# Chapter 1

# Notices / News Releases

## 1.1 Notices

### 1.1.1 OSC Notice 11-775 – Notice of Statement of Priorities for Financial Year to End March 31, 2017

**OSC NOTICE 11-775**
**NOTICE OF STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2017**

The *Securities Act* (Act) requires the Ontario Securities Commission (OSC or Commission) to deliver to the Minister of Finance by June 30th of each year a statement from the Commission setting out its priorities for its current financial year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities.

In the notice published by the Commission on March 10, 2016, the Commission set out its draft Statement of Priorities (SoP) and invited public input in advance of finalizing and publishing the 2016–2017 Statement of Priorities. Twenty-three responses were received which focussed on a wide range of issues.

We appreciate the time and effort taken by all of the commenters to review the SoP and provide their considered and helpful feedback. The responses were broadly supportive of the overall direction of the OSC goals and priorities and included support for:

a. the work of the OSC Investor Office and its commitment to expand and modernize the OSC's efforts in investor engagement, research, education and outreach and bring new perspectives to policy-making and operations

b. improved regulatory harmonization including pursuit of a national regulator and greater CSA cooperation

c. continued focus on gender diversity, including additional diversity measures for board members and executive and senior management positions

Other specific support was noted for the various proposals including the whistleblower program, the review of fixed income and research based work including post-implementation review of policies and rules.

The OSC continues to receive comments focused on the pace of regulatory development for various initiatives. These comments often vary depending on whether the commenter supports or opposes the initiative. The OSC is aware of these concerns and is committed to trying to achieve timely policy development where practical. However, to achieve harmonized, national regulatory solutions requires collaboration with other regulators and as a result, timelines and completion dates are often not entirely within our control. The OSC will continue to seek CSA-wide solutions that address regulatory issues, but where necessary may need to introduce Ontario only solutions if consensus cannot be achieved that addresses the issues in a timely manner.

A high level summary of key comment areas and our replies is set out below:

a. *Our proposed priority of pursuing targeted reforms and introducing a Best Interest Standard (BIS) to enhance the advisor/client relationship received the most attention. Comments of support and seeking timely implementation were offset by a number of commenters who raised concerns including reduced access to advice and a lack of agreement on BIS within the CSA. Some recommended delaying a decision on BIS until the impact of Client Relationship Model – Phase 2 (CRM2) and other reforms became clearer and could be assessed. A number of comments were also provided on related issues such as proficiency and titles of advisers.*

   We continue to believe that the pursuit of targeted amendments to NI 31-103 and a BIS to enhance the advisor/client relationship are top priorities that we need to complete. We will continue to consider all available information to achieve an evidence-based decision on these important elements of our regulatory framework

   As noted last year, we will be following the Ontario Government's review of financial planning and the impact that advisor titles and proficiency standards have on investor protection as part of this priority.

b. *Our proposed priority to address compensation arrangements in mutual funds received a significant number of responses. Comments of support and seeking implementation of regulations to discontinue embedded commissions and other forms of compensation were offset by a number of commenters who did not support this project and cited concerns that had arisen in other jurisdictions where embedded compensation arrangements were no longer allowed. For example, commenters noted that there were perceived negative effects on investor access to advice in the U.K.*

   A number of viewpoints were expressed and the OSC agrees that this issue requires careful analysis of the diverse range of factors involved. The OSC remains committed to achieving an evidence-based resolution to concerns with embedded compensation structures and will continue to maintain an open dialogue with stakeholders as we proceed through the next stages of this work.

c. *A number of commenters highlighted seniors' issues as a growing area of risk requiring more focus. Suggestions included creating a Seniors Advisory Committee as an additional priority to bring greater focus to these issues.*

   We agree that seniors and vulnerable investors are an important demographic that demand attention. The Investor Office has planned a number of initiatives, some of which are included in the identified priorities, to address these and other key investor protection issues. The Investor Office is developing the OSC's seniors strategy, which is expected to place a heavy emphasis on partnerships with organizations focused on the particular needs of seniors. In recognizing the importance of consulting with seniors' experts, the OSC will be establishing a new external Seniors Expert Advisory Committee (SEAC) that will provide staff with expert opinion and input on various policy, operational, education and outreach activities of the OSC designed for and targeted at older Canadians and their needs.

d. *A number of commenters noted that the SoP should include a shareholder democracy priority to address issues such as "say on pay" and proxy voting.*

   We continue to monitor developments in respect of shareholder democracy issues such as "say-on-pay" to determine an appropriate regulatory response. Even though this issue has not been identified as one of the OSC's key priorities work is continuing on these issues as part of individual branch business plans.

e. *Non-collection of fines and the need for expanded collections powers was raised by a number of commenters*

   The OSC views fines and penalties as a key tool in its efforts to deter misconduct and has focussed more effort on collections of OSC orders and settlements. More cases are being pursued through the Joint Serious Offences Team, and new enforcement tools such as no contest settlements are being used to obtain better outcomes for investors. The OSC also continues to seek new methods to improve collections and ultimately the deterrent effect of its actions.

