Legislation – Securities Act (Ontario)

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

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

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

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

Key Stakeholders

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

- Investors, both retail and institutional, are directly affected by the policy setting, registration, compliance monitoring, regulated entity oversight and enforcement activities of the OSC
- Issuers (public/private companies and investment funds) seeking to raise capital or whose securities trade on recognized markets in Ontario and investment funds, rely on fair and efficient markets and are affected by our policies, registrant regulation, compliance monitoring and enforcement programs
- Self-regulatory organizations (SRO), such as the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA), operate under the direct oversight of the OSC
- Investment Fund Managers who offer investment funds in Ontario are subject to registration and compliance monitoring programs
- Directors and Officers of reporting issuers are directly affected by OSC regulation

- Portfolio Managers and Exempt Market Dealers are subject to registration and compliance monitoring programs of the OSC
- Investor advisory and advocacy groups
- IIROC and MFDA Registrants, both at the firm level and the individual level, operating in Ontario are affected by the rules and policies of the OSC through the delegation of OSC authority to appropriate SROs
- Exchanges and alternative trading systems are subject to review and monitoring
- Designated ratings organizations are subject to review and monitoring
- Clearing agencies (such the Canadian Depository for Securities) are recognized or exempted and subject to reviews and monitoring. Designated trade repositories are subject to review and monitoring.

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

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

Investor Advisory Panel

The Investor Advisory Panel ("IAP") is an independent advisory panel to the Commission. The IAP's mandate is to solicit and represent the views of investors on the Commission's policy and rule-making initiatives. To fulfill its mandate, the IAP:

- Advises and comments in writing on proposed rules, policies, concept papers and discussion drafts, including the Commission's annual Statement of Priorities
- Considers the views 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 from the IAP's investor consultation activities and comments on the potential implications for investors posed by those issues
- Advises and comments in writing on the effectiveness of the investor protection initiatives implemented by the Commission.

The IAP is comprised of up to nine members appointed by the Chair of the Commission following a public application process and on the advice of a selection committee consisting of two Commissioners and a Vice-Chair. Members of the IAP are appointed for terms of up to two years, with possible reappointment for one additional term.

OSC Consultative Committees

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

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

A list of the key consultative committees includes:

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

Small and Medium Enterprises Committee (SMEC) – advises OSC staff on the development, implementation and communication of policies and practices to address issues affecting small issuers in the pursuit of capital market efficiency, investor protection and economic growth. The SMEC also serves as a forum to advise OSC staff on the emerging issues and unique challenges faced by small issuers.

Investment Funds Technical Advisory Committee (IFTAC) – advises staff on technical compliance challenges in the investment funds product regulatory regime, and opportunities for improving alignment between investor, industry and regulatory goals.

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

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

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

trends and provides advice and comments on the legal, regulatory and market implications of Commission rules, policies, operations and administration.

Registrant Advisory Committee (RAC) – serves as a forum to discuss compliance and registration related matters with representatives from our registrant population. The RAC also acts as a source of feedback to OSC staff on the development of policy and rule-making initiatives.

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

Seniors Expert Advisory Committee (SEAC) - provides staff with expert opinions and input on securities-related policy, operational, education and outreach activities that are designed to meet the needs of older investors.

Financial Reporting Advisory Committee – provides advice to the Canadian Securities Administrators’ Chief Accountants Committee on relevant policy initiatives and various technical accounting and auditing issues that relate to financial reporting requirements and guidance in securities legislation in Canada. The committee also serves as a forum to discuss financial reporting practices and trends in the Canadian and global capital markets.

Fintech Advisory Committee - advises OSC staff on developments in the fintech space as well as the unique challenges faced by fintech businesses in the securities industry.

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

Commission Governance

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

The OSC Board of Directors oversees the management of the financial and other affairs of the Commission. Currently, the Board is composed of eleven members. Three are full-time Members of the Commission and eight are part-time Members. The full-time Members are Maureen Jensen, Chair, and D. Grant Vingoe and Timothy Moseley, Vice-Chairs. The part-time Members are: Mary Anne De Monte-Whelan, Garnet W. Fenn, Lawrence P. Haber, Craig Hayman, Raymond Kindiak, Poonam Puri, M. Cecilia Williams, and Heather Zordel.

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

Appointments are made according to the procedures of the Public Appointments Secretariat, which oversees public appointments to provincial agencies, and are subject to the Act and the Agencies and Appointments Directive. In making its recommendations to the Minister, the Commission supports the government's policy that appointees reflect the diversity of the people of Ontario and deliver services and decisions in a professional, ethical and competent manner with a commitment to the principles and values of public service.

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

Governance Framework

Although structured as a corporation, the Commission is a regulatory body and its purpose is mandated by statute. The Act establishes the Commission’s role in regulating capital markets, sets out the fundamental principles that the Commission shall have regard to in overseeing the administration and enforcement of the Act, and outlines the basic governance and accountability structure for the Commission.

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

The Role of Members

Overview

The Members of the Commission discharge their responsibilities under the Acts through three distinct roles: as regulators of Ontario capital markets, as adjudicators for the tribunal of the Commission, and as Members of the Board of Directors of the Commission. A brief outline of these three primary roles follows.

The Role of Members as Regulators of Ontario Capital Markets

Commission Members as Regulators

Policy Strategy
 Regulatory Initiatives
 Administration of *Securities Act* (Ontario)
 SRO Oversight

The Commission's regulatory responsibilities are exercised through the Commission's rule and policy-making function. The Commission's powers are exercised in furtherance of investor protection, in aid of fostering fair and efficient markets, to contribute to the stability of the financial system and the reduction of systemic risk, while having regard to the fundamental principles described earlier and minimizing regulatory burden.

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

The Role of Members as the Tribunal of the Commission

As adjudicators for the Commission's tribunal (the Tribunal), Members act independently of the Commission as a whole. Adjudicators conduct hearings of proceedings brought before the Tribunal, review decisions of SROs and of Commission staff and oversee adjudicative policies and procedures.

Panels of adjudicators are usually composed of two or more Members. The Chair does not act as an adjudicator due to the Chair's involvement in investigations and initiating enforcement proceedings. In some circumstances, Members other than the Chair sign investigation orders under section 11 of the Act, which would preclude that Member from adjudicating any matter arising from the investigation.

Proceedings before the Tribunal are governed by the Ontario Statutory Powers Procedures Act, the Commission's Rules of Procedure of Forms, the Commission's Practice Guideline and principles of administrative law.

The Commission adopted an Adjudicative Guideline to enhance the transparency of the Commission's adjudicative processes and provide guidance to Members and employees on the professional and ethical standards expected of them in the exercise of their adjudicative responsibilities. The Commission established the Adjudicative Committee as a standing advisory committee to assist Members in fulfilling their adjudicative duties and advancing Tribunal excellence.

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

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

The Board exercises its oversight through regular and special meetings of the full Board and its standing committees. Meetings of the Board are held at least quarterly and special meetings are held as required. The Board also conducts strategic planning and priorities-setting meetings with senior management.

The standing committees of the Board hold meetings at least quarterly and special meetings as required. There are four standing committees of the Board: Audit and Finance Committee, Governance and Nominating Committee, Human Resources and Compensation Committee and Risk Committee. A fifth standing committee of the Members, the Adjudicative Committee, advises the Commission on adjudicative policy issues. From time to time the Board may establish other temporary committees or retain advisors or consultants to advise it on specific matters.

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

Commission Members as Board of Directors

Strategic Planning

Risk Assessment and Internal Controls

Executive and Management Oversight

Integrity and Ethical Standards

Financial Review, Reporting and Disclosure

Board Governance

Appointment of part-time Members

Commission and Board Support

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

Operating Environment

Our Environment

Environmental factors influence securities regulators in their operations and regulatory oversight. Key challenges and issues that may influence the OSC's policy agenda, its operations, and the way it uses its resources, are as follows.

Globalization

The potential impact of continuing geopolitical events, such as Brexit implementation, decisions by the US government and changing trade relationships 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. However, the potential for increased protectionism and de-regulation could inhibit global harmonization and create opportunities for regulatory arbitrage.

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, magnifies 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 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 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 develop and maintain a responsive and aligned regulatory framework. Market participants continue to expand their product and service offerings. Fintech (technology facilitated financial services) and Regtech (technology facilitated regulatory compliance services) innovation continues to advance and 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 in the financial services industry 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 growth in the use of the 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.

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 will impact the OSC and its operations including:

- Changes to the regulatory oversight of syndicated mortgage investments by the Financial Services Commission of Ontario 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.

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 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.

Regulatory Burden Reduction

The Ontario government is committed to promoting a stronger environment for Ontario business and investors by reducing regulatory burden. The OSC established a Burden Reduction Task Force (the 'Task Force') in November 2018 to identify steps to enhance competitiveness for Ontario businesses by saving time and money for issuers, registrants, investors and other market participants. The Task Force is developing an OSC burden reduction plan. The OSC has undertaken ongoing consultations, including meetings with industry associations and investor advocates, a series of public roundtables, formal letter responses to the public notice, an online burden reduction survey and an internal staff suggestion campaign.

