

ONTARIO SECURITIES COMMISSION

OSC Notice 11-792– Notice Statement of Priorities for Financial Year to end March 31, 2022

The *Securities Act* (Act) requires the Ontario Securities Commission (“OSC” or “Commission”) to deliver to the Minister of Finance and publish in its Bulletin each year a statement of the Chair setting out the proposed priorities of the Commission for its current fiscal year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities. In the OSC Notice published on November 16, 2020, the OSC solicited stakeholder feedback on the priorities outlined in its 2021-2022 Statement of Priorities (SoP) – Draft for Comment. The OSC received sixteen comment letters.

On balance, the feedback was broadly supportive of the overall direction of the OSC goals and proposed priorities. Respondents supported proposed work to address the recommendations of the Capital Markets Modernization Taskforce (Taskforce) and noted that investor protection and reducing the regulatory burden, or costs to industry when participating and accessing capital in our markets, should remain important. Respondents also provided a range of unique insights that will be useful to consider in future policy development.

In addition to feedback on the identified priorities, respondents highlighted a range of noteworthy items and issues including:

- need to be fluid and flexible with shorter consultation and faster policy implementation
- importance of regulatory harmonization both internationally and across the CSA along with reciprocal enforcement
- need for greater accountability regarding cost benefit and outcome measurement.

A summary of specific comment areas is set out below:

1. Respondents view implementing the client focused reforms as a critically important priority as it helps better align the interests of industry and investors, and better addresses conflicts of interest that cannot be eliminated within the industry. They recommend the OSC focus resources and actions to enable and encourage early adoption by industry, rather than waiting to “operationalize” them on the date they become legally required and that the OSC be steadfast in maintaining this deadline.
2. Comments related to the priority related to proposed OSC Rule 81-502 *Restrictions on the Use of the Deferred Sales Charge (DSC) Option for Mutual Funds*, its related companion policy, were mixed. Most respondents remained opposed, recommending that the OSC abandon development of a convoluted framework just to preserve DSCs and favouring completely banning the use of embedded commissions. Those supporting the proposed amendments urged the OSC to finalize implementation.
3. There was continued support for the OSC Investor Office, and the initiatives proposed to improve investor protection. Respondents continued to support the OSC’s efforts to increase the use of educational resources to help improve investor financial outcomes. Respondents also commended the work undertaken recently by the Investor Office, including its contribution to the CSA's proposals to enhance protections for vulnerable investors. There was also support for planned collaboration across the provincial public sector on this important initiative.
4. There continues to be support for strengthening the powers of the Ombudsman for Banking

5. Services and Investments (OBSI) to provide an effective, independent and fair dispute resolution system and improve investors' access to compensation where registered firms or advisors have acted unfairly, made an error or given bad advice.
6. There was support for the OSC's work with the CSA on the review of the SRO framework and that a consolidated SRO is necessary and long overdue. Concerns were raised that the focus should be less about cost cutting and more on achieving better regulatory approaches that reflect the evolution of the market.
7. The events of the past year have demonstrated the importance of recognizing environmental, social and governance (ESG) risks arising from global systemic events as financial stability risks requiring appropriate disclosures. Respondents noted that these disclosures address investor needs for information to make decisions and contribute to efficient capital markets.
8. Respondents were also supportive of both gender and other forms of diversity on boards and at the senior management level, including requirements for disclosures and written policies. Respondents also noted support for the OSC's focus on growing and sustaining diversity and ensuring the employee experience is equitable and inclusive for everybody.
9. There was widespread support for OSC proposals to reduce regulatory burden. Concern was expressed about the potential for undue focus being placed on costs as a key determinant for burden reduction choices. It was suggested that the real aim of modernization and burden reduction should be focused on optimizing regulations to achieve desired outcomes as effectively as possible.
10. The recent shift to working remotely has increased reliance on digitalization by retail investment funds, investors, and the future of the capital markets generally. Respondents support prioritizing working with the other regulators to digitalize the investor experience through initiatives such as: eliminating the use of paper for regulatory materials, electronic delivery as the default mechanism for delivery, access equals delivery, e-signatures, creating digital mailboxes and removing barriers to other electronic initiatives. The coronavirus pandemic has shown that an electronic model can meet the needs of the industry and investors that also effectively addresses the OSC's goals of reducing regulatory burden.
11. Respondents noted that, given our interconnected and dynamic financial and capital markets, it is essential that regulators with responsibility for different aspects of these markets work together to better identify, monitor, mitigate and manage systemic risk. Respondents were supportive of the OSC's efforts to address systemic risk including building a domestic derivatives framework to reduce potential risks. Some respondents expressed concern about the rate of progress on this project and encouraged the OSC to conclude the derivatives framework project as soon as possible and then undertake a post-mortem to identify process improvements and streamlining opportunities that can be incorporated to expedite future regulatory initiatives.
11. Respondents also noted that support for the Cooperative Capital Markets Regulatory System should be an ongoing priority for the OSC included in the final 2021-2022 Statement of Priorities. There is continued support for Ontario's leadership on the issue of a national securities regulator due to the belief that harmonization and confidence in Canada's capital markets will be bolstered by adopting an effective and efficient national regulator. The Board of Directors of the Capital Markets Authority Implementation Organization (CMAIO) announced the decision to pause CMAIO operations effective March 31, 2021.