   Unfortunately, there are a number of factors that impair the ability of the OSC to collect fines including the fact that sanctions are imposed that reflect the severity of the investor harm irrespective of the availability of assets to enforce against, and when dealing with fraud, assets are often non-existent or not retrievable. Despite these challenges, in the past two years the OSC's overall rate of collections has increased from 4.9% in 2014 to 15.4% and 18.6% in 2015 and 2016, respectively. While improvements in collections procedures have helped improve the results, the main reason for the increase was the nature of respondents and matters that were brought before the Commission in 2015 and 2016. In 2015-2016, respondents in three settlement agreements undertook to return $164 million to investors directly.

f. *A number of commenters want to see more done to provide protection to investors when they have suffered losses due to breaches of securities laws. There was strong support to strengthen the powers and support for entities such as OBSI and ultimately, to implement some mechanism to allow investors to seek redress and restitution from losses due to breaches of securities laws.*

   The OSC remains focused on these issues and is actively pursuing various means for effecting compensation to harmed investors. During 2015, the first file referred by the OSC to the Civil Remedies for Illicit Activities Office (CRIA) under a memorandum of understanding (MOU) arrangement was completed. This resulted in the distribution of $199,073 in frozen funds to investors. The most recently completed file resulted in a distribution of $588,420 in frozen funds to 53 investors, who each recovered 65% of their respective claims. CRIA is working on a number of other files referred by the OSC.

   An effective and fair dispute resolution system is an important component of the investor protection framework. We strongly support OBSI as the dispute resolution service and expect registrants to abide by their obligations and participate in OBSI's services in a manner consistent with their obligation to deal fairly, honestly and in good faith with their clients.

   The CSA (including the OSC) and OBSI have entered into a MOU that creates a framework for oversight of and engagement with OBSI. OBSI recently underwent an independent review of its operations and structure, as required by its MOU with the CSA. The OSC will analyze the review's findings and recommendations along with other stakeholder input in determining what steps the OSC or CSA could pursue to try to secure more positive outcomes for investors.

g. *A number of commenters noted that recent reforms have led to expansion of the exempt market and expressed concerns about the potential for investor harm. Some commenters recommended that more information be gathered about this market and urged the OSC to make additional compliance, supervision and enforcement resources available to actively monitor this market to ensure compliance with the rules and detect and resolve unintended consequences before retail investors are harmed.*

   The OSC agrees with these comments and has committed in its priorities to vigilantly monitor compliance in the newly expanded prospectus-exempt market to address these concerns.

h. *Commenters have suggested that the OSC find ways to work with the Financial Stability Board Task Force on Climate-related Financial Disclosures and consider how the OSC can encourage adoption of the Task Force's recommendations, including possible regulation of required disclosure.*

   Companies already have an obligation to disclose material environmental and governance issues. We are monitoring developments in this area and will assess whether additional disclosure may be required. This includes monitoring and commenting on the work being undertaken by the FSB's industry led Task Force, which is aiming to develop voluntary issuer standards for disclosure on climate related issues. Once our assessment has been completed, we will determine whether additional rules are required.

The OSC's primary focus continues to be effective delivery on its core regulatory work. In our SoP, we set out our highest priorities for the year noting what we will deliver under those priorities and how we will measure our performance. Many other important initiatives and issues identified for inclusion by various commenters are already addressed within individual branch business plans or will be considered for future work. In keeping with our goal to remain focused on and committed to our core work and highest priority items, we have decided that we will not be adding any additional priorities to our 2016-2017 SoP.

All of the comment letters are available on our website www.osc.gov.on.ca. The Statement of Priorities will serve as the guide for the Commission's operations. Following delivery of the Statement of Priorities to the Minister, we will also publish on our website a report on our progress against our 2015-2016 priorities.

# OSC STATEMENT OF PRIORITIES
# 2016-2017

## INTRODUCTION

We are pleased to present the Chair's Statement of Priorities for the Commission for the year commencing April 1, 2016. The *Securities Act* (Ontario) requires the Ontario Securities Commission (OSC) to publish the Statement of Priorities in its Bulletin and to deliver it to the Minister by June 30 of each year. This Statement of Priorities also supports the OSC's commitment to be both effective and accountable in delivering its regulatory services.

This Statement of Priorities sets out the OSC's strategic goals and the specific initiatives that the OSC will pursue in support of each of these goals in 2016-2017. The Statement of Priorities also describes the environmental factors that the OSC has considered in setting these goals.

### 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

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

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. The OSC is addressing a wide range of issues and risks to achieve its vision and mandate. Key challenges and issues that may influence the OSC's policy agenda, its operations and the way it uses its resources are set out below.

We engage with industry participants, investors and other regulators to understand the issues and concerns they face. Investor advocacy groups and the Investor Advisory Panel are important sources of insight to help the OSC better understand investor needs and interests. Expectations that the OSC will focus on investor protection continue to grow, and the OSC will continue to reach out and connect with these groups.

Extremely challenging market conditions are having widespread impacts on all market participants. Significant reductions in public financing activities and related filings and lower market activity levels are adversely affecting the revenues and profitability of many market participants. Falling market capitalization levels are adversely affecting our public issuers.