Delivering responsive regulatory oversight includes being mindful of the impact of regulatory burden on market participants. The OSC is re-examining its rules and processes to ensure they are appropriate and necessary. The OSC is also identifying and pursuing opportunities, with the CSA, to reduce undue burdens and streamline regulation in a harmonized fashion that maintains investor protection. The OSC's approach to regulatory burden reduction is guided by four key principles:

- Recognition that regulatory costs need to be proportionate to the objectives being sought. Proportionality in the OSC's processes and requirements will allow businesses to devote more resources to growth, innovation and investor protection while minimizing compliance time and costs.
- Acknowledgement that stakeholders – especially smaller businesses with less resources – are concerned about the time and costs of regulatory compliance, and that the concern needs to be addressed.
- An ongoing institutional commitment to burden reduction as a continuous process.
- Embedding burden reduction into how the OSC makes and administers rules.

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 versus millennials) have unique characteristics and present different challenges in terms of investment objectives and horizons. Their preferences can vary in terms of products (ETFs versus mutual funds) and service channels. 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 OBSI in its role as the independent dispute resolution service made available to investors.

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 are detrimental to

investors and very difficult to address. This creates challenges in supervision, surveillance and enforcement. If regulatory approaches are not aligned, cross-border supervision and enforcement efforts can be impeded. Regulators will need greater access to data and more sophisticated surveillance and analysis tools to more effectively evaluate compliance with regulatory requirements and identify misconduct. Technology can enable analysis and enhance compliance and enforcement capabilities without creating an additional burden on market participants.

Disruption involves the early detection of harmful misconduct with the purpose of disrupting ongoing harm at the earliest opportunity with non-traditional enforcement strategies (i.e. warning letters, investor alerts). The OSC will use disruption activities to proactively halt or impede ongoing misconduct and investor harm and will liaise with partners to facilitate action on their part.

Systemic Risk and Financial Stability

The OSC works with many domestic and international regulators to monitor financial stability risks and trends, 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 investigation tools required to achieve a practical and effective regime.

As part of their review of market stability issues, financial system regulators are examining the need for companies to disclose exposure to economic, environmental and social sustainability risks, including climate change. The Financial Stability Board (FSB) has established a Task Force on Climate-related Financial Disclosures to develop a set of recommendations for consistent, comparable, reliable, clear and efficient climate-related disclosures by companies. The OSC will continue to monitor developments in this area.

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 markets and creating a strong imperative to raise awareness about cyber-attacks and 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.

Data Management

Ever increasing market complexity is generating greater availability and reliance on data. The OSC is adding new tools and processes to support staff in delivering their responsibilities. A key element will be addressing challenges in managing growing volumes of data, including 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 and support analysis and decision-making. This will also allow easier filings and access for market participants.

Workforce Strategy

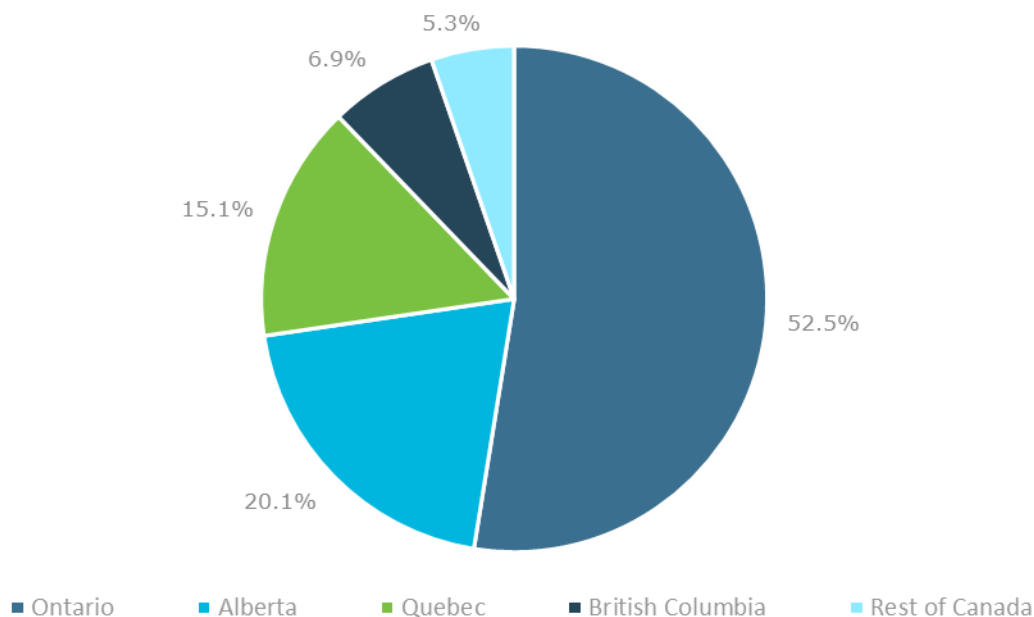
The ability to meet the identified goals and strategic objectives is dependent upon the OSC having both sufficient and appropriate resources. To meet the evolving needs, the OSC will continue to strengthen its capabilities through its people. While attracting, motivating and retaining top talent in a 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.

Market Context

Ontario's Financial Markets

- As of May 2019, Canada had the 9th largest stock market by domestic market capitalization¹
- Toronto has been ranked 7th among global financial centres²
- 59% of the global mining financings were done on TSX and TSXV in 2017³
- 63% of IIROC dealer members have their Canadian head office in Ontario⁴
- 64% of Mutual Fund Dealers have their Canadian head office in Ontario⁵
- 84% of total mutual fund assets (\$1.4 trillion) are managed by fund companies based in Ontario⁶
- Ontarians hold approximately 46% of all financial wealth in Canada (\$2 trillion)⁷

Market Capitalization by Province



¹ World Federation of Exchanges (December 2018)

² Z/Yen Group Global Financial Centres Index (March 2019)

³ <https://www.tsx.com/listings/listing-with-us/sector-and-product-profiles/mining>

⁴ IIROC (April 2019) www.IIROC.ca

⁵ MFDA Membership Statistics (April 2019) www.MFDA.ca

⁶ Investment Funds Institute of Canada and OSC calculations, December 2018

⁷ Investor Economics Household Balance Sheet 2018 (Assets as of December 2017). Note: Financial Wealth does not include nondiscretionary items such as contributions to CPP, QPP & DB Plans

- Of the top 100 employer pension plans, Ontario's pension plan assets totaled \$585 billion, representing 46% of the total across Canada⁸
- Approximately 416,000 people were employed in the financial services sector in Ontario, accounting for 50% of financial services employment nationally⁹
- Ontario is home to 41% of Canada's full-service brokerage representatives¹⁰
- As of May 2019, 86.2% of total trading volume (21.3 billion shares) and 99% of the total value (\$275 billion) traded on Canadian equity markets was traded on Ontario based marketplaces¹¹
- As of June 2019, there are 46 separate securities, derivatives and futures marketplaces carried on business in Canada for trading of equities, debt, derivatives, futures or securities lending.¹² 15 of these are based in Canada.
- As of June 2019, 14 clearing agencies carried on business in Ontario, providing clearing and settlement services for equities, debts, listed and OTC derivatives. Of which only three are based in Canada.
- As of June 2019, three trade repositories are designated in Ontario and offer OTC derivative trade reporting services to Ontario market participants to fulfill their reporting obligation as part of OTC derivatives reform. All three TRs are based in the U.S.

⁸ Canadian Institutional Investment Network An Overview of Pension Plans in Canada 2018 (Assets as of December 31, 2017)

⁹ The Labour Statistics Division, Statistics Canada, CANSIM table 282-0007 (May 2019), Finance and Insurance sector employment

¹⁰ Investor Economics Retail Brokerage and Distribution Advisory Service Winter 2019 (Data as of Dec 2018)

¹¹ Investment Industry Regulatory Organisation of Canada (May 2019)

¹² https://www.osc.ca/en/Marketplaces_index.htm

Securities Regulation in Canada – Overview

Securities regulation is a provincial responsibility, but provincial decisions can affect the capital markets across Canada as well as Ontario’s capital markets. The other CSA members also have similar mandates to protect investors and foster fair and efficient capital markets. All Canadian securities regulatory authorities currently work together through the Canadian Securities Administrators, or the CSA. The CSA is not a legal entity but a cooperative body.

The Role of the CSA

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

Harmonized Policies and Processes

The CSA has achieved a significant level of harmonization and uniformity in securities laws and the implementation of those laws across Canada. Currently most regulatory requirements are set out in national instruments and multilateral instruments and policies that are adopted with virtually uniform wording in all jurisdictions. In addition to harmonized instruments, the passport system and accompanying interface with the OSC provides a streamlined filing and review procedure for prospectuses and exemptive relief applications among multiple securities regulators across Canada resulting in reduced regulatory burden on market participants. The system is designed to enable one CSA jurisdiction to rely on the analysis and review undertaken by the staff of another CSA jurisdiction. The OSC is not a member of the passport system but in many cases relies on other jurisdictions’ decisions.

