

Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 OSC Notice 11-769 – Statement of Priorities – Request for Comments Regarding the Statement of Priorities for Financial Year to End March 31, 2015

ONTARIO SECURITIES COMMISSION NOTICE 11-769 – STATEMENT OF PRIORITIES

REQUEST FOR COMMENTS REGARDING THE STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2015

The *Securities Act* requires the Commission to deliver to the Minister and publish in its Bulletin each year a statement of the Chairman 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.

This *Statement of Priorities* describes the actions that the OSC will take in 2014-2015 to address each of the goals and its related priorities. While the proposed priorities will potentially impact more than one organizational goal, each priority is identified only under the specific goal where the greatest impact is expected. In certain cases, the process required to properly assess the issues, including consultations with market participants, and to develop and implement appropriate regulatory solutions, may take more than one year to complete.

In an effort to obtain feedback and specific advice on our proposed objectives and initiatives, the Commission is publishing a draft Statement of Priorities which follows this Request for Comments. The Commission will consider the feedback, and make any necessary revisions prior to finalizing and publishing its 2014-2015 Statement of Priorities. The Statement of Priorities, once approved by the Minister, will serve as the guide for the Commission's ongoing operations. Shortly after the conclusion of our 2013-2014 fiscal year we will publish a report on our progress against our 2013-2014 priorities on our website.

Comments

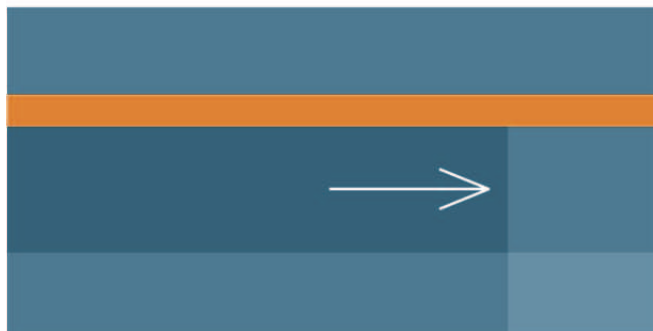
Interested parties are invited to make written submissions by June 1, 2014 to:

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April 3, 2014

[Editor's Note: 2014-2015 OSC Draft Statement of Priorities – Request for Comments is reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of the Draft Statement.]

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2014-2015
OSC Draft Statement of Priorities
Request For Comment

Introduction

We are pleased to present the OSC Chair's proposed Statement of Priorities for the Commission commencing April 1, 2014. The Statement of Priorities is required by the *Securities Act* (Ontario) and requires the Ontario Securities Commission (OSC) to publish the statement in its Bulletin and to deliver it to the Minister by June 30 of each year. This statement also supports the OSC's commitment to delivering its regulatory services effectively and with accountability.

This Statement of Priorities sets out the OSC's strategic goals and the specific initiatives that will be pursued in support of each of these goals in the fiscal year beginning each April. The statement also presents the environmental factors that the OSC considered in setting these goals. The OSC remains committed to its Vision and Mandate:

OSC Vision

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

OSC Mandate

The OSC's mandate (established by statute) is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Our Environment -- Risks and Challenges

The regulatory framework for Ontario's capital markets is designed to provide protection to investors while fostering fair and efficient capital markets. 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. There are a wide range of issues and risks that challenge the OSC's ability to achieve its vision/mandate.

Capital formation and efficient access to capital for issuers is critical to the economic prosperity of Ontario. The OSC must balance the need to take action to support this vital market function with its mandate to protect investors. Smaller participants are facing challenges raising capital through traditional sources (e.g. banks). To support capital formation the OSC needs to find ways to improve access by small and medium enterprises to capital raising alternatives such as private equity and "angel" investors. Other alternatives such as "crowd funding" can provide additional options to fund start-up enterprises. Actions in these areas will also help to address competition that is emerging from other jurisdictions to attract smaller issuers.

The OSC needs to act to address the international, national and interprovincial nature of the markets it regulates. The OSC must remain responsive to market developments with timely regulatory responses that maintain the competitiveness and attractiveness of Ontario capital markets to investors and capital. Capital markets are increasingly international and capital flows are not constrained by borders. It is critical that the OSC continue to play an active role in international organizations such as IOSCO to influence and promote changes to international securities regulation that are most beneficial to Ontario markets and participants. Greater harmonization and streamlined regulatory

requirements that are aligned with international standards can enhance the quality and reputation of our markets and promote capital inflows.