### Changing demographics

Demographics will continue to generate a range of investor-focused issues. Disparate investor segments (e.g., seniors, millennials) interact differently in our markets, using different channels and having different investment horizons and objectives. Delivery of advice is changing as investment choices become more complex and structural shifts, such as the continuing shift from defined benefit to defined contribution pension plans, require investors to take more responsibility for investing. Evolving market channels, such as automated financial advice, are redefining the delivery of client wealth management services and the fees charged for advice.

A well-functioning investor/advisor relationship remains critical to the economic well-being of Ontarians and ultimately to achieving healthy capital markets. Globally, better alignment of the interests of firms with the expectations of investors is evolving. The newly introduced changes to the exempt market regulatory regime are expected to attract new investors to the capital markets and this will necessitate additional oversight activities to monitor market conduct, firms' compliance cultures and how advisors meet the interests of their clients.

### Technological innovation

Rapidly evolving technology-enabled innovations continue to disrupt and transform our capital markets. A range of disruptive innovations have emerged. These include growth in block chain based crypto-currencies, peer-to-peer lending and other FinTech (technology facilitated financial services) innovations. FinTech has the potential to revolutionize access to capital by small businesses. Over the past few years, a number of products and business models have emerged, catering to the needs of small businesses. Larger financial institutions are trying to accelerate their transition to these new models and technologies through acquisition. The OSC will need to closely monitor the impact of FinTech changes to determine any potential market implications and whether regulation remains effective or if regulatory changes are required.

Increased dependence on digital connectivity and data collection and analysis, creates challenges for businesses and raises potential exposure to disruptions, including cybersecurity vulnerabilities. Marketplace changes such as the speed of trading, the quality of trade executions and volatility requires us to continue to monitor the effectiveness of our market structure regulation.

**Globalization**

Globalization has wide-ranging impacts on Canadian capital markets. Harmonization and coordination of regulation continues to be a key focus area for the OSC, given the global connection of the markets we regulate. Mobility of capital creates a strong need for coordination with other regulators to achieve valuable regulatory alignment both domestically and around the world.

The OSC continues to play an active role in international organizations such as the International Organization of Securities Commissions (IOSCO) to influence and promote changes to international securities regulation that will benefit Ontario markets and participants. The OSC also works as part of the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country to facilitate business needs. Through these efforts, the OSC works hard to have effective cross-jurisdiction enforcement activities and gain timely insight, understanding and input into emerging regulatory issues to achieve better regulatory outcomes.

**Regulatory balance**

Securities regulators face growing pressures to respond appropriately to market issues while avoiding over-regulation. The need for an appropriate and cost-effective regulatory framework is critical. Market participants are focused on regulatory burden as the complexity of regulatory requirements often requires more resources to comply. These challenges are made even more difficult by the growth of differently regulated investment options available to investors.

While the OSC is always focused on the need for fiscal responsibility, that focus has been magnified by the current market environment, which has impacted many market participants. The OSC will continue to try to identify opportunities to avoid or reduce undue burdens and seek opportunities to streamline regulatory measures that balance improving the fairness, efficiency and competitiveness of Ontario's capital markets while maintaining appropriate safeguards for investors.

**OSC operations**

A focus on our staff continues to be important for the OSC. Attracting, motivating and retaining top talent in a competitive environment is a challenge and key to delivering on our mandate. We continue to invest in data and information systems and provide the right tools and training to leverage the talents of our people. These needs will impact our budget decisions for 2016-2017 and beyond.

**OSC 2016-2017 REGULATORY GOALS**

1. Deliver strong investor protection – *The OSC will champion investor protection, especially for retail investors*

2. Deliver responsive regulation – *The OSC will identify important issues and deal with them in a timely way*

3. Deliver effective compliance, supervision and enforcement – *The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement*

4. Promote financial stability through effective oversight – *The OSC will continue to identify, address and mitigate systemic risk and promote stability by implementing programs to effectively oversee and supervise our capital markets including the OTC derivatives market, the fixed income market, and key infrastructure entities such as clearing agencies.*

5. Be an innovative, accountable and efficient organization – *The OSC will be an innovative and efficient organization through excellence in the execution of its operations, and will demonstrate accountability in fulfilling its mandate and achieving its goals*

The OSC continues to make strong advances in moving its regulatory agenda forward and has made a number of key improvements in the way it approaches its work. The OSC is increasingly active in providing guidance to market participants and investors and in using open and consultative processes to assess and address issues. We remain focused on evidence driven policy-making.

The OSC has significantly increased its level of cooperation with many domestic entities, including the Bank of Canada, Federal Finance and the Office of the Superintendent of Financial Institutions, to achieve more harmonized and coordinated outcomes. Enforcement activity conducted with police and other enforcement bodies continues to expand, resulting in more successes across a broader range of enforcement actions and specifically in addressing fraud.

Confidence in fair and efficient markets is a prerequisite for economic growth. The OSC regulates the largest market in Canada and our actions have impacts for Ontario and the rest of Canada. The OSC is committed to promoting safe, fair and efficient markets in Ontario and has identified a broad range of initiatives to improve the regulatory framework.