National Filing and Disclosure Systems

The current CSA national systems were developed to permit issuers, insiders and registrants to file documents electronically with all Canadian securities regulators through a single electronic submission. The core systems, SEDAR, SEDI, NRD, CTO and DL (as described below), may be considered first generation CSA IT systems each independently developed, and involving the creation of an electronic document filing or disclosure system based predominantly on custom code. Subsequent investments have focused on the need to address new regulatory requirements, usability improvements, delivering public access to filed/disclosed data, improving systems security and to support filers in the filing process.

The **System for Electronic Document Analysis and Retrieval (SEDAR)** is a proprietary central national electronic filing system, implemented in 1997, that facilitates the electronic filing of offering and continuous disclosure documents and the payment of the associated fees with multiple securities regulators. SEDAR facilitates communication between the filer and the applicable securities regulators in respect of certain filings, such as comment letters and responses made in

relation to prospectuses. Documents that have been filed via SEDAR became publicly available since 1998 for viewing through the website at www.sedar.com.

The **System for Electronic Disclosure by Insiders (SEDI)** introduced in 2003 is the central national web-based filing system that facilitates the electronic filing of reports of securities transactions made by insiders of reporting issuers via the website at www.sedi.ca.

The **National Registration Database (NRD)** is a web-based system implemented in 2003 that permits dealers and advisers to file registration forms electronically. A company and individuals whose business is trading, underwriting or advising with respect to securities is required to register annually with one or more provincial securities regulators. NRD has two websites – that is, the National Registration Database itself (NRD), which is for authorized representatives only to file their information, and the **National Registration Search (NRS)** tool which contains information that can be accessed publicly in read-only mode.

Other Systems

The **Cease Trade Order (CTO)** implemented in 2003 is a central electronic repository for all cease trade orders issued by most Canadian securities regulators and is accessible by the public via the CSA’s website. Each CTO entered has a link to the actual Order document that is stored on the relevant Regulator’s website.

The **Disciplined List (DL)** introduced in 2011 is a central electronic repository for the names of individuals and companies disciplined by the securities regulators, as well as the Tribunal Administratif des marchés financière, the Québec provincial court, IIROC, the MFDA, and la Chambre de la sécurité financière. A link to where the applicable decision document is provided directs the user to the relevant Regulator or organization’s website.

The CSA provides **Data Distribution Services (DDS)** that deliver near real-time or scheduled bulk feeds of publicly available SEDAR and SEDI data to subscribers of the services. The SEDAR Regulatory Fee Guide was implemented in 2011 to assist filers in calculating the relevant regulatory filing fees owing for a specific filing document type.

CSA National Systems Renewal Program (NSRP)

The NSRP is an initiative of the CSA that aims to replace CSA national systems (the System for Electronic Document Analysis and Retrieval (SEDAR), the National Cease Trade Order Database, the Disciplined List, the System for Electronic Disclosure by Insiders, the National Registration Database and the National Registration Search) with a more centralized CSA IT system (the Renewed System). Every CSA member is participating in NSRP.

The CSA national systems are being updated because they no longer meet current user needs. The NSRP is under development to replace aging, separate systems with a single user access web-based system. The renewed system will create an improved central store of regulatory filing data while addressing ease of use,

security, and the speed and cost of adaptability to new business requirements and technology.

In addition to building the new IT system, certain regulations that reference the national systems will be amended, including an updated CSA Systems Fee Rule. Local CSA jurisdictions will need to manage any changes to their internal local systems that interface with the national systems, and modify any related processes, workflows and policies.

We expect the Renewed System to be implemented in 4 phases beginning in early 2021. The first phase (Phase 1) will replace SEDAR, the National Cease Trade Order Database, the Disciplined List and certain filings in the British Columbia Securities Commission eServices system and the Ontario Securities Commission Electronic Filing Portal. Accordingly, filings made by issuers, including foreign issuers, will be incorporated into the Renewed System in Phase 1. We expect filings made by insiders, registrants, derivatives market participants and regulated entities (such as marketplaces, self-regulatory bodies and clearing agencies) to be addressed in future phases of the Renewed System.

Market Analysis Platform (MAP)

The CSA is in the process of developing a next-generation market analytics platform designed to identify, assess and investigate potential market abuse cases, which will replace the current CSA system. It will capture a broad array of market and transaction data to improve insight and support market integrity. The first phase of MAP, which covers mapping client data to market data, is expected to go live in 2019/2020. This is a significant project that will be continued throughout the coming years.

MAP will be a new tool that will be used in the future instead of the Market Integrity through Computer Analysis software programme. MAP will be used by the CSA Enforcement teams to assist with investigations of market manipulation and insider trading, for market research, as a source of data to assist in policy development, and for compliance purposes which may be developed in later phases of this project.

Co-Operative Capital Markets Regulator (CCMR)

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

In July 2015, the Council named William Black as the first Chair of the CCMR, and in July 2016, the initial Board of Directors was announced. The Board of Directors possesses the combined requisite capital markets experience and knowledge, including international capital and venture market expertise, and is broadly representative of the regions of Canada. Pending the enactment of the legislation to jointly establish the CCMR, Mr. Black and the other members of the Board of

Directors will serve as the Board of the Capital Markets Authority Implementation Organization (CMAIO). In November 2016, the Board of Directors named Kevan Cowan as Chief Executive Officer of CMAIO and Chief Regulator of the future CCMR. He will also be Chief Executive Officer of the Regulatory Division of CCMR. CMAIO was incorporated on behalf of the Participating Jurisdictions in July 2015 as an interim body to assist in the transition to and implementation of the CCMR. In January 2017 CMAIO announced its initial management team that will lead the work to operationalize CCMR in Canada. In a unanimous November 2018 decision, the Supreme Court of Canada found that the Cooperative Capital Markets Regulatory System was constitutional, overturning a Quebec Court of Appeal decision that found that the regime overstepped the federal government’s ability to make decisions on trade and commerce.

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

Oversight of Self-Regulatory Organizations, Exchanges and Clearing Agencies

Self-Regulatory Organizations (SROs)

The CSA has developed a coordinated approach to the regulation of SROs. Recognized SROs play a significant role in promoting investor protection and market integrity. They have prescriptive rules, compliance staff and an enforcement function which includes the authority to impose sanctions on their dealer members or employees – i.e. fines, reprimands, suspensions and permanent membership bans. The Ontario Government passed amendments to the *Securities Act* (Ontario) which provides SROs with the ability to pursue the collection of disciplinary fines directly through the courts. As front-line regulators, SROs discharge their responsibilities, subject to oversight by the applicable provincial securities regulatory authorities known as “recognizing regulators”.

There are two recognized and industry-funded SROs in Canada: the Mutual Fund Dealers Association of Canada (MFDA) for registered mutual fund dealers and the Investment Industry Regulatory Organization of Canada (IIROC), which was formed by the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. for investment dealers and market members. Most CSA jurisdictions rely on the applicable SRO to conduct the day-to-day regulation of mutual fund dealers and investment dealers with IIROC also responsible for registering individuals and monitoring trading on equity and debt marketplaces in Canada. Each SRO is the sole sponsor of an investor protection fund (IPF) which protects client assets in the event of an SRO member insolvency. The approved funds are the Canadian Investor Protection Fund for IIROC members and the MFDA Investor Protection Corporation for MFDA members.

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

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

Exchanges

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

The OSC is the lead regulator for TSX Inc., Alpha, Aequitas, Nasdaq, and co-lead regulator of CSE with the BCSC. The ASC and the BCSC are joint lead regulators for the TSX Venture Exchange. On the derivatives side, the AMF is the lead regulator for the Bourse de Montreal and the ASC for NGX.

There are also 21 swap execution facilities (SEFs) and multilateral trading facilities (MTFs) that have been exempted by the OSC from the requirement to be recognized as an exchange.

As of June 30, 2019, the following marketplaces (both exchanges and alternative trading systems) carried on business in Ontario for the trading of equities, debt and/or derivatives:

Marketplaces in Ontario

Recognized Exchanges

- Neo Exchange Inc.
- Canadian Securities Exchange (CNSX Markets Inc.)
- Nasdaq CXC Limited
- TSX Alpha Exchange Inc.
- TSX Inc.

Exempt Equity Exchanges

- TSX Venture Exchange Inc.

Exempt Derivatives Exchanges

- Bourse de Montréal Inc.

ATs for Equity Securities

- Instinet Canada Cross Limited
- LiquidNet Canada Inc.
- MatchNow (TriAct Canada Marketplace LP)
- Omega ATS/ Lynx ATS (Omega Securities Inc.)

ATs for Debt Securities

- CanDeal.ca Inc
- CBID/Perimeter Markets Inc.
- MarketAxess Canada Limited

ATs for Securities Lending

- EquiLend Canada Corp.