Currently the financial industry, market participants and investors are facing many challenges from globalization, structural changes within our markets as well as ongoing financial innovation. These changes all generate increased complexity and have given rise to new areas of regulatory focus such as the regulation of derivative markets, regulatory changes needed to oversee electronic trading and the effects of rapidly evolving technology including social media on our markets. Domestic market evolution also continues to present issues. For example, smaller retail focused financial firms and issuers continue to experience pressure on their current business models due to market conditions and increasing competition from larger entities. The OSC will need to focus on regulatory solutions and market structures that address market evolution, foster competition and meet the needs of market participants and investors.

To address national and interprovincial issues it remains important for the OSC to continue to work with its Canadian Securities Administrators (CSA) partners to harmonize the rules and their application across the country where possible. Concurrently, the OSC supports the significant efforts underway between BC, Ontario and the Federal Governments to implement a cooperative securities regulator that will deliver more efficient and effective regulation of the capital markets and effectively oversee sources of systemic risk. The resource implications for the OSC's role in this initiative are currently unclear but are expected to be substantial.

The increasing regulatory burden continues to present challenges for market participants as the complexity of regulatory requirements and the resources required to comply continue to grow. The OSC will need to examine whether the existing rules are still effective and determine whether they inhibit or promote high-quality capital markets and deliver a system that protects investors and promotes their confidence. It is important to continue to seek less intrusive regulatory solutions and opportunities to avoid undue burdens on business. The OSC must look for ways to lower the regulatory costs used to achieve its mandate as they are a critical component affecting the competitiveness and efficiency of Ontario's capital markets.

Investors are faced with many more complex investment choices at the same time as many are assuming greater responsibilities for their investments and retirement savings. The OSC is driving to achieve a fair deal for investors. To achieve this outcome the OSC will need to continue efforts to better educate investors and to promote the provision of information that is clearer and more easily understood. In addition, the OSC must try to ensure that the reliance by investors on their advisers is well placed by setting standards and overseeing that the advice being provided is suitable and that any conflicts are managed appropriately. The Ontario Government is currently examining the need for more consistent standards for individuals who offer financial advice and planning services. The OSC will work with the government as this initiative evolves.

We continue to believe that effective consultation is necessary to the development of good regulatory policy and decision making. We will continue to consult through our important advisory committees and various other initiatives such as "OSC in the Community" and issue specific public roundtables.

OSC Regulatory Goals for 2014 – 2015

1. Deliver strong investor protection
2. Deliver responsive regulation
3. Deliver effective enforcement and compliance
4. Support and promote financial stability
5. Run a modern, accountable and efficient organization

Key OSC Regulatory Priorities for 2014–2015

The OSC strives to be as responsive, innovative and collaborative as possible in its policy responses to other regulators. The OSC remains committed to enhanced co-operation and information-sharing with the CSA, working with its partners in the International Organization of Securities Commissions (IOSCO) and collaborating with other international agencies and governments.

In this environment, the OSC must use its finite resources as efficiently as possible. This Statement of Priorities identifies the most important areas where the OSC intends to focus its resources and actions in 2014-2015. Each of the proposed priorities has been aligned under one of the five regulatory goals.

Summary of 2014-2015 OSC Priorities

<i>Deliver strong investor protection</i>	
Issue/Priority	Proposed Actions
1. Best Interest Duty to Investors	<ol style="list-style-type: none"> a. Complete the joint OSC/IIROC/MFDA mystery shop research sweep of advisers to gauge the suitability of advice currently being provided to investors b. Complete research that will inform our decision regarding the application of a best interest duty and evaluate options to move forward
2. Embedded Fees in Mutual Funds	<ol style="list-style-type: none"> a. Complete third-party research to determine whether and to what extent the perceived conflicts of interests associated with various forms of commission compensation (including product imbedded commissions) influence adviser behaviour. The research will aim to: <ol style="list-style-type: none"> i. quantify the degree to which various forms of compensation for distribution affect fund sales ii. assess whether the use of fee-based compensation materially changes the advice given to the client and has the potential to lead to enhanced long-term investment outcomes relative to the use of commission compensation (including embedded commissions) b. Encourage expansion of product choices across distribution platforms
3. Point of Sale Disclosure for Investors	<p>The CSA Point of Sale (POS) initiative for mutual funds will:</p> <ol style="list-style-type: none"> a. Publish final rules introducing pre-sale delivery of the Fund Facts. Work with the CSA to consider mandating a risk classification methodology to improve the comparability of risk ratings of mutual funds in the Fund Facts b. Publish rules for comment by December 2014 that create a new summary disclosure document for ETFs and require it to be delivered. Legislative changes may be necessary before rules can be finalized
<i>Deliver responsive regulation</i>	
Issue/Priority	Proposed Actions
4. Market Structure Evolution	<ol style="list-style-type: none"> a. Publish proposals to update the order protection rule to respond to the evolution of the Canadian capital market structure
5. Improve Capital Formation	<ol style="list-style-type: none"> a. Complete our review of stakeholder feedback on the following proposed new capital raising prospectus exemptions (offering memorandum, family, friends and business associates, existing security holder and crowd funding exemptions)