**ORGANIZATIONAL PRIORITIES**

This Statement of Priorities is focused on our plan for 2016-2017. In several cases these initiatives are ongoing from prior years and some will not be completed within 2016-2017. Initiatives often span more than one year for various reasons, including:

- The complexity and impact of issues warrants careful analysis and review of potential options and implications

- Consultation contributes to better outcomes. Consultation does however take time and achieving national consensus for harmonized approaches is important for all

- Regulatory choices can have fundamental and profound impacts; the cost of being wrong can be very significant and the impacts on investors and industry are often significant

In some instances, specific priorities from the previous year are not carried forward in our Statement of Priorities if the remaining work is minimal, or has been integrated into our daily operations.

This document sets out the priority areas on which the OSC intends to focus its resources and actions in 2016-2017. It is important to note that the majority of OSC resources remain focused on delivering the core regulatory work (authorizations, reviews, compliance and enforcement) undertaken by the OSC to maintain high standards of regulation in Ontario’s capital markets. Each of the priorities has been aligned under one of the five OSC regulatory goals.

**Goal 1 – Deliver strong investor protection**

Ontario investors continue to face a low interest rate environment with significant market volatility. These low rates will likely persist given weak commodity prices and subdued global growth. Older Canadians are challenged to achieve sufficient investment returns for their retirement. Investors continue to seek opportunities to achieve adequate yield on their investments or capital appreciation. This push for higher returns can expose them to investment risks, including increased leverage that can have life-changing outcomes.

The OSC is strongly committed to investor protection and is proposing a number of investor-focused initiatives. Investors need to be confident in the fairness of the market and products in which they invest. Our markets have rebounded from post-2008 levels however volatility remains a concern. Investors are placing increasing reliance on financial advisors and need to be confident that the advice they receive is appropriate and unbiased. We will continue to seek improvements to the culture of financial services businesses, including the incentive structures they use. Weak compliance systems in combination with poor compliance cultures at firms can result in inappropriate advice and unsatisfactory investor outcomes. Where successful achievement of investment objectives is not a shared goal between advisors and investors, investor trust and confidence in the financial system is lost.

The OSC is committed to achieving better alignment between the interests of investors and their advisors. The OSC has focused on collecting and undertaking research to better understand the client advisor relationship. In October 2015, the Canadian Securities Administrators (CSA) published *A Dissection of Mutual Fund Fees, Flows and Performance*, independent research prepared by Professor Douglas Cumming. Professor Cumming’s research on the impacts of compensation on mutual fund sales finds that compensation can materially drive mutual fund sales, in some cases, to the detriment of the investor. In June 2015, the Brondesbury Group completed a literature review that examined whether advice and investment outcomes vary depending on whether advisors are compensated through commissions or fee-based arrangements. This research, together with other available research, industry data and feedback from stakeholder consultations and our mystery shopping initiative, will inform our deliberations and be used to support a policy recommendation on how best to move forward.

***Putting the interests of investors first***

| **Priority Issue** | Implement regulatory reforms that improve the advisor/client relationship |
|---|---|
| **Action Plan/ Next Steps** | a. Publish and conduct consultations on proposed regulatory provisions to create a best interest standard<br>b. Publish and conduct consultations on targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship<br>c. Following stakeholder consultations, develop recommendations to the Commission on regulatory reforms to improve the advisor/client relationship including an implementation plan<br>d. Finalize analysis of advisor compensation practices and identify those practices that appear inconsistent with current regulatory expectations |
| **Success Measures/ Expected Outcomes** | a. Consultations on provisions for creating a best interest standard completed<br>b. Consultations on proposed targeted reforms and/or guidance to NI 31-103 completed<br>c. Recommendation presented to Commission on the regulatory reforms required to improve the advisor/client relationship. Implementation plan included<br>d. Staff Notice summarizing compensation review findings including expectations for compliance and best practices, published |

***Addressing compensation arrangements in mutual funds and empowering investors through better disclosure***

| **Priority Issue** | Determine what regulatory action is needed to address embedded commissions and other types of compensation arrangements and improve retail investment product disclosure |
|---|---|
| **Action Plan/ Next Steps** | a. Communicate a policy direction on embedded commissions and other types of compensation arrangements<br>b. Develop regulatory proposals that address conflicts of interest created by compensation arrangements related to investment funds<br>c. Finalize a mandated CSA risk classification methodology to improve the comparability of risk ratings of mutual funds<br>d. Finalize a summary disclosure document for ETFs that can be delivered to investors |
| **Success Measures/ Expected Outcomes** | a. Publication of a consultation paper including a recommendation about embedded commissions and other types of compensation arrangements<br>b. Rules implementing a CSA risk classification methodology finalized<br>c. Rules implementing a summary disclosure document for ETFs finalized |

***Increased oversight of the exempt market***

Recent changes to increase access to the exempt market have expanded investment opportunities for all investors. The OSC will need to be vigilant in its oversight of these markets as they evolve under the new regulatory framework. Retail investors seeking to participate in the exempt market will need to be supported with guidance and tools to help them to understand and assess the opportunities and risks associated with these investments. The OSC will support the implementation of the expanded exempt market access through targeted outreach, oversight and supervision processes.