Exempt Futures Exchanges

- Board of Trade of the City of Chicago, Inc.
- Chicago Mercantile Exchange, Inc.
- Commodity Exchange, Inc.
- ICE Futures Europe (intercontinental Exchange, Inc.)
- ICE Futures US (Intercontinental Exchange, Inc.)
- ICE NGX Canada Inc.
- London Metal Exchange (LME Holdings Limited)
- New York Mercantile Exchange, Inc.
- Nodal Exchange, LLC
- OneChicago, LLC

Swap Execution Facilities

- 360 Trading Networks Inc.
- BGC Derivatives Markets, L.P.
- Bloomberg SEF LLC
- Cboe SEF, LLC
- DW SEF LLC
- GFI Swaps Exchange LLC
- ICAP Global Derivatives Limited
- ICE Swap Trade LLC
- LatAm SEF, LLC
- MarketAxess SEF Corporation
- NEX SEF Limited
- Refinitiv US SEF LLC
- SwapEX LLC
- tpSEF Inc.
- Tradition SEF Inc.
- trueEX LLC
- TW SEF LLC

Multilateral Trading Facilities

- 360 Treasury Systems AG MTF
- Bloomberg Trading Facility Limited
- FX Connect Multilateral Trading Facility (State Street Global Markets International Limited)
- Refinitiv Multilateral Trading Facility (Refinitiv Transaction Services Limited)

Clearing Agencies

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

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

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

Canadian Derivatives Clearing Corporation (CDCC) provides central counterparty (CCP) clearing services for derivatives products traded on the Bourse de Montreal, fixed income products and certain OTC derivatives products. CDCC has been recognized by the OSC since April 2014; prior to that it was exempted from the recognition requirement. CDCC is also recognized by the AMF under its derivatives legislation and by the BCSC under its securities legislation. CDCC's CDCS system has also been designated by the Bank of Canada as a systemically important clearing and settlement system under the PCSA. As with CDS, OSC, AMF, BCSC and Bank of Canada staff also coordinate oversight through the CSA-BOC MOU.

LCH.Clearnet Limited (LCH), which operates CCP clearing services for multiple asset classes, is currently offering the following services in Ontario: SwapClear, RepoClear, ForexClear and EnClear: the OSC has recognized LCH since 2013, prior to which it was exempted from the recognition requirement. The OSC is also a member on the Global Regulatory College for LCH. LCH is based in the UK and is regulated by the Bank of England. The OSC places reliance on the Bank of England

for day-to-day oversight of LCH and focuses its direct oversight on matters that impact Ontario participants (e.g. launching of new services in Ontario). The AMF has also recognized LCH. LCH's SwapClear system has been designated by Bank of Canada under the PCSA. The OSC, AMF and Bank of Canada staff informally coordinate oversight.

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

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

- Chicago Mercantile Exchange Inc.
- CLS Bank International and its affiliate CLS Services Ltd.
- Eurex Clearing AG
- Fixed Income Clearing Corporation
- ICE Clear Credit LLC
- LME Clear Ltd.
- Nodal Clear LLC
- Options Clearing Corporation
- DTCC ITP Matching (Canada) Limited, which carries on business as a matching service utility (MSU) in Ontario, and is regulated as a MSU under National Instrument 24-101 Institutional Trade Matching and Settlement (NI 24-101)
- SS&C Technologies Canada Corp., which carries on business as a MSU in Ontario and is also regulated under NI 24-101
- Options Clearing Corporation

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

Trade Repositories

As part of Canada's commitment to the G20 initiative to reform the practices in the OTC derivatives markets, the OSC has implemented a Trade Repository Rule (TR Rule) to improve transparency in the OTC derivatives market by requiring participants in the market to report certain trade information to a designated TR and to impose certain minimum standards on designated TRs to ensure that they

operate in a manner that promotes the public interest. Market participants began reporting under the TR Rule in October 2014.

Three TRs have been designated in Ontario: Chicago Mercantile Exchange Inc. (CME), DTCC Data Repository (U.S.) LLC (DDR) and ICE Trade Vault, LLC (ICE TV). These TRs are based in the US and regulated by the CFTC. The OSC places reliance on the CFTC for day-to-day oversight and focuses direct oversight on matters that impact the Ontario capital markets (e.g., access by Ontario participants). In addition, the three TRs have also been designated by the AMF and MSC and in July 2016, securities regulators in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan announced approval of recognition orders for the three TRs designated by the OSC. Securities regulators in Newfoundland and Labrador, Nunavut, Northwest Territories, Prince Edward Island and Yukon approved comparable recognition orders for some or all of these trade repositories, before trade reporting requirements began in their jurisdictions. On-going oversight of the designated TRs is coordinated under the FMI MOU discussed above.

Regulation of Issuers – Offerings and Continuous Disclosure

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

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

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

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

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

Publicly offered investment funds are subject to continuous disclosure obligations similar to those applicable to public companies. These investment funds must also comply with product regulations that contribute to investor protection, including investment restrictions, asset custody requirements and security holder voting requirements. Investor protection is further promoted by requiring every publicly-offered investment fund to have a fully independent body, an Independent Review Committee (IRC), whose role is to consider all decisions referred to the IRC by the fund manager involving an actual or perceived conflict of interest faced by the fund manager in the operation of the fund.

The OSC also regulates structured products that are securities and sold to retail investors. These structured products are also known as linked notes. Linked notes generally provide investment exposure to public indices and can have various degrees of downside protection and pay-out. Linked note issuers file base-shelf prospectuses and prospectus supplements to distribute these notes. Any novel linked note is subject to the OSC's review, before any distribution of the note.

Registration of Dealers, Advisers and Investment Fund Managers

The underlying principle of regulation for dealers, advisers and investment fund managers is based on registration and ongoing registrant obligations. Registration entails demonstrating that the person or company meets the fit-and-proper requirements of proficiency, integrity and financial solvency. Once registered, a dealer, adviser or investment fund manager must meet ongoing registrant obligations. For example, registered firms must meet certain business conduct requirements (including know-your-client (KYC), know-your-product (KYP), suitability, conflict management and client relationship requirements), and financial reporting, working capital, insurance and bonding requirements.

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

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

The OSC registers firms in all categories of registration (this function is not delegated to SROs in Ontario).

Individuals must become registered with the OSC if they trade, underwrite or advise on behalf of a registered dealer or adviser, or act as the ultimate designated person or chief compliance officer of a registered firm. The OSC has delegated to IIROC the registration of their member firm dealing representatives. To facilitate registration and filing in multiple jurisdictions, the CSA developed the National Registration Database and has harmonized the registration regime.

Oversight reviews of registrants and derivatives market participants are conducted to assess compliance with applicable securities legislation and rules. Registrants are selected for reviews by using a risk-based approach, for issue specific compliance reviews, or when registrant specific concerns are identified. The review programs are continuously updated to include regulatory changes.

Enforcement

The OSC and the other members of the CSA have broad investigative and enforcement powers, including the ability to prohibit trading, ban persons from the market, impose financial penalties and freeze assets. By identifying contraventions of securities laws or conduct in the capital markets that is contrary to the public interest, and by imposing appropriate sanctions, the OSC and CSA deter wrongdoing, provide protection to investors and foster fair and efficient capital markets and confidence in their integrity.

The OSC, CSA, SROs, governments and police forces work together to achieve complementary goals. Cooperation among these groups takes several forms, including intelligence sharing, assisting other jurisdictions with investigations, joint enforcement actions, and reciprocal enforcement. CSA members work closely together and may conduct joint investigations on matters that involve multiple jurisdictions. Some commissions, including the OSC, have the jurisdiction to conduct quasi-criminal matters and seek jail terms for fraud and other serious misconduct. In addition, OSC enforcement staff work with IOSCO, the Council of Securities Regulators of the Americas, and the North America Securities Administrators Association to enhance cooperation in enforcement matters. The Securities Commissions in British Columbia, Alberta, Ontario and Quebec are all signatories to the IOSCO Multilateral Memorandum of Understanding.

International Harmonization

The OSC is actively engaged at the international level, promoting cooperation, information sharing and the development of principles, standards and best practices in securities regulation. The OSC Chair is a member of the governing Board of IOSCO, which is the leading international policy forum for over 100 securities regulators and is recognized as the global standard setting body. OSC staff routinely take leadership roles on IOSCO policy committees and actively cooperate with other regulators under IOSCO's multilateral MOUs to facilitate cross border investigations and enforcement matters.

Vision and Strategic Goals

The OSC vision is to be an effective and responsive securities regulator – fostering a culture of integrity and compliance while reducing regulatory burden, balanced against investor protection. Public confidence in these markets can be affected by many factors, including the stability of the financial system, the economic health of the country and the volatility in the marketplace. The environmental factors set out previously, including globalization, technology, and the changing investor population also have an impact on how the OSC does its work. The direction we have defined for ourselves is grounded in the OSC’s four strategic goals:

1. Promote Confidence in Ontario’s Capital Markets
2. Reduce Regulatory Burden
3. Facilitate Financial Innovation
4. Strengthen Our Organizational Foundation

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, while protecting investors from financial system risk and misconduct.