	<ul style="list-style-type: none"> b. Subject to considering the feedback received, develop and publish proposed rules implementing these exemptions c. Develop proposals for streamlining the existing rights offering exemption to improve its efficiency and effectiveness for reporting issuers
6. Regulation of Fixed Income Securities	<ul style="list-style-type: none"> a. Review transparency in the corporate bond market and develop a proposal to increase post trade information available to the market.
7. Corporate Governance - Women on Boards	<ul style="list-style-type: none"> a. Complete review of stakeholder feedback on our proposed disclosure requirements requiring TSX-listed and other non-venture issuers to provide disclosure regarding the representation of women on boards and in executive management positions b. Subject to considering the feedback received, develop and publish proposed rules requiring disclosure about the number of women on boards and in executive management positions
8. Shareholder Democracy	<ul style="list-style-type: none"> a. Publish a progress report with preliminary recommendations on the status of our review of the proxy voting system b. Review the feedback received on CSA Consultation Paper 54-401 Review of the Proxy Voting Infrastructure through the comment letter process and the related OSC roundtable to target specific concerns and potential solutions
<i>Deliver effective enforcement and compliance</i>	
Issue/Priority	Proposed Actions
9. Serious Securities-related Misconduct	<ul style="list-style-type: none"> a. Bring forward more cases involving fraudulent activity that harms investors and affects the integrity of our market by leveraging strategic partnerships with law enforcement agencies, the Ministry of the Attorney General and relevant international regulatory authorities b. Bring forward more cases where issuer or registrant misconduct is harming market integrity or eroding confidence in Ontario's capital markets. c. Select registrants for compliance reviews that are most likely to have material compliance issues, are new registrant firms, or are involved in a specific topic or industry sector that is of concern d. Issue and analyze a Risk Assessment Questionnaire to gather information necessary to risk rate our registrant population
<i>Support and promote financial stability</i>	
Issue/Priority	Proposed Actions
10. Systemic Risk to Financial Markets	<ul style="list-style-type: none"> a. Develop rules for the clearing of OTC derivatives and implement trade reporting rules for OTC derivatives b. Work with CSA colleagues to create a harmonised and efficient OTC derivatives regime in Canada c. Develop and implement a web portal for trade reports that are unable to be accepted by a designated trade repository d. Develop a plan for implementing data analysis for systemic risk oversight and market conduct purposes including the development of analytical tools and the creation of snapshot descriptions of the Canadian OTC derivatives market e. Pursue a leadership role internationally to influence the development of global securities regulation that works for Canada f. Work with the Ontario, B.C. and Federal governments to support the creation of a Co-operative Capital Markets Regulator
<i>Run a modern, accountable and efficient organization</i>	
Issue/Priority	Proposed Actions
11. Reduce Regulatory Burden	<ul style="list-style-type: none"> a. Review current fee rule and issues arising due to market evolution and develop a proposed fee rule for approval by the Minister b. Complete a regulatory impact analysis for all proposed policy projects. c. Review filing requirements to identify opportunities to cease collection of data that is not used, lightly used, or readily available elsewhere d. Implement electronic solutions to ease submission of data for market participants
12. Timely and Fair Adjudication	<ul style="list-style-type: none"> a. Implement an on-line Electronic Case Management System to receive and distribute electronic filings to improve access to the tribunal and make the hearing process more understandable and efficient b. Enhance accessibility for respondents and the public by holding electronic hearings (where practical) c. Adopt and implement a guideline for the timely release of decisions within 6 months, where practical

Deliver strong investor protection

Protection of investors continues to be a fundamental element of everything the OSC does. The OSC's Office of the Investor works to strengthen the OSC's investor engagement and ensure investor issues are directly considered in policy and operational activities. Our increasing engagement with investors has improved our understanding of their needs and has informed how the OSC undertakes its outreach and education, regulatory policy, compliance oversight and enforcement work. Seniors represent a growing segment of Ontario's investors. The Office of the Investor will continue to focus on outreach to seniors and bring attention to seniors' issues in policy development, compliance and enforcement.