The SoP has been revised to reflect the role the OSC will play in supporting the Ministry of Finance in advancing work on the Capital Markets Modernization Taskforce recommendations identified in the Ontario Government's 2021 Budget including:

- supporting the Ministry of Finance in drafting the *Capital Markets Act*, including incorporating select Taskforce recommendations
- integrating new mandates for fostering capital formation and competition into OSC activities
- mandating enhanced disclosure by public companies of material ESG information, specifically improving climate-related disclosure
- integrating the structural changes to the OSC set out in the *Securities Commission Act* (i.e. CEO and Tribunal, etc.).

The SoP has also been updated to address issues raised by respondents, market developments and impacts and lessons learned from the coronavirus pandemic. Material new or changed priorities incorporated into the final SoP include:

- bring forward final amendments to join the CSA rule in banning the use of the DSC option
- publish a position paper regarding the framework for Self-Regulatory Organizations
- work with the CSA and IIROC, to strengthen oversight of crypto asset trading platforms to bring crypto firms engaging in dealer or marketplace activities into compliance with securities laws
- reflect that the OSC will develop an enhanced framework for reducing burden and modernizing regulation to help reduce regulatory costs and minimize barriers to entry of new (innovative) firms to foster economic growth and innovation.

We remain committed to policy development that balances the desire to be timely with the need to achieve harmonized outcomes that best meet the needs of Ontario investors and market participants. The other important initiatives and issues identified for inclusion by various respondents will be provided to staff for consideration. Many of these are already addressed within our branch business plans or will be considered for future work. While the OSC remains focused on its core regulatory work we must continue to be flexible responding to coronavirus pandemic related challenges and evolving market conditions. As such, the OSC anticipates adjusting and re-aligning priorities throughout the year to accommodate changes where appropriate.

All comment letters received are available on our website www.osc.gov.on.ca. The SoP will serve as the guide for the Commission's operations. Following delivery of the SoP to the Minister of Finance, we will also publish on our website a report on our progress against our 2020-2021 priorities.

OSC

2021-2022

Statement of Priorities

INTRODUCTION

Overview

We are pleased to present the Ontario Securities Commission (OSC) Chair's Statement of Priorities (SoP) for the OSC for the year commencing April 1, 2021. The *Securities Act* requires the OSC to publish the SoP in its Bulletin and to deliver it to the Minister of Finance by June 30 of each year. This SoP also supports the OSC's commitment to be both effective and accountable in delivering its regulatory services.

The OSC regulates the largest capital market in Canada and our actions have impacts for Ontario and the rest of Canada. The OSC is committed to promoting fair and efficient markets in Ontario and has identified a broad range of initiatives to improve the existing regulatory framework. We strive to anticipate problems in the market and act decisively to promote public confidence in our capital markets, protect investors, and support market integrity. We will continue to proactively identify emerging issues, trends, and risks in our capital markets.

Confidence in fair and efficient markets is a prerequisite for economic growth. Investor protection is always a top priority for the OSC.

The OSC continues to move the regulatory agenda forward, improving the way we approach our work and engage with industry participants and other regulators to understand the issues and their concerns. The OSC interacts extensively with stakeholders through various

advisory committees, roundtables, and other means of consultation, to inform operational approaches and policy development. The OSC engages with investor advocacy groups and investors directly to gain insights to better understand investor needs and interests.

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

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

INTRODUCTION

Key Priorities

Our 2021-2022 SoP sets out the four strategic goals on which the OSC intends to focus its resources and actions in 2021-2022. It also lays out the priority initiatives that the OSC will pursue in support of each of these strategic goals.

These priorities reflect our current understanding of the impacts of the COVID-19 pandemic and recommendations

of the Capital Markets Modernization Taskforce (Taskforce); however, the OSC recognizes that it may need to adjust priorities as the year unfolds and the government continues to review the Taskforce Report.

GOAL 1 – Promote Confidence in Ontario’s Capital Markets

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

- Support Implementation of Client Focused Reforms (CFR)
- Implement Mutual Fund Embedded Commissions Rules and Discontinuance of the Mutual Fund Deferred Sales Charges (DSC) Payment Option in Coordination with the CSA Harmonized Rule
- Improve the Retail Investor Experience and Protection
- Strengthen Investor Redress through the Ombudsman for Banking Services and Investments (OBSI), through Policy and Oversight Activities
- Bring Timely and Impactful Enforcement Actions
- Publish Position Paper Regarding the Framework for Self-Regulatory Organizations (SROs)
- Continue to Expand Systemic Risk Oversight
- Strengthen Oversight of Crypto Asset Trading Platforms and other Dealers
- Advance Work on the Capital Markets Modernization Taskforce (Taskforce) Policy Recommendations Identified in the Ontario Government’s 2021 Budget
- Improve Climate Change-Related Disclosures
- Integrate New Mandates for Fostering Capital Formation and Competition in our Activities

GOAL 2 – Reduce Regulatory Burden

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

- Develop an Enhanced Framework for Reducing Burden and Modernizing Regulation
- Continue to Implement Burden Reduction Initiatives