Reduce Regulatory Burden

The Ontario government is promoting a stronger environment for Ontario business and investors by cutting red tape and reducing regulatory burden. The Government plans to systematically review Ontario’s regulations, then streamline, modernize and, in some cases, eliminate unnecessarily complicated, outdated or duplicative regulations. The OSC supports this goal and has struck a burden reduction task force to identify outdated or burdensome regulatory requirements and processes to make it easier to participate in Ontario’s capital markets.

Facilitate Financial Innovation

Rapid changes in financial technology have impacted regulators and the sale/distribution of financial products. Regulators are expected to create an environment that supports emerging financial technology, ensuring investor protection, while creating flexible and proportionate regulatory approaches.

The OSC will continue to develop flexible regulatory approaches to help support fintech innovation in Ontario. This includes creating flexible regulatory frameworks for crypto-asset business models, including initial coin and token offerings; crypto-

asset investment funds; corporate finance issuers investing in crypto-assets, digital tokens and/or distributed ledger technology-related businesses; and crypto-asset trading platforms.

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 needs to enhance its workforce by seeking staff with strong data-gathering, intelligence, and analytic capabilities who can proactively identify emerging problems, especially when those problems 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 analytical 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.

OSC 2019 – 2020 Priorities

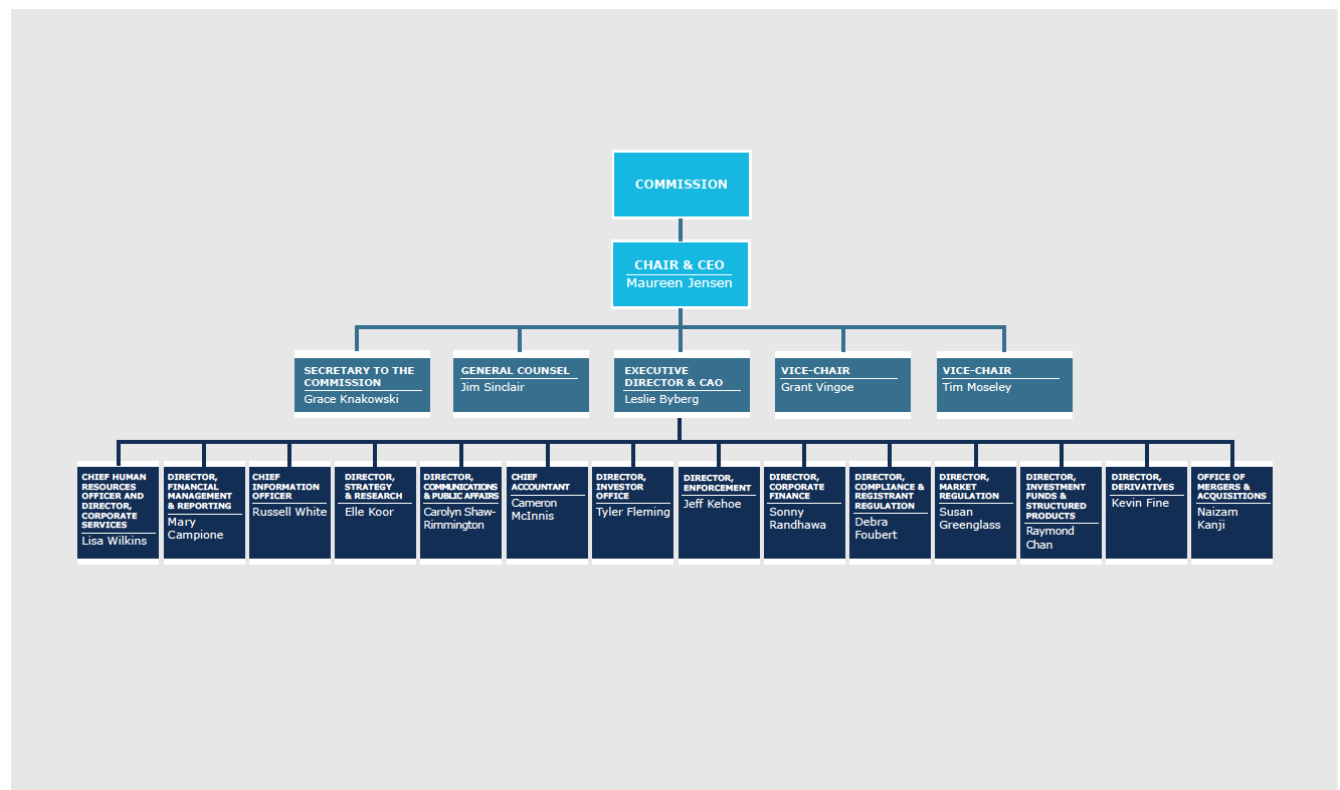
The OSC Statement of Priorities is an annual document required under the Securities Act (Ontario). The Commission's key 2019 – 2020 priorities, along with specific initiatives, are set out in Appendix A.

Organization, Structure and Core Activities

The OSC is organized into seventeen branches and offices, eight of which focus their main activities on regulating defined segments of the Ontario securities markets. The remaining branches and offices provide regulatory advice or corporate support.

Organizational Chart

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



Regulatory Operations Branches/Offices

Compliance and Registrant Regulation – responsible for regulating firms and individuals who are in the business of advising or trading in securities or commodity futures, and firms that manage investment funds in Ontario, as well as developing policy relating to registrants and their obligations.

Corporate Finance – responsible for regulating reporting issuers (other than investment funds). The branch reviews public distributions of securities, exempt market activities and continuous disclosure of reporting issuers, and leads issuer-related policy initiatives. The branch is also responsible for supervising insider reporting, regulating credit rating agencies and overseeing the listed issuer function for OSC recognized exchanges.

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

Derivatives – responsible for developing a regulatory framework for over-the-counter derivatives trading in Ontario, implementing and reviewing compliance with that framework and contributing to systemic risk monitoring of the Ontario capital markets.

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

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

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

Investor Office – sets the strategic direction and leads the OSC’s efforts in investor engagement, education, outreach and research. The Office also has a policy function, plays a key role in the oversight of OBSI, and provides leadership in the area of behavioural insights and improving the investor experience.

Office of Economic Growth and Innovation– currently under design, the office will be structured to ensure resource capacity and critical organizational focus on supporting innovation in capital markets, leading to economic growth. The office will interact directly with market participants, ensuring the OSC receives balanced insights into the perspectives of stakeholders and prioritizes the update of existing rules to reduce regulatory burden. The three core strategic objectives are:

- To bolster capital formation within the province,
- To promote the proliferation of technology to reduce costs, increase competition and accelerate innovation in financial services
- To collaborate with businesses and other regulators to gain insights on how to support innovation, facilitate competition and reduce regulatory burden.

Regulatory Advisory Branches/Offices

General Counsel’s Office – an in-house legal, policy, strategy and risk-management resource to the OSC, is also responsible for the collection of unpaid monetary sanctions and leads the defence of proceedings brought against the Commission. GCO also supports the OSC Ethics Executive in the oversight of organizational integrity and ethical conduct. Provides advice and support to the OSC in its dealings with the Ministry of Finance, other regulators and governments, both in Canada and internationally.

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

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

Office of the Secretary to the Commission – supports the Members of the Commission in their statutory mandate as regulators, adjudicators for the Commission’s tribunal and as the board of directors by providing administrative law and corporate governance legal advice and professional support.

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

Corporate Branches/Offices

Financial Management and Reporting – provides financial management and analysis, reporting and treasury services to allow the OSC to continue carrying out its regulatory responsibilities. Assurance over financial reporting is provided through the design and maintenance of effective controls.

Human Resources and Corporate Services Branch – this branch includes the following functions: Human Resources, Organizational Development, Administration (Facilities, Procurement, Office Services), Knowledge Services, Records and Information Management, and Business Continuity. The Branch provides procurement and stewardship of OSC resources to support the achievement of OSC priorities, ensures compliant program and service delivery and leads the design and implementation of a positive employee experience.

Information Services (IS) is responsible establishing, monitoring and maintaining the information technology systems and services for the OSC in support of its mandate. The group is comprised of Client Services, Application Services, Technology Services, Information Security and IS Project Management.

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

Total Approved Permanent Positions April 01, 2019

Branches and Offices	Number of Positions
Regulatory Operations Branches / Offices	
Compliance and Registrant Regulation	96
Corporate Finance	58
Derivatives	14
Enforcement	162
Investment Funds and Structured Products	35
Market Regulation	30
Office of Mergers and Acquisitions	7
Investor Office	12
Regulatory Advisory Branches / Offices	
Office of the Chief Accountant	7
General Counsel's Office	25
Communications & Public Affairs	14
Secretary to the Commission	14
Strategy and Operations	34
Corporate Branches / Offices	
Human Resources & Corporate Services	41
Information Systems	39
Financial Management and Reporting	11
Chair, Executive Director and Internal Auditor	14
Strategic Workforce Positions	
Strategic Workforce Positions	2
Total	615

2018 – 2019 Financial Summary

Total revenues of \$129.4 million were up \$4.5 million (3.6%) from 2018 mainly as a result of higher participation and activity fees. Total expenses of \$121.7 million were up \$9.3 million (8.2%) from 2018 mainly due to higher salaries and benefits, higher professional services and information technology maintenance costs to support technology modernization initiatives. The OSC's general surplus of \$67.5 million at the end of fiscal 2019 increased by \$11.7 million from the prior year. This surplus has been slowly accumulated to undertake necessary system and premises changes which are underway and are multi-year projects.