The Office of the Investor is continuing to lead outreach to investors across Ontario to hear their concerns and issues and to provide them with resources and tips to help them become more informed and protected investors. The OSC wants investors to be able to make more informed investment decisions. More effective disclosure, prepared in easy-to-understand formats, can help investors better understand investment products, risks, costs and performance. These initiatives and outreach efforts provide a better understanding of investor issues and enhance the OSC's ability to better protect investors.

Many Ontarians work with an adviser or dealer to achieve their investment and retirement goals. Registered firms and individuals are expected to meet their responsibilities to clients with respect to know your client, know your product and suitability. Investors should be able to expect financial services and products that meet their needs from firms that treat them fairly. Findings from studies commissioned by the Investor Education Fund, Investor Advisory Panel and others have concluded that mutual fund investors often have little knowledge about what they are buying, the fees they are paying or how their advisers are paid. These findings are further supported by Ombudsman for Banking Services and Investments cases that show that suitability can be a problem and investors often had no understanding of the risks they are assuming. Interactions with investors at OSC in the Community events have confirmed these findings as well as investor appetite for simpler and easier to understand information relating to their investments.

To address these issues, the OSC needs to examine the investor experience and quality of advice being provided to investors in order to better understand the impact, if any, that issues such as incentive structures and embedded commissions may be having on the nature of advice being provided to investors. Research in this crucial area will allow the OSC to identify if there are issues to address and opportunities for improvements.

The OSC will undertake the priorities set out below toward achieving the following outcomes for investors:

1. Investors are provided with clear information before, during and after the point of sale of financial services and products
2. Advice provided to investors is clear, and suitable for their needs
3. The goals of firms and the investors they deal with are aligned

Best Interest Duty to Investors

Priority 1 Issue	Investors expect the OSC to clearly demonstrate and communicate how they are protecting their interests. Investors expect a fair and transparent client/adviser relationship. The OSC will take steps to examine and better understand the potential impacts on dealers, advisers and investors of imposing a best interest duty.
Action Plan	<ul style="list-style-type: none"> a. Complete the joint OSC/IROC/MFDA mystery shop research sweep of advisers to gauge the suitability of advice currently being provided to investors b. Complete research that will inform our decision regarding the application of a best interest duty and evaluate options to move forward
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Mystery shop research completed on time and within budget. Data collected, analysed and areas for potential remediation identified b. Report on mystery shop published including guidance issued on what constitutes non-compliant advice, compliant advice and good advice. Key findings used to inform targeting of future OSC suitability sweeps and best interest duty policy development c. Research on best interest duty is completed and preliminary recommendations published

Embedded Fees in Mutual Funds

Priority 2 Issue	Investors are at risk if advisers fail to provide suitable investment advice or manufacturers fail to offer product choices due to compensation structures. The OSC will undertake a targeted analysis of how compensation models influence adviser behaviour to inform a decision on whether or not to cap or ban embedded commissions and other types of compensation arrangements.
Action Plan	<ul style="list-style-type: none"> a. Complete third-party research to determine whether and to what extent the perceived conflicts of interests associated with various forms of commission compensation (including product imbedded commissions) influence adviser behaviour. The research will aim to: <ul style="list-style-type: none"> i. quantify the degree to which various forms of compensation for distribution affect fund sales ii. assess whether the use of fee-based compensation materially changes the advice given to the client and has the potential to lead to enhanced long-term investment outcomes relative to the use of commission compensation (including embedded commissions) b. Encourage expansion of product choices across distribution platforms
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Research completed as per plan (on time and within budget) by early 2015 b. Actionable results identified and a recommendation made about whether or not to cap or ban embedded commissions c. Staff notice setting out key findings and status will be published by early 2015

Point of Sale Disclosure for Investors

Priority Issue 3	Investor protection can be improved by providing more meaningful and accessible information to investors to support more informed investment decisions. The OSC will publish rules introducing pre-sale delivery of Fund Facts for mutual funds and introduce a new summary disclosure document and delivery regime for ETFs.
Action Plan	The CSA Point of Sale (POS) initiative for mutual funds will: <ul style="list-style-type: none"> a. Publish final rules introducing pre-sale delivery of the Fund Facts. Work with the CSA to consider mandating a risk classification methodology to improve the comparability of risk ratings of mutual funds in the Fund Facts b. Publish rules for comment by December 2014 that create a new summary disclosure document for ETFs and require it to be delivered. Legislative changes may be necessary before rules can be finalized
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Positive feedback from stakeholders on the consultation process b. Final rules will be published by March 2015, subject to Minister approval <p>Note: Effectiveness of pre-sale delivery of Fund Facts to be considered in 2015-2016 following implementation (i.e. costs savings to industry stakeholders on delivery; greater investor awareness of key risks and costs).</p>

Deliver responsive regulation

Market Structure Evolution

The overall objective of market regulation is to ensure that markets remain fair and that all participants have confidence in both the resiliency and integrity of the market. Global capital markets continue to undergo significant technological change and rapid evolution. The OSC has responded to these changes with collaborative policy responses with the CSA and through the implementation of appropriate international best practices to support fair, efficient and orderly markets in Ontario.