| Priority Issue | Support investors in the expanded exempt market through effective oversight |
|---|---|
| **Action Plan/Next Steps** | a. Oversee market participants relying on the expanded capital raising exemptions in Ontario through a risk based supervision program for issuers, registrants and portals<br>b. Collect and analyze data on the use of capital raising exemptions in Ontario to assess how the exemptions are being used to further capital formation |
| **Success Measures/ Expected Outcomes** | a. Risk-based supervision program for registrants, issuers and portals using the new capital-raising exemptions developed; questions included in 2016 Risk Assessment Questionnaire to gather information on the use of the new exemptions<br>b. Emerging trends and levels of compliance identified and addressed and report on exempt market status published |

***Improving education, engagement and alignment with investors' interests***

Investors are striving to achieve sufficient investment returns to finance lifestyle, education costs for children and retirement goals for themselves or aging parents. As investors search for yield and capital appreciation, they can become more susceptible to fraud and other investment risks that can have life-changing outcomes. These issues can be magnified when there are wide gaps in the levels of experience and financial literacy among investors. This results in different needs for support and guidance.

The growing use of behavioural nudging in designing and delivering financial services information is another area of focus. The OSC Investor Office will be working to understand how this is used in other jurisdictions to design appropriate supports for Ontario investors.

The Investor Office will be expanding and modernizing the OSC's efforts in investor engagement, research, education and outreach, to help investors to build their knowledge, understanding and confidence in planning for their investment goals and retirement finances. The Investor Office will also continue bringing new perspectives to inform OSC policy-making and operations to better align with investors' interests.

An effective and fair dispute resolution system is an important component of the investor protection framework. The Ombudsman for Banking Services and Investments (OBSI) recently underwent an independent review of its operations and structure, as required by its Memorandum of Understanding (MOU) with the CSA. The Investor Office will analyze the review's findings and recommendations along with other stakeholder input in determining what steps the OSC or CSA should consider in response.

The Investor Office will continue to seek input from investor advocacy groups, and the Investor Advisory Panel, that together with other available research, industry data and stakeholder feedback will inform its understanding of issues that are affecting investors. The Investor Office will use this information in developing tailored solutions to reach the broad range of at-risk investor groups, including seniors, millennials and new Canadians. The initiatives set out below will advance achievement of the OSC's investor protection mandate.

| Priority Issue | Advance retail investor protection, engagement and education through the OSC's Investor Office |
|---|---|
| **Action Plan/Next Steps** | a. Improve outreach and education focused on senior and vulnerable investors and work with the Investor Advisory Panel to identify further opportunities to advance investors' interests<br>b. Improve our understanding of investor issues and needs through targeted research, seminars and roundtables<br>c. Enhance, expand and develop innovative tools and resources to improve OSC investor engagement and develop a framework to measure the impacts and outcomes achieved |
| **Success Measures/ Expected Outcomes** | a. Publication of research that identifies opportunities to achieve better investor outcomes through the application of behavioural finance<br>b. Status update on the OSC's activities related to its seniors strategy published<br>c. Status update on the OSC's work with the IAP to improve the risk profiling used in the retail investment advice process published |

## Goal 2 – Deliver responsive regulation

### *Monitor and assess the impact of recent regulatory reforms in Ontario*

The OSC is committed to delivering responsive regulatory oversight to meet its mandate. The OSC believes that an “evidence-based approach” is critical to effective policy development and regulatory oversight and it is crucial to track and understand the impacts of its regulatory actions. The OSC will undertake a number of reviews of recently implemented regulatory reforms to assess whether expected results are being achieved and to identify opportunities for further regulatory changes to better achieve its regulatory objectives.

| **Priority Issue** | Actively monitor and assess impacts of recent regulatory changes on the market to confirm that expected outcomes are being achieved |
|---|---|
| **Action Plan/ Next Steps** | a. Commence post-implementation analysis of the impact of the Client Relationship Model – Phase 2 (CRM2) and Point of Sale (POS) amendments<br><br>b. Conduct targeted disclosure reviews to monitor the progress on corporate governance changes related to disclosure requirements for Women on Boards and in executive officer positions and determine the impact of those changes in our markets |
| **Success Measures/ Expected Outcomes** | a. Post-implementation analysis of CRM2 and POS conducted<br><br>b. Review of all TSX-listed issuers to assess compliance with disclosure requirements for Women on Boards completed and published. Public focus on corporate governance changes related to this disclosure is maintained |

### *Monitor and support market structure evolution*

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products. The markets are increasingly complex and the pace of innovation and technological changes requires us to regularly examine our market structure framework and assess whether changes are necessary to promote market efficiencies, protect investors and maintain investor confidence.

| **Priority Issue** | Closely monitor market structure changes and determine if additional regulatory responses are required |
|---|---|
| **Action Plan/ Next Steps** | Finalize the Order Protection Rule regulatory framework with the CSA including establishing a market share threshold, trading fee caps, market data methodology and speed bumps |
| **Success Measures/ Expected Outcomes** | Final Order Protection Rule framework published |