GOAL 3 – Facilitate Financial Innovation

Cultivate an environment that supports development of innovative financial business models

- Implement Multi-Year Plan for the Innovation Office
- Engage with Innovative Businesses and Support Innovation in Capital Markets

GOAL 4 – Strengthen Our Organizational Foundation

People, Technology, and Information

- Redevelopment of CSA National Systems
- Modernize OSC Technology Platform
- Foster Inclusion, Equity and Diversity
- Continue to Monitor and Adapt to the Impacts of the COVID-19 Pandemic
- Implement the OSC Structural Changes as Set Out in the Securities Commission Act

INTRODUCTION

Scan and Impacts

Effects of COVID-19

Since the outbreak of the COVID-19 pandemic in early 2020, the world's economies and financial markets have experienced unprecedented conditions. The economic consequences of putting large parts of the economy into lockdown are apparent. With the supply and demand for goods and services severely restricted, economic growth has fallen substantially. Millions of Canadians have found themselves without employment and businesses have struggled to make payments to suppliers and for rent.

Governments provided large-scale fiscal and monetary support for the economy and financial markets. At the same time, we saw unprecedented levels of Central Bank intervention in markets to support liquidity. These supports provided the foundation of the recovery as it is unfolding to date. The OSC, along with our CSA colleagues, took a variety of steps to support industry participants and investors during these extraordinary times. Regulators will continue their efforts to identify and implement support measures where appropriate.

Households with constrained income are likely to prioritize non-discretionary spending and reduce their investing. The experience of the economic shutdown encouraged many households to pay down their debt and build up contingency savings in case of future waves of the virus and associated lockdowns. This may impact investor behaviour.

Low interest rates will challenge investors to find returns that match their needs and plans. Regulators will need to remain vigilant about products promising higher returns and that investors have the necessary tools to make informed decisions.

Capital Markets Modernization Taskforce

On March 24, 2021, the Ontario government released the 2021 provincial budget (the 2021 Budget), in which it announced it is moving forward with legislative amendments to support the Taskforce's proposals to: (a) expand the mandate of the OSC to include competition and capital formation in order to facilitate economic growth; (b) separate the OSC Chair and Chief Executive Officer position into two distinct roles; and (c) separate the Board and adjudicative responsibilities of the OSC.

The Ontario government also announced that, as it continues to review the Final Taskforce Report, it would publish the draft Capital Markets Act for stakeholder consultation in the coming months.

Financial 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 product and service offerings. Fintech and other market innovation continue to advance as key disruptive forces in the financial services industry. Fintech is leveraging technological innovation, digitalization, and distributed ledger technology to create new product offerings, including blockchain-based crypto-assets funds and crypto-asset trading platforms.

Activity in the crypto-asset sector continues to accelerate. Global crypto-asset market capitalization exceeded US\$1 trillion for the first time in January 2021 and US\$2 trillion in April 2021. Recent drivers for Bitcoin appear to have been speculative interest from retail investors coupled with growing institutional interest.

Crypto-assets and the firms that trade them pose regulatory challenges, but they are not the first nor will they be the last challenging forms of financial services innovation. To meet these challenges, we will need to:

- balance our multiple mandates to foster innovation, facilitate investor choice, foster competition and capital formation and protect investors while maintaining fair and efficient markets and financial stability
- remain technology-neutral and cultivate the capabilities to have a deep understanding of new technologies to ensure that we can deliver on our multiple mandates
- develop a common approach across all involved regulators in Canada to manage the risks of regulatory gaps and regulatory arbitrage.

Growing Role of Retail Investing

Over the past year, there has been a trend towards greater retail investor participation in our markets, especially via online discount brokers. This increased retail activity highlights the importance of transparency about

fees charged by intermediaries. It also highlights the importance of our investor education activities and identifying opportunities for the design of messages to evolve along with investors' sources of information.

Surge in Capital-Raising

Public market financing has been strong in many areas, including technology, healthcare, and consumer products. We have seen an unprecedented volume of prospectus filings, with a total of 645 received for our fiscal year

ended March 31, 2021, a 67% year over year increase and a greater than 200% increase in the fourth quarter for filings for which Ontario was the principal regulator. OSC staff continue to review and process prospectus filings well within published OSC service standards for first comment letters and issuance of final receipts. We are committed to being responsive to those whom we regulate and supporting capital raising in Ontario while retaining an appropriate degree of investor protection.

OUR GOALS

GOAL 1 – Promote Confidence in Ontario’s Capital Markets

The OSC shares the Ontario government’s commitment to making Ontario’s capital markets globally competitive and an attractive place in which to invest, grow businesses and create jobs. One of the ways we uphold that commitment is by promoting confidence in Ontario’s capital markets through a balanced policy framework and 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, the OSC will be required to effectively balance the need to streamline capital raising for businesses, while seeking to protect investors from financial systemic risk and misconduct. Every year we design and carry out routine and targeted reviews of market participants with the objective of upholding the highest standards of disclosure and compliance through our various compliance oversight programs.

OUR KEY PRIORITIES

1.1 Support Implementation of Client Focused Reforms

To improve the client/registrator relationship, regulatory reforms to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrator Obligations* were published in final form in 2019. Certain amendments relating to conflicts of interest will take effect on June 30, 2021, and the remaining changes will take effect on December 31, 2021.