In addition, the OSC plans to review the effects of its rules post-implementation to determine if the rules are achieving the desired outcomes. As an example, the order protection rule appears to have had a number of unintended consequences that may be creating inefficiencies and additional costs in the market. This rule will be examined and changes to address these issues will be proposed during the coming year.

Priority 4 Issue	The OSC needs to address issues that arise as a result of the evolution of the market including the impact of the order protection rule.
Action Plan	a. Publish proposals to update the order protection rule to respond to the evolution of the Canadian capital market structure
Success Measures/ Expected Outcomes	a. Proposed changes to update the order protection rule are published b. Industry feedback confirms that the proposed changes to the order protection rule will improve efficiency and are aligned with current market needs

Improve Capital Formation

The OSC recognizes that cost-effective access to capital is critical to companies of all sizes to grow and develop. The OSC has heard from stakeholders that the current capital raising options in Ontario may not be meeting the needs of companies, particularly start-ups and small and medium enterprises (SMEs). It is critical for the OSC to consider ways to support this important sector. The OSC has also heard from stakeholders that investors may want increased access to investment opportunities in the exempt market.

The OSC has considered a broader range of capital raising options, particularly for smaller companies. These options are more tailored to start-ups and SMEs and will improve the rule harmonization with other CSA regulators. The OSC is also considering options that provide greater access to exempt market products for all investors while maintaining important investor protections. If appropriate, the OSC will propose changes to its current rules.

Priority 5 Issue	The current capital raising regime in Ontario needs to better meet the needs of market participants, especially SMEs. The OSC will look at options to expand opportunities for businesses to raise capital.
Action Plan	a. Complete our review of stakeholder feedback on the following proposed new capital raising prospectus exemptions (offering memorandum, family, friends and business associates, existing security holder and crowd funding exemptions) b. Subject to considering the feedback received, develop and publish proposed rules implementing these exemptions c. Develop proposals for streamlining the existing rights offering exemption to improve its efficiency and effectiveness for reporting issuers

Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Rule amendments delivered to Minister for approval and publication of amendments in final form b. Proposals for streamlining the existing rights offering exemption published for public comment
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Regulation of Fixed Income Securities

The Canadian fixed income market is similar to the equity market in terms of value of assets outstanding. The fixed income market (particularly the corporate bond market) has substantially increased in size in the last decade and there is a large presence of retail investors invested in this market directly and indirectly. Debt financings are also an important source of financing for Canadian corporations.

In Canada, corporate bond trading is opaque with limited post-trade transparency for both regulators and retail investors. This lack of transparency limits the OSC's ability to determine whether retail investors and small institutional investors are obtaining best execution.

The OSC needs to better understand the significant issues (e.g. access, sales practices and disclosure) affecting fixed income securities and those who invest in them, and to identify opportunities where changes to regulatory approaches could improve market transparency and better protect investor interests.

Priority 6 Issue	Fixed income is a significant but less transparent segment of our capital markets. Retail participation is high as investors seek opportunities for higher yields. The OSC will examine ways to improve the transparency of this market.
Action Plan	<ul style="list-style-type: none"> a. Review transparency in the corporate bond market and develop a proposal to increase post trade information available to the market.
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. The proposal will be published by March 2015.

Corporate Governance – Women on Boards

Effective corporate governance is a fundamental part of a Board's responsibility and it is key to maintaining investor confidence. The OSC continues to seek opportunities to improve the focus of boards on good governance practices. More diverse board composition may encourage greater effectiveness and better corporate decision making. The OSC has proposed to require greater transparency for investors and other stakeholders regarding the representation of women on boards and in senior management. This transparency is intended to assist investors when making investment and voting decisions.