Fee rates remain unchanged from 2017-2018 as set out in the OSC's fee rules (13-502 and 13-503). As the fee structure is designed to recover costs, the OSC is currently targeting April 2021 to finalize the review of fees and implement any required changes to the fee rules. The existing surplus, projected level of revenue and expenses, capital spending and the level of cash resources required to fund operations through market downturns are considered when determining appropriate fee rates. Specific measures to reduce chargeable filings as part of the burden reduction initiative may be introduced prior to the implementation of the new fee rules.

2019 – 2020 Budget Approach

The 2019–2020 OSC Statement of Priorities sets out the OSC key priorities which are a key driver of the increase to the 2019–2020 OSC operating and capital budgets including investments focused in the following areas:

- Dedicated resources for high priority Enforcement and Information Technology initiatives.
- External resources for the data management and information security programs and other required technology modernization initiatives.
- Facilities rehabilitation to optimize space utilization and accessibility.

The operating expense budget is 1% above the 2018-19 budget and 9.4% above actual 2018-2019 spending. This increase includes funding for the activities listed above, the new activity included in the five-point plan of the current Government of Ontario budget and the impact of the new IFRS 16 *Leases* standard. The implementation of IFRS 16 *Leases* will introduce a non-cash financing charge of \$1.7 million due to the capitalization of a right of use asset and lease liability, primarily associated with the premise lease.

The increased capital budget reflects resources for facilities rehabilitation, data management, OSC website redevelopment and other technology modernization expenditures deferred from 2018-2019.

Cash Flow Requirements

The OSC's cash balance amounted to \$74.0 million at March 31, 2019. The OSC will begin drawing down on its cash position in fiscal 2019-2020 to support focused multi-year programme initiatives. These programmes, in addition to our operating

costs, are expected to reduce our cash position to \$48.7 million by March 2022, representing approximately 4.5 months of operating expenses. The OSC's revenues generated from participation fees (84% of total revenues) are directly tied to changes in firm, industry and general market growth. Given the lack of control over most revenues, an adequate cash reserve is necessary to continue to carry out the OSC mandate should unfavourable market driven events occur.

Excess/Deficiency of Revenues over Expenses (in millions)	2018-19 Actual	2019-20 Budget	Change Favourable/ (Unfavourable)	Change Favourable/ (Unfavourable)
Revenues	\$129.4	\$126.8	(\$2.6)	(2.0%)
Expenses	\$117.5	\$128.5	(\$11.0)	(9.0%)
Excess of Revenues over Expenses	\$11.9	(\$1.7)	(\$13.6)	(114.3%)
Capital Expenditure	\$5.7	\$7.2	(\$1.5)	(26.3%)

	2018-19 Actual*	2019-20 Budget	Change
Staff	564	615	9.0%

* As at March 31, 2019

OSC Operating Budget and Staff Allocation		
2019 – 2020 Budget Expenses - \$128.5 Million Total 615 Staff (510 Front Office Staff)		
Policy & Operations – Regulatory Operations Budget - \$100.4 Million 416 staff	Policy & Operations – Regulatory Advisory Budget - \$17.9 Million 66 staff	Executive Offices Budget - \$10.2 Million 28 staff

* Back office costs have been re-allocated to front office activities.

Three Year Surplus Forecast

(in millions)	2019-20 Budget	2020-21 Forecast	2021-22 Forecast
Total Revenues	\$126.8	\$125.0	\$125.0
Total Expenses**	\$128.5	\$130.9	\$134.1
Surplus/(Deficit)	(\$1.7)	(\$5.9)	(\$9.1)
Opening Surplus	\$67.5	\$65.8	\$59.9
Closing Surplus	\$65.8	\$59.9	\$50.8

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

The increase in budgeted expenses includes changes for general inflation, resources to support the creation of the Office of Economic Growth and Innovation, regulatory oversight of syndicated mortgage transactions, regulatory oversight of systemic risk and derivatives, investments in information technology and implementation of the five-point plan. As a result of the burden reduction initiative, which is currently underway, it is estimated that revenue will decrease due to lower chargeable filing volumes and from lower fee rates for specific filings over the forecast period. The forecast reflects current assumptions which will be refined as the plan evolves.

Performance Measurement

Overview

Effective performance measurement provides insights into operations, supports planning and decisions, promotes a culture of accountability and allows for the monitoring of performance.

Performance Measures

The OSC tracks performance against a series of measures. These measures include input, activity, output, and outcome measures.

Examples of input, activity and output measures includes volume measures such as the number of prospectus filings reviewed, number of compliance reviews completed, transaction turnaround times, service standards and project progress. Tracked over time, these measures support trend detection, identification of issues and emerging risks, project management, workload management and more effective resource allocation.

Outcome measures indicate whether the OSC's statutory objectives, strategies and goals are being achieved. The impact of regulation, supervisory activity and interventions are more complex to quantify as they occur over time as well as are often less tangible and the result of multiple factors. For market-facing activities, outcomes are measured for example in terms of compliance rates (e.g. as measured by the number of significant findings in compliance reviews and number and type of misconduct cases identified), number and type of investor complaints, changes in investor literacy rates and successful enforcement outcomes. For internal operations, the OSC measures outcomes for example in terms of employee retention and satisfaction rates and adherence to budget.

In addition, the OSC conducts regulatory impact studies. These involve qualitative and quantitative analysis of the benefits and costs of regulation and are conducted in advance of the introduction of a new rule and increasingly post-implementation to assess medium to long-term impact of implemented rules. In line with the Ontario Government's Five-Point Plan to create confidence in the capital markets, the OSC is expanding its efforts in this area with a view to improving stakeholder engagement and increasing transparency of the impacts of new rules.

Complementary to these measures, the OSC tracks a wide range of indicators pertaining to the economic and market environment (e.g. composition of the regulated population, levels of market activity). These indicators provide critical contextual information that help explain trends and variances in relation to input, activity, output and outcome measures. The OSC also tracks various information relating to investor outreach, education and the impacts achieved through the Investor Office.

Performance Reporting

The OSC produces regular performance reporting both internally and externally. Internally, the OSC has management and corporate reporting to the Executive and the Board on a quarterly basis. OSC Branches have defined indicators for the quarterly management reports. Reports are continually refined to support focused and insightful discussion of both policy and operations. Externally, the OSC is committed to accountability and transparency to stakeholders and uses a range of approaches and reporting tools to support this objective.

Each year the OSC publishes its Statement of Priorities which sets out the OSC's priorities and specific initiatives in connection with the administration of the *Securities Act* (Ontario). Stakeholders are given an opportunity to comment on the draft document before it is published and delivered to the Minister of Finance. The OSC also publishes an online report on its progress against the matters identified in the Statement of Priorities from the previous fiscal year.

The OSC publishes an Annual Report on its operations. This is complemented by other Branch-specific annual reports, such as the Compliance & Registrant Regulation Annual Report, the Corporate Finance Annual Report and the Investment Funds Practitioner.

The OSC annually publishes the "OSC Service Commitment - Our Service Standards and Timelines", a detailed performance report against a broad range of service targets. This document is available on the OSC [website](#). The metrics for 2018-2019 are presented in Appendix B.

Risk Identification and Management

Background

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

Key Components of the OSC Risk Management Framework

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

- Promote a risk awareness culture within the OSC
- Align the OSC risk appetite with its strategic direction
- Identify and manage enterprise-wide risks
- Provide important input into setting the OSC's strategic direction and business plan
- Allow for proactive management of risk, improvements to performance measures, prioritization of initiatives and more strategic allocation of resources.

Strategic Risks

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

Enterprise Risk Inventory

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

Business Risks

The OSC has established policies and processes to identify, manage and control operational and business risks that may impact our financial position and our ability to carry out regular operations. Management is responsible for monitoring ongoing control of operational risks by ensuring appropriate procedures, internal controls and processes, other necessary actions and compliance measures are undertaken. The OSC's Code of Conduct and governance practices were established by its Board of Directors are available at www.osc.gov.on.ca.

Internal Audit

OSC Internal Audit is an assurance and advisory service to the Board of Directors and to management. The internal audit function is governed by an Internal Audit Charter approved by the OSC's Board of Directors and by an annual internal audit plan that is approved by the Board. Quarterly reports and updates are given to the Risk Committee of the Board and an annual report on the results of all internal audit engagements is given to the Board of Directors.