Under the amendments, registrants will be required to:

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

Actions will include:

- The OSC, with other CSA jurisdictions and the SROs, will work with the implementation committee to

provide guidance, respond to questions and otherwise assist registrants to operationalize the amendments

- Publish Frequently Asked Questions guidance to assist registrants with implementing the Client Focused Reforms.

Planned Outcomes:

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

1.2 Implement Mutual Fund Embedded Commissions Rules and Discontinuance of the Mutual Fund Deferred Sales Charges (DSC) Payment Option in Coordination with the CSA Harmonized Rule

The OSC will work with fund managers and dealers to streamline implementation issues relating to the trailing commission ban (OEO ban) where no suitability determination is required. The OSC will work to bring forward final amendments to join the CSA rule in banning the use of the DSC option (DSC ban) by prohibiting the payment by fund organizations of upfront sales commissions.

Actions will include:

- Provide appropriate accommodation allowing flexibility for investors to be switched to different fee options when implementing the OEO ban
- Foster the launch of new products and services that facilitate the implementation of the OEO ban and DSC ban
- Obtain mutual fund sales, new products, and new services data for trend analysis, and follow up if the trends raise any concerns
- Publish the final amendments in spring 2021 relating to the DSC ban.

Planned Outcomes:

- Harmful DSC sales practices are removed in Ontario
- Instead of embedded fees, investors are charged applicable direct fees for mutual fund trades on OEO platforms
- Improved transparency and experience for investors with their dealers and advisors when investing in mutual funds.

1.3 Improve the Retail Investor Experience and Protection

The OSC will identify ways to improve the investor experience and investor protection. Efforts will focus on engaging stakeholders, identifying appropriate areas for improvement, and making changes that will help investors have positive experiences and be better informed when making investment decisions.

Collectively, these efforts are intended to lead to greater investor protection and help reduce the impact of fraud. A range of initiatives will be completed in support of this priority.

Actions will include:

- Stakeholder consultations on ways to improve the investor experience
- Investor education and financial literacy activities
- Continued implementation of the OSC Seniors Strategy
- Finalize amendments to implement a regulatory framework to address issues of financial exploitation and diminished mental capacity among older and vulnerable investors
- Continued expansion of the use of behavioural insights in policy work
- Timely and responsive investor research conducted and published
- Collaboration on financial literacy initiatives with the Government of Ontario, including the Ministry of Finance, Ministry of Education, and Ministry of Seniors and Accessibility.

Planned Outcomes:

- Financial education resources and channels, such as *GetSmarterAboutMoney.ca*, continue to be used by more investors and the OSC is seen as a leader in Canada and internationally
- Enhanced protection of seniors and vulnerable investors
- More informed investment decisions through continued investor education
- Effectiveness of OSC policies and programs improved through integration of behavioural insights.

1.4 Strengthen Investor Redress through the Ombudsman for Banking Services and Investments (OBSI), through Policy and Oversight Activities

Investors can be at risk for potential losses in cases where registered firms or individuals have acted unfairly, made an error or given bad advice. The OSC strives 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 now regarded as an essential element of investor protection frameworks. To achieve better results for investors, the OSC will continue its efforts to strengthen OBSI in its role as the independent dispute resolution service.

Actions will include:

- Provide analysis of the proposal for OBSI binding decisions in Ontario within increased claim limits
- Engage with our CSA partners on strengthening OBSI.

Planned Outcomes:

- Better results for investors regarding redress and dispute resolution, which will also foster investor confidence.

1.5 Bring Timely and Impactful Enforcement Actions

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.

Growth in cross-border activity, which is accelerated by technology, benefits investors by reducing friction and

cost, but can also harm investors by enabling cross-border fraud and misconduct that can be very difficult to address.

This creates challenges for effective enforcement. If regulatory approaches are not aligned, cross-border enforcement efforts may be impeded. Regulators need greater access to data and analytics tools to effectively identify, investigate and prosecute misconduct.

Actions will include:

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

Planned Outcomes:

- Implementation of new tools that increase use of data to support case selection and investigations
- Enhanced profile for the OSC Whistleblower Program increases the number of credible tips
- Continued number of visible, effective disruption actions completed
- Continued visibility of priority case outcomes with strong regulatory messages aligned with OSC strategic priorities
- Greater use of data analytics in market conduct cases to strengthen the detection of harmful conduct
- In conjunction with our CSA partners, successful roll-out of the next phases of the MAP initiative to further enhance enforcement effectiveness in identifying and pursuing insider trading and market manipulation cases.

1.6 Publish Position Paper Regarding the Framework for Self-Regulatory Organizations (SROs)

Consider ongoing SRO developments and feedback on initial consultation paper and develop responses as required regarding the evolution of the SRO framework.

Actions will include:

- Publish recommended SRO framework.

Planned Outcomes:

- Recommended SRO framework that is informed by stakeholder feedback on initial consultation paper and

reflects the objectives articulated in the consultation paper and the evolution of the market.