Priority 7 Issue	There are growing expectations for better board governance and transparency, including increased transparency regarding the representation of women in leadership roles at reporting issuers.
Action Plan	<ul style="list-style-type: none"> a. Complete review of stakeholder feedback on our proposed disclosure requirements requiring TSX-listed and other non-venture issuers to provide disclosure regarding the representation of women on boards and in executive management positions b. Subject to considering the feedback received, develop and publish proposed rules requiring disclosure about the number of women on boards and in executive management positions

Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Rule amendments delivered to the Minister of Finance for approval and final amendments published b. The composition of senior management and the Board will be more transparent to shareholders
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Shareholder Democracy

The ability to vote on certain key decisions is a fundamental shareholder right. By voting, shareholders elect directors, approve or disapprove major transactions and make their views known on matters such as executive compensation. Shareholder voting plays an important role in the fairness and efficiency of our capital markets. Recently, some issuers and investors have raised concerns about the reliability and accuracy of the proxy voting infrastructure that records shareholder votes. The OSC believes it is critical that the proxy voting infrastructure records votes accurately and reliably, and it is necessary for market confidence that it is perceived to be fair.

Priority 8 Issue	The OSC is taking a leadership role in looking for ways forward with the proxy voting system, and improving the accuracy and reliability of the proxy voting infrastructure.
Action Plan	<ul style="list-style-type: none"> a. Publish a progress report with preliminary recommendations on the status of our review of the proxy voting system b. Review the feedback received on CSA Consultation Paper 54-401 Review of the Proxy Voting Infrastructure through the comment letter process and the related OSC roundtable to target specific concerns and potential solutions
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. Progress report published by December 2014 b. Significant stakeholder engagement on the issues and positive stakeholder feedback on the consultation process

Deliver effective enforcement and compliance

Serious Securities-related Misconduct

To promote public confidence in capital markets, the OSC must use its authority to address significant non-compliance and misconduct. The OSC continues to intensify its enforcement presence and is exploring new opportunities to bolster investor and market participant trust in our markets.

The OSC continues to pursue more fraud cases before the courts, where it can seek jail sentences for violations of the Securities Act (Ontario) and breaches of Commission orders. The OSC is also considering various new policy initiatives to strengthen its enforcement regime including no-enforcement action agreements, no-contest settlements, and a credit for co-operation program with enhanced public disclosure of the credit granted for co-operating with the OSC.

As the regulatory agenda increases the OSC must effectively allocate its resources. As enforcement consumes the greatest proportion of OSC resources it is particularly important to maximize the enforcement impact on activities with the most detrimental impact on investors. The OSC Joint Serious Offences Team (JSOT) has been formed with the cooperation of law enforcement agencies and the Ministry of the Attorney General and the OSC is leveraging their different powers, authorities and skill sets to address these issues.

Effective Compliance

The OSC conducts compliance reviews of registered firms primarily to assess compliance with Ontario securities law, but also to help registrants improve their understanding of the regulatory requirements and our expectations, and to help us to learn about a specific industry topic or practice.

The OSC will continue to focus on firms that are most likely to have material compliance issues or risk of harm to investors or would have a significant effect on the capital markets if there is a compliance breach due to their size or market penetration. In addition to reviewing individual firms, the OSC will continue to conduct issue specific compliance reviews (sweeps). Sweeps allow us to respond on a timely basis to industry-wide concerns or issues. The OSC regularly performs sweeps of newly registered firms to assess if they are off to a good start and to help them to understand their requirements and our expectations.

<p>Priority 9 Issue</p>	<p>The OSC needs to better demonstrate the effectiveness and efficiency of its enforcement and compliance efforts. The OSC will seek to limit potential harm to investors by focusing enforcement efforts on cases involving fraud, manipulation and other serious securities related misconduct.</p> <p>The OSC will focus its compliance oversight on registrants that are most likely to have material compliance issues, including risk of harm to investors, or significant effect on the capital markets if there is a compliance breach.</p>
<p>Action Plan</p>	<ol style="list-style-type: none"> a. Bring forward more cases involving fraudulent activity that harms investors and affects the integrity of our market by leveraging strategic partnerships with law enforcement agencies, the Ministry of the Attorney General and relevant international regulatory authorities b. Bring forward more cases where issuer or registrant misconduct is harming market integrity or eroding confidence in Ontario’s capital markets. c. Select registrants for compliance reviews that are most likely to have material compliance issues, are new registrant firms, or are involved in a specific topic or industry sector that is of concern d. Issue and analyze a Risk Assessment Questionnaire to gather information necessary to risk rate our registrant population
<p>Success Measures/ Expected Outcomes</p>	<ol style="list-style-type: none"> a. The OSC JSOT will: <ol style="list-style-type: none"> i. Increase the number of cases investigated for fraudulent activity and recidivist offenders ii. Work with law enforcement to proactively use Criminal Code tools in JSOT investigations b. Visible and effective enforcement actions in cases of unacceptable or egregious issuer or registrant misconduct will result in improved market conduct and have a deterrent effect on future misconduct c. Increase the number of reviews of registrants that reveal significant compliance issues d. Respond on a timely basis to industry wide compliance issues or concerns