### *Improve alignment with international standard setting*

The importance of regulatory alignment both domestically and around the world continues to grow as the mobility of capital and integration of markets advances. Globalization and the sustained growth of cross border activities means that the OSC must deal with regulatory matters that have both national and international dimensions. By engaging with its international counterparts, especially through IOSCO, the OSC obtains timely insights and understanding of emerging compliance and regulatory issues to develop informed, proactive regulatory solutions, and also helps shape international standards that are aligned with the needs of our capital markets.

| **Priority Issue** | Improve alignment with international standard setting to deliver regulatory solutions that meet the needs of Ontario’s markets and participants |
|---|---|
| **Action Plan/ Next Steps** | a. Actively participate in IOSCO and other regulatory authorities globally to promote the development of new international standards and regulatory responses to areas including cyber resilience, resolution and recovery of CCPs, vulnerabilities in the asset management sector, the protection of client assets, and the ability of regulators to exchange information in compliance and enforcement situations |

| | |
|---|---|
| **Success Measures/ Expected Outcomes** | a. Our domestic regulatory framework and priorities are aligned with new international standards<br>b. Participate in the Task Force on Market Conduct to publish a report outlining tools that regulators can use to promote appropriate conduct by market professionals |

**Goal 3 – Deliver effective compliance, supervision and enforcement**

Effective registration and compliance oversight programs combined with timely enforcement, help to deter misconduct and non-compliance by registrants and market participants. These activities are essential to protect investors and foster trust and confidence in our capital markets.

Effective compliance and supervision remains a central focus as domestic and international regulation, guidelines and responsibilities evolve. As new obligations are implemented, we will monitor for compliance. In our core work we are relying more on trend and risk analysis and monitoring of changes in compliance. We will continue to undertake targeted compliance reviews of high risk and new registrants, including online advice and portal business models. We will also conduct targeted prospectus and continuous disclosure reviews of issuers, investment funds and structured products as they respond to market developments and product innovations, and we will publish OSC staff guidance as warranted.

We need to continue to evolve our compliance and enforcement approaches. We continue to identify serious breaches of Ontario securities law through our quasi-criminally focused Joint Serious Offences Team (JSOT) program, which is a joint enforcement effort with the RCMP and OPP. The recently proposed OSC Whistleblower program represents another new tool to deter misconduct. We are also continuing to invest in tools and technologies that will assist us to identify and assess patterns of inappropriate behaviour and complex cases.

***Enhance compliance through effective inspections, supervision and oversight***

| **Priority Issue** | Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework |
|---|---|
| **Action Plan/Next Steps** | a. Continue effective oversight of registrants focusing on high risk and new registrants<br>b. Assess compliance with OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting<br>c. Work closely with self-regulatory organizations (SROs) to coordinate compliance efforts on issues in common, such as sales incentives and related conflicts of interest |
| **Success Measures/ Expected Outcomes** | a. 2016 OSC Risk Assessment Questionnaire issued and findings assessed. Annual Summary Report for Dealers, Advisers and Investment Fund Managers published<br>b. Review of large domestic derivatives dealers completed and analysis of key findings and trends identified<br>c. Reviews finished and analysis of data completed |

***Actively pursue enforcement action against fraud and other serious securities law violations***

| **Priority Issue** | Actively pursue timely and impactful enforcement cases involving fraud and other serious securities laws violations |
|---|---|
| **Action Plan/Next Steps** | a. Based on feedback and consultations, implement OSC Whistleblower Program, assess information received and establish effective protocols and processes to begin to use this input to pursue potential cases<br>b. Conduct collaborative investigations of fraud and recidivist cases through JSOT using the provisions of the Securities Act or the Criminal Code<br>c. Complete the enhanced Multilateral Memorandum of Understanding to facilitate information sharing and cross-border enforcement activities |

| | |
|---|---|
| **Success Measures/ Expected Outcomes** | a. JSOT investigates fraud and recidivist cases and lays quasi-criminal and criminal charges. Results will be published in the annual enforcement report<br><br>b. Investor protection improved through increased public awareness of fraud and other serious securities laws violations |

**Goal 4 – Promote financial stability through effective oversight**

Global capital markets are increasingly interconnected by technology, business models and investment flows and this creates potential for systemic risk. The OSC works with other regulators to better understand points of integration and identify potential risks to monitor and mitigate.

***Enhance oversight of the fixed income market***

Fixed income secondary market trading is a substantial segment of our capital markets and the transparency, fairness and liquidity of these markets can affect the cost of capital. The OSC is seeking solutions to improve access, transparency and fairness in this market.

In 2015-2016 the OSC took steps to enhance regulation in the fixed income market and identify opportunities to improve market transparency. The CSA published CSA Staff Notice and Request for Comment 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market*, which set out steps to enhance regulation in the fixed income market and identify opportunities to improve market transparency to better protect investor interests. Increased transparency of this data will also allow regulators to assess this information.