1.7 Continue to Expand Systemic Risk Oversight

The OSC works with many domestic and international regulators to monitor financial stability risks, improve market resilience, and reduce the potential risks arising from global systemic events. The OSC is continuing to build a domestic derivatives framework and to operationalize the necessary compliance and oversight tools required to achieve a practical and effective regime.

The OSC will also continue to strengthen the regulatory framework to better manage liquidity risk and leverage associated with investment funds.

Actions will include:

- Subject to Ministerial approval, finalize amendments to the Derivatives Dealer Business Conduct Rule, limiting the scope of the rule and specifying which jurisdictions will be granted equivalency
- Work with the CSA on the next version of the proposed Derivatives Dealer Registration Rule
- Finalize the Notice on status of Margin Rule for uncleared derivatives involving Ontario entities
- Finalize amendments to the Derivatives Trade Reporting Rule with respect to internationally adopted data standards
- Conduct risk-based compliance reviews of OTC Derivatives Rules (Trade Reporting, Clearing, Segregation and Portability)
- Design and implement a framework for analyzing OTC derivatives data for systemic risk oversight and market conduct purposes including development of enhanced derivatives data mart, analytical tools, and the creation of snapshot descriptions of the Canadian OTC derivatives market
- Implement annual surveys, in a scalable manner, of private and public investment funds about their portfolio exposure to assess relevant systemic risks, with a focus on aggregated asset classes and leverage information
- Work with other provincial and federal agencies, including through the HoA, to enhance the identification of financial system vulnerabilities and promote financial system resilience.

Planned Outcomes:

- Finalized amendments to the Business Conduct Rule for derivatives dealers
- Effective systemic risk oversight supported by timely access and analysis of integrated derivatives OTC trade data
- Established operational procedures for new compliance and oversight processes

- New templates for systemic risk analysis operationalized
- Increased use of data and enhanced data analysis for systemic risk monitoring, research, inter-agency information sharing and policy development
- Improved and more effective coordination and cooperation with regulatory partners.

1.8 Strengthen Oversight of Crypto Asset Trading Platforms and other Dealers

With the CSA and IIROC, work to bring crypto firms engaging in dealer or marketplace activities into compliance with securities laws, as set out in Joint Canadian Securities Administrators/Investment Industry Regulatory Organization of Canada Staff Notice 21-329 *Guidance for Crypto Asset Trading Platforms: Compliance with Regulatory Requirements* published on March 29, 2021.

Actions will include:

- Engage with crypto firms to assess if their activities require dealer registration or approval as a marketplace and if so, have them to complete the registration or approval process
- Use appropriate tools to address non-compliance.

Planned Outcomes:

- Crypto asset trading platforms operate with appropriate regulatory oversight
- An appropriate balance is achieved in fostering innovation in Canadian capital markets and promoting investor protection and fair and efficient capital markets.

1.9 Advance Work on the Capital Markets Modernization Taskforce (Taskforce) Policy Recommendations Identified in the Ontario Government's 2021 Budget

On March 24, 2021 the Minister of Finance released *Ontario's Action Plan: Protecting People's Health and Our Economy*. As it continues to review the Final Taskforce Report, the Government indicated that it would publish for comment the *Capital Markets Act* in the coming months. The OSC will undertake policy work and consultations to support the Ministry of Finance in developing and implementing identified reforms.

Actions will include:

- Support Ministry of Finance in drafting the *Capital Markets Act*, including incorporating selected Taskforce recommendations
- Publication by the Government of a consultation draft *Capital Markets Act*
- Advance policy work on other prioritized Taskforce recommendations.

Planned Outcomes:

- Securities regulation in Ontario is governed by a modern legislative platform, informed by stakeholder consultations
- Improved confidence in Ontario's capital markets leads to increased capital investment in Ontario.

1.10 Improve Climate Change-Related Disclosures

The 2021 Budget included a discussion on environmental, social and governance (ESG) disclosures, following the recommendations of the Taskforce. The Taskforce recommended mandating disclosure by public companies of material ESG information, specifically climate-related disclosure that is compliant with the Task Force on Climate-Related Financial Disclosure recommendations. The Taskforce's final report highlighted that, globally and in Ontario, there is increased investor interest in issuers reporting on ESG-related information and creating a uniform standard of disclosure to create an equal playing field for all issuers. The 2021 Budget stated that the OSC will begin policy work to inform further regulatory consultation on ESG disclosure later this year.

Actions will include:

- Publish for comment a proposed rule setting out disclosure requirements regarding climate-related matters for public companies

Planned outcomes:

- Investors have access to the climate-related information needed to inform their investment and voting decisions
- Public companies have clarity on their climate-related disclosure requirements.

1.11 Integrate New Mandates for Fostering Capital Formation and Competition in our Activities

In the Ontario Government's 2021 Budget, the Government announced its intention to move forward with legislative amendments to support the Taskforce's proposals to expand the mandate of the OSC to include fostering competitive markets and capital formation. These amendments to the *Ontario Securities Act* came into effect on April 27, 2021.

The OSC will embed these new mandates in our work and reflect them in our policymaking and in our ongoing regulatory operations in a manner that balances the importance given to each of the purposes of the *Ontario Securities Act* while supporting the objectives of fostering competitive markets and capital formation.