Systems Risk

The OSC's Information Services group regularly monitors and reviews the OSC's systems and infrastructure to maintain optimal operation. The OSC also performs regular security and vulnerability assessments to highlight potential areas of risk. All key recommendations are tracked and the progress to address these findings are reported to the Risk Committee. The OSC has an Information Security Office and a Chief Information Security Officer. The most recent OSC Disaster Recovery test was performed in April 2019.

The OSC relies on the CSA national systems for many regulatory filings and some fee collection services. These systems are operated by CGI. The CSA requires CGI to provide an annual third-party audit report (CSAE 3416 – Type II) that reviews and evaluates the internal controls design, the effectiveness of the national systems and CGI's outsourcing operations. CGI is also required to have an operating disaster recovery site for operating these systems and to test it annually.

Business Continuity

The OSC has a detailed Business Continuity Plan (BCP) to ensure critical regulatory services can continue if internal or external disruptions occur. The BCP is continually reviewed and refined and includes strategies to effectively address various market disruption scenarios. The most recent OSC Disaster Recovery test was performed in April 2019.

Financial Risk

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

reporting (ICFR) program. Market fluctuations continue to affect our ability to precisely forecast revenue, however, this risk is not expected to impair our operations.

Legal Risk

Occasionally, the OSC is involved in defending legal proceedings arising from the ordinary course of business. Currently, there are seven such proceedings commenced against the Commission.

Human Resources Plan

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

Area of Focus	Strategies/Plans
Build an attractive, modern and high performing workplace	<ul style="list-style-type: none"> • Sustain and build on strong employee engagement through focused employee survey response initiatives • Establish and administer compensation practices that support attraction and retention of employees with the skills and experience required to effectively regulate the capital markets and deliver on the OSC mandate and priorities; including benchmarking against the talent market from which we recruit (a blend of public, private and financial services organizations in the GTA) • Continue to build a healthy and inclusive OSC community
Develop great talent managers	<ul style="list-style-type: none"> • Continue to develop current and emerging leaders through the OSC's leadership development program, which includes coaching, classroom training and self-directed learning, peer learning sessions, and management tools
Support successful organizational change and continuity	<ul style="list-style-type: none"> • Develop and implement a strategic workforce plan that addresses current and emerging talent needs: <ul style="list-style-type: none"> ○ Identifying, monitoring, and managing talent risks to mitigate impact on operations ○ Expanding staffing approaches and employment relationships to increase the OSC's ability to attract, retain and leverage staff with specialized skills and experience ○ Continuing to strengthen and build on succession planning and talent mapping practices to ensure a robust talent pipeline for critical roles across the organization ○ Continuing to deliver targeted talent development programs including leadership, coaching and skills-based learning, thereby strengthening organizational performance ○ Provide employees with access to information, tools and resources that support them in adapting to change and contribute to effective organizational transition ○ Continue to develop a culture of learning and development that provides professional and career growth and enables delivery of effective regulation

Area of Focus	Strategies/Plans
Provide first class fundamental HR services	<ul style="list-style-type: none">• Increase capacity to respond to emerging issues and organizational complexity by increasing knowledge and ability to provide executive and manager clients with reliable, accurate, timely and trusted advisory services• Continue to monitor and report on an “OSC People” dashboard with metrics to guide decision-making• Continue to apply modern recruitment practices to source best candidates for OSC positions, to enhance the application and decision-making process for applicants and maximize efficiencies for all stakeholders in the recruitment and on-boarding process

Communications & Public Affairs Plan

Strategic Focus

- Prioritize consultation, communication and interaction with stakeholders about the OSC's ongoing work to reduce regulatory burden.
- Build on current listening strategies to understand stakeholders' preferred communications channels and develop tailored strategies in response.
- Clearly and consistently articulate OSC priorities and outcomes to both internal and external audiences.
- Focus on key priority topic areas (specifically, reducing burden, modernizing regulation, promoting market confidence, facilitating innovation, financial stability) and ensure consistent delivery of key messages across all channels.
- Deliver transparent and measurable communications such that investors and other stakeholders understand what we do, how we do it and are actively engaged in our work.
- Ensure maximum reach by delivering integrated communications strategies, leveraging all tools, resources and channels (including digital communications and enterprise social media).

2019-2020 Focus

External Communications and Outreach

The OSC wants our stakeholders to be actively involved in the OSC's work and feel engaged and knowledgeable about our work. The OSC is open to stakeholder feedback and will work to ensure market participants and investors are familiar with our processes, points of contact, priorities and practices. The OSC has a comprehensive stakeholder communications strategy with emphasis on integrated communications and relationship development with industry and stakeholder groups.

The communications branch organize and oversee corporate events and roundtables that demonstrate thought leadership, engage stakeholders and drive the discussion around OSC priorities and strategic initiatives. They advise regulatory branches on corporate outreach events (e.g. policy roundtables, webinars, one-on-one meetings) to ensure corporate communications objectives are achieved, through content development and executive remarks that clearly articulate OSC key messages and priorities.

OSC Dialogue 2019

Dialogue 2019 will explore how confidence in capital markets underpins the ability to create value, build wealth and fuel innovation. The November 21, 2019 event will feature plenary discussions with internationally recognized industry thought leaders and policy experts. Speakers will discuss collaborative strategies to drive efficiency, economic growth and innovation while fostering market confidence. This

year's event will be held at a large venue to accommodate what is anticipated to be another capacity crowd.

Public Affairs

Develops and implements communications strategies to ensure the OSC's priorities, policies and initiatives are clearly communicated to market participants and investors, and aligned with government priorities, including burden reduction. They seek out opportunities to maximize visibility on burden reduction using all available channels and platforms, including media, digital communications tools and social media. They also develop communications strategies to mitigate issues that pose risks to public confidence in Ontario's capital markets.

Internal Communications

Build on successful internal communications strategy with desired outcome being continued improvements in staff engagement. Focus this year will be on engaging staff in burden reduction efforts and other OSC priorities (e.g. town hall meetings and Q&A sessions with executives) and intranet enhancements that will enable greater collaboration, streamline communication, enhance productivity and increase stakeholder usability.

OSC Website Redevelopment

Updates to systems, processes, and content are needed to realize efficiencies, comply with accessibility standards, and adapt to changing stakeholder needs. The redevelopment of www.OSC.ca will replace aging technology, improve security, streamline content, enhance search capability, improve usability and meet accessibility standards. The OSC will address high priority fundamental improvements and build capacity to support new content formats in the future. They will focus on improved service delivery to market participants and investors by streamlining and simplifying online communications.

Appendix A – OSC 2019-2020 Statement of Priorities

The OSC Statement of Priorities is an annual document required under the Securities Act (Ontario). The Commission’s key 2019–2020 priorities, along with specific initiatives, are set out below:

Promote Confidence in Ontario’s Capital Markets

Issue/Priority	Proposed Actions
Continue Consulting on Client Focused Reforms	<ul style="list-style-type: none"> • Implement recommendations based on the review of comment letters • Publish rule amendments and Companion Policy Guidance • Determine next steps in consultation with the CSA and other stakeholders on other identified initiatives
Continue CSA Policy Consultations on Mutual Funds Embedded Commissions	<ul style="list-style-type: none"> • With the CSA, develop responses to the proposals published for comment in September 2018
Improve the Retail Investor Experience	<ul style="list-style-type: none"> • Improve effectiveness of OSC policies and outcomes for retail investors through integration of behavioural insights • Seek ways to improve the investor experience through disclosure innovations, plain language initiatives, improving investor tools and resources, and adopting customer-centric principles in a variety of work areas • Advance investor protection through financial literacy and investor education programs • Increase partnerships with stakeholders and community groups interested in investor education initiatives • Collaborate with the Ministry of Education to enhance the financial literacy curriculum. • Continue to implement the OSC Seniors Strategy, which includes addressing issues of financial exploitation and cognitive decline • Continue to evolve strategy to address emerging challenges facing older and vulnerable investors • Provide educational and regulatory tools to registrants to help them meet the needs and priorities of older and vulnerable investors

<p>Expand Systemic Risk Oversight of Derivatives</p>	<ul style="list-style-type: none"> • Publish a proposed business conduct rule and develop a registrant regulation framework • Develop a compliance review program for derivatives market participants • Establish a monitoring regime for data relevant to the applicability of a proposed margin rule for uncleared derivatives to Ontario entities • Improve quality and completion of trade reports to improve systemic risk monitoring and enforcement • Propose amendments to Trade Reporting rule to accommodate internationally adopted data standards • Publish final amendments to Clearing rules regarding applicability to affiliates
<p>Timely and Impactful Enforcement Actions</p>	<ul style="list-style-type: none"> • Ensuring investigative and litigation resources are focused on cases expected to have a strong regulatory impact and are aligned with our strategic priorities • The Joint Serious Offences Team (JSOT), that works in cooperation with policing partners, will continue to focus on fraudulent behaviour and recidivism • Identifying ongoing harmful misconduct and take timely, proactive disruptive action to stop the misconduct at the earliest stage and minimize investor harm • The Whistleblower group will triage tips to focus action on impactful enforcement proceedings with effective regulatory messages
<p>Enhance Economically-Focused Rule-Making</p>	<ul style="list-style-type: none"> • Ensure proposed rules are supported by publicly available qualitative and quantitative analysis of the anticipated costs and benefits
<p>Support Transition to the Cooperative Capital Markets Regulatory System (CCMR)</p>	<ul style="list-style-type: none"> • 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 work to develop effective legislation, regulations and efficient regulatory oversight processes