Support and Promote Financial Stability

Ontario’s financial markets are part of the Canadian and international capital markets, closely linked by technology, investment flows, risk-management practices, cross border transactions and the global business models of market participants. The OSC must align its regulatory framework to adhere to important global reforms and standards, including G20 commitments (OTC derivatives and systemic risk) that seek to promote financial system resilience. The OSC actively participates in the development of international securities regulation and plays a leadership role as a key member of the IOSCO Executive, which sets internationally recognized standards for the securities sector. This role is critical to allow the OSC to develop and implement timely, aligned regulatory responses that maintain the competitiveness and attractiveness of Ontario capital markets to investors and capital.

One of the key outcomes from the 2008 financial crisis was the understanding of the need for increased regulatory coordination and oversight of the OTC derivatives markets. As the trading of OTC derivatives could be a significant source of systemic risk in Canada a globally and nationally coordinated OTC derivatives regime benefits Ontario capital markets. Regulatory oversight of the OTC derivatives markets should result in earlier identification of potential risks and increase the ability of regulators to respond to systemic risk and market misconduct. This will also ensure Canada can meet its international commitments in this area.

Priority 10 Issue	<p>Increasingly interconnected global financial markets present systemic risk to financial market stability. OTC derivatives represent a significant potential source of systemic risk in Canada. The OSC will develop and implement an OTC derivatives regulatory framework to reduce potential risks to the financial system posed by unregulated entities.</p> <p>The OSC supports implementation of a cooperative securities regulator that will deliver more efficient and effective regulation of the capital markets and effectively oversee sources of systemic risk.</p>
Action Plan	<ol style="list-style-type: none"> a. Develop rules for the clearing of OTC derivatives and implement trade reporting rules for OTC derivatives b. Work with CSA colleagues to create a harmonised and efficient OTC derivatives regime in Canada c. Develop and implement a web portal for trade reports that are unable to be accepted by a designated trade repository d. Develop a plan for implementing data analysis for systemic risk oversight and market conduct purposes including the development of analytical tools and the creation of snapshot descriptions of the Canadian OTC derivatives market e. Pursue a leadership role internationally to influence the development of global securities regulation that works for Canada f. Work with the Ontario, B.C. and Federal governments to support the creation of a Co-operative Capital Markets Regulator
Success Measures/ Expected Outcomes	<ol style="list-style-type: none"> a. Clearing and reporting rules for OTC derivatives that align with international standards and meet G20 commitments will be in place b. Systems for oversight and to facilitate systemic analysis of the Ontario derivatives markets will be in place on time and within budget

Run a modern, accountable and efficient organization

Reduce Regulatory Burden

All market participants are operating in challenging economic times and have to deal with intense competition, uneven global economic growth and slowly recovering financial markets. Smaller market participants are struggling to adjust to market volatility and market structure changes. Recognizing these challenges the OSC is looking for ways to reduce the regulatory burden in both time and the costs of compliance. Market participants expect the OSC to use its limited resources efficiently, so improving our efficiency is a top priority. In February the OSC implemented a targeted, one-time fee reduction to address market conditions and assist smaller market participants. The OSC has also committed to review its current fee rule and issues arising due to market evolution and develop a proposed fee rule for approval by the Minister.

Where regulatory requirements may no longer be appropriate or required due to market evolution there is an opportunity to reduce regulatory burden. The OSC is committed to assessing the impacts of its proposed policy and operational changes to try to ensure

that any proposed regulation is proportionate and fit for purpose, does not act as an unnecessary barrier to new firms entering the industry and does not constrain innovation and growth. The OSC will improve its policy development process by completing a regulatory impact analysis prior to initiating any proposed policy projects.

Priority 11 Issue	Market participants continue to identify regulatory burden as a significant issue. The OSC will look for ways to reduce regulatory burden on market participants.
Action Plan	<ul style="list-style-type: none"> a. Review current fee rule and issues arising due to market evolution and develop a proposed fee rule for approval by the Minister b. Complete a regulatory impact analysis for all proposed policy projects. c. Review filing requirements to identify opportunities to cease collection of data that is not used, lightly used, or readily available elsewhere d. Implement electronic solutions to ease submission of data for market participants
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. At least two opportunities identified where filing requirements could be reduced or eliminated b. At least 95% of capital and financial statement filings by registrants received electronically

Timely and Fair Adjudication

Timely and fair adjudication processes are a key requirement of the regulatory framework. The OSC is looking for ways to reduce costs, improve the efficiency of the adjudication process and to modernize our hearing process. Improved timeliness benefits respondents and reduces the risk of offenders avoiding sanction due to unreasonable delays in the process.