Actions will include:

- Conduct research to assess the implication of fostering competitive markets and capital formation on securities regulation, including conducting fact-gathering from peer regulators with similar mandates
- Engage with OSC advisory committees and other stakeholder groups on the consideration of these mandates in OSC work
- Develop and implement internal processes to promote consideration of the impact on policy

- and ongoing regulatory operations of fostering competitive markets and capital formation, including developing a shared understanding of what these terms mean in the context of the OSC's work.

Planned Outcomes:

- OSC policy-making and regulatory operations visibly demonstrate a commitment to all the components of the OSC's mandate
- Positive feedback from stakeholders.

OUR GOALS

GOAL 2 – Reduce Regulatory Burden

Delivering responsive regulatory oversight includes being mindful of the impact of regulatory burden on market participants and continually focusing on service improvements. The OSC, with its CSA partners, continues to pursue opportunities to reduce undue burden and to make its interface with market participants easier and less costly. The mandate of the newly created Office of Economic Growth and Innovation (Innovation Office) includes overseeing and facilitating the OSC's continuing efforts to reduce regulatory burden.

OUR KEY PRIORITIES

2.1 Develop an Enhanced Framework for Reducing Burden and Modernizing Regulation

The OSC will develop an enhanced framework for continuous improvement. This framework will include a systematic focus on reducing undue regulatory burden and related costs and minimizing barriers to entry of new firms to foster economic growth and innovation.

Actions will include:

- Develop a continuous improvement framework with a systematic focus on reducing undue regulatory burden
- Identify and consider leading global practices undertaken by similar organizations to reduce regulatory costs.

Planned Outcomes:

- Implementation of enhanced continuous improvement framework with systematic focus on reducing undue regulatory burden

2.2 Continue to Implement Burden Reduction Initiatives

We will continue to work on prioritizing initiatives to reduce regulatory burden under the oversight of the Innovation Office.

Adoption of certain Taskforce recommendations and continued implementation of burden reduction initiatives identified in the OSC report "*Reducing Regulatory Burden in Ontario's Capital Market*" (published November 2019) will be guided by the principles of the new framework.

Actions will include:

- Continue implementing identified and prioritized burden reduction initiatives
- Focus initiatives include closely working with our CSA partners on Rationalization of Investment Fund Disclosure (RID) project and streamlining continuous disclosure requirements.

Planned Outcomes:

- Ongoing reduction of undue regulatory burden aims at:
 - Greater transparency around our processes and flexibility on what is required to fulfill regulatory requirements
 - Less duplication of requirements and form filings
 - A more tailored regulatory approach that considers the size and type of businesses
 - Improved coordination between the OSC and our regulatory partners
 - Rules and guidance that are easier to read and understand and clearer communication from staff.

OUR GOALS

GOAL 3 – Facilitate Financial Innovation

The OSC will continue to develop flexible regulatory approaches and improved access to services and support for businesses looking to establish or expand in Ontario. These efforts will build on the progress to date with the creation of the Innovation Office. This includes creating an environment that supports emerging financial technology, while at the same time ensuring investor protection, through flexible and proportionate regulatory approaches.

OUR KEY PRIORITIES

3.1 Implement Multi-Year Plan for Innovation Office

The Innovation Office published a Charter that sets out its vision and priorities over the next few years. These initiatives, which include strengthening the OSC LaunchPad, supporting OSC's continued commitment to modernize regulation and reduce regulatory burden, and introducing new outreach programs with stakeholders including innovation hubs and others, will support innovation, facilitate capital formation, and foster economic growth.

The Innovation Office will play a key role in supporting the OSC's expanded mandate to foster capital formation and economic growth and implementing the Taskforce recommendations.

Actions will include:

- Foster, promote and, where possible, model and test innovative business models and methods in capital formation, transaction and service efficiency and fairness
- Obtain stakeholder feedback to ensure initiative objectives are being met
- Increase the OSC's visibility and credibility as an innovative and agile regulator
- Demonstrate clear, visible connections to the innovation ecosystem, including innovation hubs, stakeholders, market participants, investors, and other regulators
- Monitor innovation and economic growth initiatives and engage actively with innovation hubs and similar

groups within domestic and global regulatory organizations.

Planned Outcomes:

- The Innovation Office is fully operational and delivering on its mandate
- Provide enhanced support to innovative businesses, entrepreneurs, and start-ups to help foster economic growth, strengthen the innovation ecosystem, and improve access for investors in Ontario
- Insights gained by testing innovative ideas with market participants and investors
- Increased OSC profile as an innovative and agile regulator through effective engagement with innovation hubs and similar groups within domestic and global regulatory organizations.

3.2 Engage with Innovative Businesses and Support Innovation in Capital Markets

The Innovation Office will expand on the work of OSC LaunchPad through deeper engagement with businesses and will provide support for a strong Ontario innovation ecosystem and improved access to services by investors. The OSC will help innovative businesses navigate applicable regulatory requirements and will be flexible with businesses as they meet their obligations (e.g. by granting conditional exemptive relief, time or activity-limited approvals and providing guidance about how to comply within new business models) and where possible, help them test their products or services in Ontario.