Ensuring fixed income data is available to regulators and enhancing corporate debt transparency for all investors are significant first steps in modernizing the regulatory framework for the fixed income market and should improve market confidence. The OSC plans to build on this work through the initiatives set out below:

| **Priority Issue** | Increase transparency in the fixed income market through publication of corporate debt trading data provided to the Investment Industry Regulatory Organization of Canada (IIROC) |
|---|---|
| **Action Plan/Next Steps** | a. Implement public transparency of fixed income trading data, specifically for corporate debt, with IIROC acting as the information processor for corporate debt<br><br>b. Monitor fixed income trading data to assess the impact of transparency<br><br>c. Conduct a comprehensive review of dealers' allocation practices for new debt issues |
| **Success Measures/ Expected Outcomes** | a. Increased corporate debt post trade information available for all investors<br><br>b. IIROC acting as the information processor<br><br>c. Review of dealers' allocation practices completed |

***Advance OSC systemic risk oversight and OTC derivatives regulatory regime***

The OSC works with many domestic and international regulators to monitor and better understand the key components of systemic risk and how they interact. Internationally, the OSC works with the Financial Stability Board, IOSCO and others to remain abreast of emerging risks. Domestically, the OSC is connected to various regulators through the Heads of Agencies, which includes the Bank of Canada, Federal Finance and The Office of the Superintendent of Financial Institutions. These interactions improve the resilience of our markets through shared communication and understanding of areas where our regulatory responsibilities intersect.

| **Priority Issue** | Enhance OSC systemic risk oversight |
|---|---|
| **Action Plan/Next Steps** | a. Work with other regulatory agencies to monitor trends and risks across various market segments and participants including: equities, fixed income, OTC derivatives, clearing agencies, derivatives dealers |
| **Success Measures/ Expected Outcomes** | a. Market data analytics capabilities related to systemic risk monitoring developed<br><br>b. Participation on international and domestic committees where emerging systemic risk topics and tools are discussed and developed. |

Throughout the last year, the OSC made significant progress towards implementing a trade reporting framework and gathering over-the-counter (OTC) trade data. The next steps are to better understand the data and finish the design of a regulatory framework and operational program to effectively oversee and supervise the OTC derivatives market and its participants. This must be undertaken together with our regulator partners. The OSC will continue its progress in these areas through the initiatives set out below:

| **Priority Issue** | Continue development and implementation of OTC derivatives regulation |
|---|---|
| **Action Plan/Next Steps** | a. Introduce mandatory, centralized clearing for certain OTC derivatives<br>b. Propose a registrant regulation framework for derivatives market participants<br>c. Assess trade reporting data to identify markets trends/risks |
| **Success Measures/ Expected Outcomes** | a. Rules to introduce mandatory, centralized clearing for certain OTC derivatives finalized<br>b. Draft rule setting out a registrant regulation framework for derivatives market participants published for comment<br>c. OTC trade reporting compliance confirmed through on-site inspections; and systemic risks or problems identified |

***Enhance oversight of industry cybersecurity preparedness***

Cyber-attacks are a major and growing risk for market participants and regulators. Increased dependence on digital connectivity (e.g., online banking and mobile payment systems), combined with exponential growth and reliance on data, increases exposure to disruptions, resilience and other cybersecurity issues. Event-driven algorithmic trading can potentially accelerate the speed and breadth of cybersecurity disruptions. Awareness continues to grow as high-profile events (e.g., Target, J. P. Morgan) bring the potential negative impacts into clearer focus. Cyber-attacks at a primary level can impair companies' ability to operate, and also have financial and service impacts. Perhaps more importantly, issues such as loss of business or client data and related reputational impacts can be even more damaging if they erode market confidence.

The OSC has a central role to play in assessing and promoting readiness and supporting cybersecurity resilience within the industry. While industry is already taking action to understand and mitigate cybersecurity risks, it is clear continued vigilance in this area will be required. The OSC will be undertaking initiatives to promote proper due diligence by market participants in relation to internal breaches and intrusions from external parties including:

| **Priority Issue** | Promote cybersecurity resilience through a better understanding of the risks and greater collaboration with market participants and other regulators on risk preparedness and responsiveness |
|---|---|
| **Action Plan/Next Steps** | a. Improve collaboration and communication with market participants on cybersecurity issues<br>b. Assess the level of market participant cybersecurity resilience, including measures for protection of personal investor data<br>c. Improve market participants' understanding of OSC cybersecurity oversight activities, including providing guidance on expectations for market participants' cybersecurity preparedness |
| **Success Measures/ Expected Outcomes** | a. Notice published that sets out current OSC market participant and infrastructure oversight activities<br>b. Protocols/thresholds for reporting and sharing information developed<br>c. Targeted reviews of market participants to confirm their level of cybersecurity resilience, including measures for protection of personal investor data, completed<br>d. Roundtable conducted with SRO's and industry representatives to develop opportunities for greater collaboration and improved communication on cybersecurity issues |

**Goal 5 – Be an innovative, accountable and efficient organization**

***Support successful organization change and continuity***

Market participants continue to face very challenging business conditions, including competition from new business models and technology enabled service offerings. Market participants expect the OSC to use its resources efficiently. That is why improving our efficiency is a top priority, and we remain committed to improving our business capabilities and the way we work.