Priority 12 Issue	The OSC needs to improve its adjudicative processes through more transparent policies, practices and procedures and more timely dissemination of its orders, decisions and reasons.
Action Plan	<ul style="list-style-type: none"> a. Implement an on-line Electronic Case Management System to receive and distribute electronic filings to improve access to the tribunal and make the hearing process more understandable and efficient b. Enhance accessibility for respondents and the public by holding electronic hearings (where practical) c. Adopt and implement a guideline for the timely release of decisions within 6 months, where practical
Success Measures/ Expected Outcomes	<ul style="list-style-type: none"> a. The Electronic Case Management System will be implemented on time and within budget. b. Hearings will be held electronically, as appropriate c. The efficiency and timeliness of tribunal adjudicative hearing and deliberation processes will be improved. Decisions will be released within six months, where practical

2014 – 2015 Financial Outlook

OSC Revenues and Surplus

The OSC is forecasting 2014–2015 revenues to increase by 6.1% from 2013–2014 revenues. The forecast reflects fee increases set out in the OSC’s fee rules (13-502 and 13-503), which became effective April 1, 2013. The fee increases are necessary to meet the OSC’s evolving regulatory responsibilities, many of which are driven by work at the international level. To maintain competitive capital markets in Canada, the OSC must align its regulatory framework to be consistent with important global reforms and standards including G20 commitments (derivatives and systemic risk), increasingly complex international enforcement files, changing oversight responsibilities related to market infrastructure entities and new complex products.

In February, the OSC announced an opportunity for one-time relief on participation fees for certain small registered firms and reporting issuers (“Participants”). Eligible Participants must apply for relief and there is no cost for applying. The total financial impact of the proposed relief is not known as it is dependent on the number of Participants that apply for the relief. The OSC expects that most eligible Participants will seek this relief and the proposed fee reduction will reduce the OSC’s 2013/2014 revenues and impact its ability to reach cost recovery by the end of fiscal 2016, as originally set out in 2013. The OSC expects to continue to operate at a deficit in 2014–2015. As a result, the OSC will no longer have a general surplus as at March 31, 2015. The OSC maintains a \$20 million reserve that may be used to fund operations.

2014 – 2015 Budget Approach

The 2014 - 2015 OSC Budget is focused on investment in the key strategies identified in the 2012 - 2015 OSC Strategic Plan, while at the same time maintaining fiscal responsibility. In setting this budget the OSC has taken a strategic approach to assess areas where resources can be reduced, or the work can be done differently or more efficiently and has refocused resources to priority areas. This resulted in decreased budgets for certain program areas and an OSC Budget for 2014 - 2015 which is lower than the 2013 - 2014 budget.

(thousands)	2013/2014 Budget	2013/2014 Actual	2014/2015 Budget	2014-15 Budget to 2013-14 Budget	2014-15 Budget to 2013-14 Actual
Revenues	101,160	95,478	101,325	165	0.2%
Expenses	103,552	101,340	102,976	(577)	-0.6%
Deficiency of Revenue compared with	(2,392)	(5,862)	(1,651)	742	
Capital Expenditures	5,661	6,800	3,349	(2,312)	(3,451)

The OSC continues to face challenges to continue to improve its capacity to keep up with market developments, innovation and investor concerns. Increased use of technology is a key element of the OSC’s strategy. As a result, the budget reflects the

need to invest resources to update and improve the OSC Information Technology infrastructure. The budget also includes resources for work toward the successful implementation of the Common Market Regulator.

The budget reflects a decrease of 0.6% from the 2013–2014 budget. Salaries and benefits, which comprise \$77.9 million or 75.7% of the budget, reflect an increase of \$2.1 million or 2.7% over 2013–2014 spending due to:

- a. Budgeting of full-year costs for vacancies and staff hired throughout 2013–2014
- b. New positions approved to achieve the OSC’s strategic initiatives including to:
 - i. bring in-house computer forensic support for enforcement cases
 - ii. address the expected increase in hearing days
 - iii. support the work to upgrade OSC Information Technology Infrastructure

The significant decrease in the capital budget primarily reflects the fact that the build-out of recently acquired additional space that took place in 2012-2013 and 2013-2014 is now complete. The budget also includes an investment to support upgrading and expansion of our information technology, including completion of the network replacement. In addition, funds have been allocated to implement a refresh of our mobile devices program.