Actions will include:

- Research, identify and test new innovative methods, services, and products specific to the OSC's mandate to enhance capital markets efficiency
- Identify, understand, and promote emerging business models, services and products in finance that benefit investors and our capital markets
- Provide additional tools to assist firms that want to test novel products and services
- Develop and implement an Ontario regulatory sandbox that promotes financial innovation and fosters capital formation

- Work with external stakeholders, such as law firms, advisors, incubators and accelerators, venture capital and angel investor organizations to consider potential tools to give the innovation community important insights and information into securities law requirements, including information for start-ups on whether and how securities regulations may apply to their business
- Work with the CSA Sandbox to issue timely approvals and/or exemptive relief for Ontario businesses offering novel products or services to operate in Canada as registered firms or marketplaces.

Planned Outcomes:

- Costs and “time to market” for innovative businesses are reduced

- Implemented tools support new businesses seeking to raise capital
- Enhanced OSC LaunchPad offerings and Ontario regulatory sandbox assist start-ups and provide an environment for businesses to test their solutions in Ontario
- Positive feedback from stakeholders regarding guidance issued, surveys conducted, and support provided to innovative businesses
- Newly launched interactive website for the Innovation Office.

OUR GOALS

GOAL 4 – Strengthen Our Organizational Foundation

The OSC regulates and supports an ever-changing and highly competitive financial sector. The COVID-19 pandemic, global discussion about anti-black racism, ongoing review of our capital markets by the government appointed Taskforce, and resulting stakeholder commentary have increased the need and urgency for the OSC to have a strong but adaptable organizational foundation, including people, policies, systems and data.

OUR KEY PRIORITIES

4.1 Redevelopment of CSA National Systems

The OSC, along with the other CSA jurisdictions, will replace the legacy CSA national systems with SEDAR+. This new CSA system will be the common platform for all filings, disclosure, payments, and information searching for the Canadian capital markets.

MAP is the newly launched CSA market activity analytics platform and one of the critical OSC enforcement tools. Initially focused on equity trades, MAP will continue to evolve to integrate additional data sets such as exchange traded derivatives and more sophisticated analytics.

Actions will include:

- Actively participate with the CSA to develop SEDAR+ and MAP systems that meet the needs of internal and external stakeholders
- Work with other CSA jurisdictions to complete a controlled transition to the new system for market participants and internal users
- Complete development of CSA Systems Fee Rule in time for Phase 1 launch of SEDAR+.

Planned Outcomes:

- SEDAR+ is launched as a modern, easy-to-use, online national system that is more responsive to current and future needs of market participants
- Regulatory processes are more efficient and service delivery to market participants is improved, reducing overall regulatory burden

- MAP supports increased ability to analyze complex market abuse cases, across markets and related parties.

4.2 Modernize OSC Technology Platform

The OSC continues to digitize its platforms and processes and increase use of data and analytics in delivering regulatory outcomes.

Modernization effort is focused on integration with SEDAR+ and rollout of the Digital Transformation program, overseen by the newly created Digital Solutions Branch.

Actions will include:

- Fully operationalize the new Digital Solutions Branch
- Complete work on OSC local systems and related processes, workflows, and policies to ensure they are aligned with phase 1 of SEDAR+ when it is launched
- Develop Digital Transformation roadmap including Enterprise Resource Planning (ERP) implementation, optimization of regulatory operations through an integrated digital platform, automation of manual tasks using robotic process automation technology, as well as provision of enterprise data and analytics platform
- Deliver frequent, incremental business value through analytics and automation while gradually replacing legacy systems with new modern cloud-based platforms.

Planned Outcomes:

- Digital-first culture, supported by integrated data and modern tools, technologies, and processes
- Increased efficiency of internal regulatory operations and corporate services through optimization and automation of business processes
- Accelerated transition from stand-alone, legacy systems to integrated enterprise platforms, processes, and data flows.

4.3 Foster Inclusion, Equity and Diversity

The OSC is focused on building and sustaining diversity in our OSC community and ensuring that the employee experience is equitable and inclusive for everyone.

Actions will include:

- Implement an Inclusion and Diversity Strategy to remove barriers to inclusion at the OSC, and to achieve equitable opportunities and a consistent employee experience for all
- Provide and promote opportunities for learning and dialogue to develop a better understanding of bias, racism, and barriers to inclusion
- Take actions outlined in the BlackNorth Initiative (BNI) CEO pledge to end anti-Black systemic racism.

Planned Outcomes:

- Updated and new policies and practices that are equitable and inclusive for all employees, including in the areas of recruitment, talent development, secondment, promotion, code of conduct, and respectful workplace
- Increased understanding leading to individual and organizational change in practices and behaviours to support equity and inclusion
- A workplace where employees experience psychological safety and inclusion
- Achieve the goals and targets set out in the BNI CEO pledge.

4.4 Continue to Monitor and Adapt to the Impacts of the COVID-19 Pandemic

The OSC will continue to adapt work practices and the workplace to support effective and efficient delivery of regulation and business operations, during and after the COVID-19 pandemic.

Actions will include:

- Adjust work policies and practices to accommodate remote work, and support collaboration and organizational culture in a fully remote workplace model during the COVID-19 pandemic and a hybrid workplace model post-pandemic
- Provide resources, benefits, and flexible work practices to support employee physical and mental health and well-being

- Implement physical space design features to ensure employee health and safety, and to support a hybrid workplace.