Reduce Regulatory Burden

Issue/Priority	Proposed Actions
Engage with Stakeholders on Burden Reduction Opportunities	<ul style="list-style-type: none"> • Develop a CSA agreed interpretation of what would trigger primary business financial statement requirements in an IPO • Propose amendments to streamline, eliminate duplication among, and potentially consolidate into one report (both annual and interim), the financial statements, MD&A and, where applicable, AIF • Consider modifications to the Business Acquisition Report (BAR) requirements • Codify exemptive relief routinely granted to facilitate at-the-market offerings and consider whether other changes to liberalize the current approach are appropriate • Identify opportunities to enhance electronic delivery of documents • Seek to harmonize the prospectus and registration exemptions for securities-based crowdfunding by adopting a start-up crowdfunding exemption as a national instrument • Research and identify an alternative and streamlined offering regime for reporting issuers. • The Task Force to publish a report in Fall 2019, setting out short, medium and longer term initiatives and action plans to implement them • Implement the plan set out in the CSA Staff Notice 81-329 Reducing Regulatory Burden for Investment Fund Issuers • Review NI 33-109 Registration Information (including considering relevant stakeholder comments from the Burden Reduction Task Force) to identify options to modernize its requirements. Any amendments to the rule will require a CSA initiative. • The OSC will continue to enhance the regulatory impact analyses it conducts for policy initiatives with a view to improving stakeholder engagement and increasing transparency. The OSC will also conduct more post implementation reviews to confirm achievement of identified expected benefits and that

	no major impacts were missed from the initial analysis
Initiate OSC Website Redevelopment	<ul style="list-style-type: none"> • Complete discovery for content revision and website redevelopment, including a user engagement survey • Develop and begin implementation of a content revision plan • Develop a technical strategic plan for design and build of the new website

Facilitate Financial Innovation

Issue/Priority	Proposed Actions
Engage with the Fintech/Start-Up Sector	<ul style="list-style-type: none"> • Identify issues and opportunities and integrate learnings gained by working with innovative businesses to modernize regulation, reduce burden, improve regulatory alignment and better support emerging businesses • Publish a CSA/IIROC consultation paper on the regulatory framework for crypto-asset trading platforms • Examine the role of the unit creation and redemption process in the secondary market trading of ETFs units. Assess disclosure of the unit creation and redemption process • Incorporate regulatory developments in global ETF markets as input in developing a tailored Canadian regulatory approach
Establish the Office of Economic Growth and Innovation	<ul style="list-style-type: none"> • Create and launch an Office of Economic Growth and Innovation • Collaborate with businesses and other regulators to gain insights on how to support innovation, facilitate competition and reduce regulatory burden
Implement Alternative Funds Regime	<ul style="list-style-type: none"> • Expand investment choices for Ontario investors by supporting and facilitating industry stakeholders to develop and launch funds with alternative strategies and innovative structured investment products

Strengthen Our Organizational Foundation

Issue/Priority	Proposed Actions
Implement Strategic Workforce Planning (SWP)	<ul style="list-style-type: none"> • Measure the outcomes against success criteria • Make recommendations to be incorporated into a broader SWP Framework • In the framework, integrate multiple sources of workforce, employee, position and financial information to enable improved planning and decision making to support OSC operations.
Continue National Systems Renewal Program (NSRP)	<ul style="list-style-type: none"> • Support the CSA initiative to replace the CSA national systems with a modern, accessible, integrated, searchable, secure, 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 systems rule, plus a new CSA Systems Fee Rule • Complete work on OSC local systems and related processes, workflows and policies to ensure they are aligned with the NSRP national systems when they are launched.
Implement First Phase of Market Analysis Platform (MAP)	<ul style="list-style-type: none"> • Complete Phase I implementation of MAP
Modernize OSC Technology Platform	<ul style="list-style-type: none"> • Data Management Program • A new centralized review and case management system for improved regulatory business work-flow management • A right-sized framework for on-going data governance • A data management technology stack that includes tools for improved data management and analytics. • Systems Modernization & IT Resilience • New OSC Compliance System • Enforcement E-Discovery System replacement • Additional data management and analytics tools

	<ul style="list-style-type: none"> • On-going platform currency upgrades and improvements to various internal operational systems. • Information Security Program • Improve information security governance • Improve on-going information security operations and remediation of information security risks • Implement additional information security tools and technology • Develop additional policy, procedures and controls • Continue on-going information security awareness training for all staff
Build a Data Driven, Evidence Based and Risk Focused Organization	<ul style="list-style-type: none"> • Establish and launch an Enterprise Data Management Office to support a data-driven, evidence-based and risk-focused organization • Develop and implement a fit-for-purpose data governance framework and approach to data management to enhance the collection, management and analysis of data • Promote use of enhanced data management and analytics at the OSC to support and inform OSC policy and operations
Ensure Competitiveness and Clear Service Standards	<ul style="list-style-type: none"> • Report on metrics that track the competitiveness of Ontario's capital markets relative to other jurisdictions • Service standards will be tracked relative to securities regulators in leading jurisdictions • Create clarity for market participants on the processes for interacting with the OSC • Review and update OSC Customer Service Standards.

Appendix B – OSC Service Commitment Metrics

The OSC reports annually against its "*OSC Service Commitment - Our Service Standards and Timelines*" as part of its focus on accountability and transparency. The document outlines what stakeholders can expect when dealing with the OSC by summarizing target timelines for answering questions, responding to requests for information and submitting for review offering documents, applications and other filings.

The following tables outline how the OSC has performed against the target timelines during the 2018-2019 fiscal year. The status section displays a green box where the targets have been met for the entire year, and a yellow box where the target has not been met through the entire year. The notes section provides an explanation where a target has not been met.

Corporate Finance

Activity	Target	Q1	Q2	Q3	Q4	Status	Notes
Prospectus Comment Letters (long Form)	80% within 10 business days	100 %	100 %	100 %	100 %		
Prospectus Comment Letters (Short Form)	80% within 3 business days	100 %	100 %	100 %	100 %		
Prospectus Receipts	80% within 40 business days	100 %	100 %	100 %	100 %		
Exemption Applications	80% within 40 business days	100 %	100 %	100 %	100 %		
Final prospectus receipts	100% of materials filed by noon	100 %	100 %	100 %	100 %		
Amendments - Comment Letters	80% within 3 business days	100 %	100 %	100 %	100 %		
Amendments - Receipts	80% within 40 business days	100 %	100 %	100 %	100 %		

Compliance and Registrant Regulation

Activity	Target	Q1	Q2	Q3	Q4	Status	Notes
New Business Applications acknowledge receipt	95% within 5 business days	100%	100%	94%	100%		
New Business Applications evaluate application	80% within 90 business days	100%	100%	100%	100%		
New individuals - dealing reps evaluate application	80% within 5 business days	100%	99%	99%	97%		
New individuals - advising reps & CCO - evaluate application	80% within 20 business days	81%	88%	90%	92%		
Notice of Employment Termination	95% within 5 business days	100%	100%	100%	100%		
Applications for exemptive relief	80% within 40 business days	60%	70%	80%	75%		Service levels were below target due to turnover, recruitment and related training of new staff, as well as a number of more complex files that took longer than average to review.

Investment Funds and Structured Products

Activity	Target	Q1	Q2	Q3	Q4	Status	Notes
Prospectus Comment Letters - PR	80% within 10 business days	93 %	89 %	93 %	90 %		
Prospectus Receipts	80% within 40 business days	95 %	96 %	98 %	100 %		
Exemption Applications	80% within 40 business days	87 %	89 %	92 %	91 %		
Amendments - Comment Letters	80% within 3 business days	89 %	88 %	93 %	89 %		
Amendments - Receipts	80% within 40 business days	93 %	94 %	93 %	98 %		

Records and Information Management

Activity	Target	Q1	Q2	Q3	Q4	Status	Notes
OSC record request acknowledgement	Issue by end of next business day	96%	97%	97%	100%		
OSC record request fulfillment	Within 5 business days	96%	100%	100%	100%		
Registration record request acknowledgement	Issued by end of next business day	100%	100%	100%	100%		
Registration record request fulfillment	Within 5 business days	100%	100%	100%	97%		

Inquiries and Contact Centre

Activity	Target	Q1	Q2	Q3	Q4	Status	Notes
Telephone inquiries processed	100% on contact	95%	96%	97%	96%		On average 2% of the calls received are beyond our control as they are abandoned before being placed in the telephone queue
Written inquiries and complaints responded to	100% within 3 business days	95%	96%	96%	95%		