We are introducing process improvements and increasing the use of technology to improve our operational performance. We are continuing to mature our research and data analysis capabilities to support improved and timely identification of risks, and a more disciplined approach to identifying issues and policy development. We are also continuing to incorporate technology and more sophisticated analytical tools to improve the efficiency, quality and timeliness of enforcement, and to gather and analyze data and other information, including information required for compliance and adjudicative matters. Management and staff will continue these efforts to make the OSC a more proactive and agile securities regulator.

The OSC operates in a global environment and needs to look for the best ways to deal with the evolution of markets and products, and support capital formation in Ontario. The OSC continues to view a cooperative regulator as the best approach to enhance investor protection, foster efficient rulemaking and promote globally competitive markets in Canada. This approach also provides greater capacity to identify and manage systemic risk and solidify Canada's international reputation for regulating its financial system. The OSC is committed to working with the participating jurisdictions to transition to the Cooperative Capital Markets Regulatory System. Throughout this process the OSC will remain focused on maintaining high standards of regulation and on keeping stakeholders informed and engaged. The OSC will also continue to work with the CSA to seek harmonized approaches to regulation as much as possible.

| **Priority Issue** | Enhance OSC business capabilities and foster a dynamic, supportive and attractive workplace |
|---|---|
| **Action Plan/Next Steps** | a. Continue to develop data collection, management and assessment practices<br><br>b. Continue to integrate economic analysis, research and data analysis within the OSC, and specifically in the policy development process<br><br>c. Improve regulatory capacity through the development of people and expertise; employees are provided with access to information, tools and resources to enable them to carry out their accountabilities effectively during organizational change and transition |
| **Success Measures/ Expected Outcomes** | a. Use of research reflected consistently in OSC policy initiatives and OSC publications<br><br>b. Research and analysis of the adoption of new prospectus exemptions completed<br><br>c. Retention and turnover levels maintained within target ranges |

**2016-2017 FINANCIAL OUTLOOK**

**OSC Revenues and surplus**

The OSC is forecasting 2016-2017 revenues to remain consistent with 2015-2016 actual revenues. The forecast reflects fee rates set out in the OSC's fee rules (13-502 and 13-503), which became effective April 6, 2015. In 2015-2016, the first year that the most recent changes to the fee rules took effect, total fees increased by 12.5% over 2014-2015 revenues as we began to use the most recent financial year information, as opposed to a reference fiscal year in calculating participation fees. We expect fee revenues to remain consistent because 2016-2017 participation fees will be calculated using the same methodology used in 2015-2016.

The OSC expects to generate a surplus of $4.4 million in 2016-2017 to add to its expected 2015-2016 ending surplus of $29.2 million, for a total surplus of $33.6 million as at March 2017. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2015-2016, a smaller surplus in 2016-2017 and a deficit in 2017-2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The budget approved by the OSC Board for 2016-2017 is in line with this expectation. However, actual expenses for each of 2014-2015 and 2015-2016 were lower than projected. As a result, the above-noted ending general surplus is expected to be $30 million by the end of 2017-2018, assuming that there is no significant growth or deterioration in the markets. The ending surplus will be taken into account when fee rates are reviewed and a new fee rule is implemented beginning in the 2019 fiscal year.

## 2016-2017 Budget approach

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2016–2017 SoP sets out the OSC's key priorities to meet these challenges. Achievement of these priorities is a key driver of the increases to the 2016–2017 OSC budget as this will require focused investments in the following areas:

- improving education, outreach and advocacy through the continued work of the Investor Office
- operationalizing the Whistleblower program
- implementation of a new regulatory framework (including supervision and oversight) for the derivatives market and the exempt market
- improving the OSC's information technology, in particular to support a greater reliance on data and research
- improving information security awareness for the OSC

The budget reflects an increase in expenses of 4.1% from the 2015-2016 budget and 10.1% from actual 2015-2016 spending. Salaries and benefits, which comprise $83.5 million or 74.5% of the budget, represent an increase of $4.3 million or 5.5% over 2015-2016 spending. The key reasons for this increase are:

- approval of new positions to support the investments noted above
- the impact of the full year costs of the positions filled in the prior year, many of which were filled later in the year

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the underspending noted in the prior year and the fact that budget amounts will decrease, or remain flat in approximately 50% of its operating branches. The budget also includes the cost of the resources relating to the implementation of the CMRA.

The capital budget, although relatively flat as compared to 2015–2016 spending, primarily reflects the cost to support the OSC's information technology needs, in particular a significant data management project. The budget also includes a refresh of the OSC's computers and laptops.

| Excess/Deficiency of Revenues over Expenses (in thousands) | 2015-16 Actual | 2016-17 Budget | Year Over Year Change +/- | |
|---|---|---|---|---|
| **Revenues** | $116,849 | $116,522 | -$327 | -0.28% |
| **Expenses** | $101,860 | $112,141 | $10,281 | 10.09% |
| **Excess of Revenues over Expenses** | $14,989 | $4,381 | -$10,608 | -71% |
| **Capital Expenditure** | $3,058 | $2,989 | -$69 | -2.26% |