Planned Outcomes:

- Updated and new policies and practices that address employment practices in a hybrid workplace and flexible work arrangements
- Increased awareness and utilization of health and well-being benefits and programs
- Redefined and redesigned office space.

4.5 Implement the OSC Structural Changes as Set Out in the Securities Commission Act

In the 2021 Budget, the Government confirmed its intentions to implement legislative amendments to respond to Taskforce recommendations addressing the structure of the OSC. The OSC will implement the governance and tribunal structural changes required by the Securities Commission Act, 2021 to reflect governance best practices and enhance tribunal independence.

Actions will include:

- Defining new roles of key senior leaders, recruitment and orientation – CEO, Chair, Board Directors, Chief Adjudicator and Adjudicators
- Revising OSC Charter of Governance, By-laws, policies, delegation orders, Rules of Procedure and Forms, Practice Guideline and other governance and tribunal resources
- Establishing a new tribunal identity and funding allocation.

Planned Outcomes:

- An improved OSC governance framework that aligns with corporate governance best practices
- Separation of the regulatory and adjudicative functions to support a more effective delivery of the OSC mandate
- A new Capital Markets Tribunal enhancing tribunal independence, while preserving accessibility and transparency.

BUDGET

Financial Outlook

The OSC's 2021-2022 budgeted deficiency of revenues over expenses of \$12.9 million is primarily due to investments in four key growth areas:

- Investor education through expanded outreach and financial literacy initiatives, including the introduction of other methods to advance investor education and protection
- Full operation of the OSC's new Office of Economic Growth and Innovation, including increased engagement with fintech companies to support innovation in capital markets
- Support systemic risk oversight through continued development of an over-the-counter derivatives trades data repository
- Implementation of an enterprise-wide strategy to modernize OSC technology, acquire appropriate market data, and accelerate digitalization of OSC operations. The strategy consists of developing a digital transformation roadmap and replacing legacy systems with modern cloud-based platforms to optimize both our regulatory and back-office operations. In addition, we plan to use robotic process automation technology to achieve efficiencies in some areas of operation with repetitive manual tasks. This strategy requires significant spending over the next few years and the movement towards cloud-based solutions shifts costs into the operating budget from the capital budget.

Budgeted revenue for 2021-2022 of \$127.9 million is \$10.5 million below 2020-2021 actual revenues and \$2.4 million below the prior year budget. A majority of revenues are directly impacted by capital market conditions, which have become significantly volatile since the onset of the COVID -19 pandemic. The strong capital markets recovery experienced during the second half of

the fiscal year is reflected in the 2021 results, since most participation fees are received in the fourth quarter. This recent growth has not been reflected in the 2022 revenue budget.

Budgeted expenses (net of recoveries and finance costs) for 2021-2022 of \$140.8 million is \$12.9 million higher than the 2020-2021 actuals, and \$5.7 million higher than prior year budget. Cost savings experienced in 2020-2021 were primarily driven by a targeted cost reduction plan and natural savings resulting from lockdown measures, such as reduced travel and office expenses. While lockdown measures may continue to impact costs next year, we do not plan on continuing our cost reduction plan but rather to deliver on deferred 2020-2021 initiatives.

Capital spending on projects is expected to increase by \$1.6 million from 2020-2021 actual capital spending primarily towards costs to integrate local systems into SEDAR+, leasehold improvements to complete the build-out of an additional floor leased in fiscal year 2020 and technology infrastructure refresh projects.

The OSC's 2021-2022 budget does not include financial implications from Taskforce recommendations, as the budget was approved prior to the release of the recommendations. The OSC is reviewing the scope and implications to resource requirements and costs which may impact spend for fiscal 2021-2022 and future years.

We continue to assess whether fees charged to market participants remain appropriate by regularly monitoring capital markets activities for revenue implications and expense implications from additional resources necessary to meet growth in regulatory activities and Taskforce requirements.

\$000's	2020-2021 Budget	2020-2021 Actual	2021-2022 Proposed Budget	Proposed Budget to 2020-2021 Budget \$	Proposed Budget to 2020-2021 Budget %	Proposed Budget to 2020-2021 Actual \$	Proposed Budget to 2020-2021 Actual %
Revenue	\$130,312	\$138,434	\$127,943	(\$2,369)	(2%)	(\$10,491)	(8%)
Operating Expenses	\$136,004	\$129,079	\$144,146	(\$8,142)	(6%)	(\$15,067)	(12%)
Finance Costs (IFRS 16)	1,820	1,900	1,848	(28)	(2%)	52	3%
Recoveries (insurance proceeds, enforcement costs, investor education costs)	(2,681)	(3,007)	(5,164)	2,483	93%	2,157	72%
Expenses (net of recoveries and finance costs)	\$135,143	\$127,972	\$140,830	(\$5,687)	(4%)	(\$12,858)	(10%)
Operating Surplus/(Deficit)	(\$4,831)	\$10,462	(\$12,887)	(\$8,056)	(167%)	(\$23,349)	
Capital Additions	\$9,915	\$3,839	\$5,417	\$4,498	45%	(\$1,578)	(41%)

*Favourable/(Unfavourable)